

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 2020

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from **to**

Commission File Number 001-34627

GENERAC HOLDINGS INC.

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

20-5654756
(IRS Employer
Identification No.)

S45 W29290 Hwy 59, Waukesha, WI
(Address of principal executive offices)

53189
(Zip Code)

(262) 544-4811

(Registrant's telephone number, including area code)

Not Applicable

(Former name, former address and former fiscal year, if changed since last report)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, \$0.01 par value	GNRC	New York Stock Exchange

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Non-accelerated filer

Emerging growth company

Accelerated filer

Smaller reporting company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

As of October 29, 2020, there were 62,841,107 shares of registrant's common stock outstanding.

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PART I. FINANCIAL INFORMATION

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

Generac Holdings Inc.
Condensed Consolidated Balance Sheets
(U.S. Dollars in Thousands, Except Share and Per Share Data)
(Unaudited)

	September 30, 2020	December 31, 2019
Assets		
Current assets:		
Cash and cash equivalents	\$ 513,944	\$ 322,883
Accounts receivable, less allowance for credit losses	398,240	319,538
Inventories	532,952	522,024
Prepaid expenses and other assets	35,200	31,384
Total current assets	1,480,336	1,195,829
Property and equipment, net	321,360	316,976
Customer lists, net	47,702	55,552
Patents and technology, net	73,260	85,546
Other intangible assets, net	9,216	8,259
Tradenames, net	145,977	148,377
Goodwill	815,624	805,284

Deferred income taxes	3,596	2,933
Operating lease and other assets	77,004	46,913
Total assets	<u>\$ 2,974,075</u>	<u>\$ 2,665,669</u>
Liabilities and stockholders' equity		
Current liabilities:		
Short-term borrowings	\$ 44,800	\$ 58,714
Accounts payable	272,745	261,977
Accrued wages and employee benefits	52,915	41,361
Other accrued liabilities	182,377	132,629
Current portion of long-term borrowings and finance lease obligations	3,421	2,383
Total current liabilities	<u>556,258</u>	<u>497,064</u>
Long-term borrowings and finance lease obligations	841,341	837,767
Deferred income taxes	105,520	96,328
Operating lease and other long-term liabilities	177,515	140,432
Total liabilities	<u>1,680,634</u>	<u>1,571,591</u>
Redeemable noncontrolling interests	63,545	61,227
Stockholders' equity:		
Common stock, par value \$0.01, 500,000,000 shares authorized, 72,011,902 and 71,667,726 shares issued at September 30, 2020 and December 31, 2019, respectively	720	717
Additional paid-in capital	518,610	498,866
Treasury stock, at cost	(331,513)	(324,551)
Excess purchase price over predecessor basis	(202,116)	(202,116)
Retained earnings	1,306,530	1,084,383
Accumulated other comprehensive loss	(62,039)	(24,917)
Stockholders' equity attributable to Generac Holdings Inc.	<u>1,230,192</u>	<u>1,032,382</u>
Noncontrolling interests	(296)	469
Total stockholders' equity	<u>1,229,896</u>	<u>1,032,851</u>
Total liabilities and stockholders' equity	<u>\$ 2,974,075</u>	<u>\$ 2,665,669</u>

See notes to condensed consolidated financial statements.

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Generac Holdings Inc.
Condensed Consolidated Statements of Comprehensive Income
(U.S. Dollars in Thousands, Except Share and Per Share Data)
(Unaudited)

	Three Months Ended September		Nine Months Ended September	
	30,	30,	30,	30,
	2020	2019	2020	2019
Net sales	\$ 701,355	\$ 601,135	\$ 1,724,118	\$ 1,613,404
Costs of goods sold	425,206	383,618	1,066,666	1,037,874
Gross profit	<u>276,149</u>	<u>217,517</u>	<u>657,452</u>	<u>575,530</u>
Operating expenses:				
Selling and service	60,901	59,356	178,566	158,954
Research and development	20,658	17,603	58,762	48,906
General and administrative	31,061	27,596	88,732	80,016
Amortization of intangibles	7,892	7,406	23,340	19,999
Total operating expenses	<u>120,512</u>	<u>111,961</u>	<u>349,400</u>	<u>307,875</u>
Income from operations	155,637	105,556	308,052	267,655
Other (expense) income:				
Interest expense	(8,096)	(10,704)	(25,081)	(31,428)
Investment income	301	523	1,921	1,889
Other, net	(557)	(414)	(2,687)	(1,868)
Total other expense, net	<u>(8,352)</u>	<u>(10,595)</u>	<u>(25,847)</u>	<u>(31,407)</u>
Income before provision for income taxes	147,285	94,961	282,205	236,248
Provision for income taxes	32,050	20,064	59,967	53,876
Net income	<u>115,235</u>	<u>74,897</u>	<u>222,238</u>	<u>182,372</u>
Net income (loss) attributable to noncontrolling interests	265	(677)	(3,337)	(21)
Net income attributable to Generac Holdings Inc.	<u>\$ 114,970</u>	<u>\$ 75,574</u>	<u>\$ 225,575</u>	<u>\$ 182,393</u>

Net income attributable to Generac Holdings Inc. per common share - basic:	\$ 1.86	\$ 1.20	\$ 3.59	\$ 2.95
Weighted average common shares outstanding - basic:	62,353,473	61,973,447	62,244,872	61,878,500
Net income attributable to Generac Holdings Inc. per common share - diluted:	\$ 1.82	\$ 1.18	\$ 3.51	\$ 2.92
Weighted average common shares outstanding - diluted:	63,761,380	62,770,592	63,546,132	62,519,205
Comprehensive income attributable to Generac Holdings Inc.	\$ 123,887	\$ 64,904	\$ 187,548	\$ 161,828

See notes to condensed consolidated financial statements.

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Generac Holdings Inc.
Condensed Consolidated Statements of Stockholders' Equity
(U.S. Dollars in Thousands, Except Share Data)
(Unaudited)

	Generac Holdings Inc.										
	Common Stock		Additional Paid-In Capital	Treasury Stock		Excess Purchase Price Over Predecessor Basis	Retained Earnings (Accumulated Deficit)	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Equity	Noncontrolling Interest	Total
	Shares	Amount		Shares	Amount						
Balance at July 1, 2020	71,960,067	\$ 720	\$ 512,318	(9,170,162)	\$ (331,415)	\$ (202,116)	\$ 1,190,749	\$ (72,526)	\$ 1,097,730	\$ (455)	\$ 1,097,275
Unrealized gain on interest rate swaps, net of tax of \$339	-	-	-	-	-	-	-	1,003	1,003	-	1,003
Foreign currency translation adjustment	-	-	-	-	-	-	-	9,484	9,484	(25)	9,459
Common stock issued under equity incentive plans, net of shares withheld for employee taxes and strike price	51,835	-	1,939	-	-	-	-	-	1,939	-	1,939
Net share settlement of restricted stock awards	-	-	-	(572)	(98)	-	-	-	(98)	-	(98)
Share-based compensation	-	-	4,353	-	-	-	-	-	4,353	-	4,353
Redemption value adjustment	-	-	-	-	-	-	811	-	811	-	811
Net income	-	-	-	-	-	-	114,970	-	114,970	184	115,154
Balance at September 30, 2020	72,011,902	\$ 720	\$ 518,610	(9,170,734)	\$ (331,513)	\$ (202,116)	\$ 1,306,530	\$ (62,039)	\$ 1,230,192	\$ (296)	\$ 1,229,896

	Generac Holdings Inc.										
	Common Stock		Additional Paid-In Capital	Treasury Stock		Excess Purchase Price Over Predecessor Basis	Retained Earnings (Accumulated Deficit)	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Equity	Noncontrolling Interest	Total
	Shares	Amount		Shares	Amount						
Balance at January 1, 2020	71,667,726	\$ 717	\$ 498,866	(9,103,013)	\$ (324,551)	\$ (202,116)	\$ 1,084,383	\$ (24,917)	\$ 1,032,382	\$ 469	\$ 1,032,851
Accounting standard adoption impact	-	-	-	-	-	-	(1,147)	-	(1,147)	-	(1,147)
Unrealized loss on interest rate swaps, net of tax of (\$6,217)	-	-	-	-	-	-	-	(18,406)	(18,406)	-	(18,406)
Foreign currency translation adjustment	-	-	-	-	-	-	-	(18,716)	(18,716)	(27)	(18,743)
Common stock issued under equity incentive plans, net of shares withheld for employee taxes and strike price	344,176	3	5,417	-	-	-	-	-	5,420	-	5,420
Net share settlement of restricted stock awards	-	-	-	(67,721)	(6,962)	-	-	-	(6,962)	-	(6,962)
Share-based compensation	-	-	14,327	-	-	-	-	-	14,327	-	14,327
Redemption value adjustment	-	-	-	-	-	-	(2,281)	-	(2,281)	-	(2,281)
Net income	-	-	-	-	-	-	225,575	-	225,575	(738)	224,837
Balance at September 30, 2020	72,011,902	\$ 720	\$ 518,610	(9,170,734)	\$ (331,513)	\$ (202,116)	\$ 1,306,530	\$ (62,039)	\$ 1,230,192	\$ (296)	\$ 1,229,896

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Generac Holdings Inc.
Condensed Consolidated Statements of Stockholders' Equity
(U.S. Dollars in Thousands, Except Share Data)
(Unaudited)

	Generac Holdings Inc.										
	Common Stock		Additional Paid-In Capital	Treasury Stock		Excess Purchase Price Over Predecessor Basis	Retained Earnings (Accumulated Deficit)	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Equity	Noncontrolling Interest	Total
	Shares	Amount		Shares	Amount						
Balance at July 1, 2019	71,471,341	\$ 715	\$ 485,703	(9,098,294)	\$ (324,149)	\$ (202,116)	\$ 939,618	\$ (33,831)	\$ 865,940	\$ 5,071	\$ 871,011
Unrealized loss on interest rate swaps, net of tax of (\$956)	-	-	-	-	-	-	-	(2,721)	(2,721)	-	(2,721)
Foreign currency translation adjustment	-	-	-	-	-	-	-	(9,811)	(9,811)	(11)	(9,822)
Common stock issued under equity incentive plans, net of	169,451	1	3,419	-	-	-	-	-	3,420	-	3,420

shares withheld for employee taxes and strike price												
Net share settlement of restricted stock awards	-	-	-	(2,628)	(202)	-	-	-	(202)	-	(202)	
Share-based compensation	-	-	3,549	-	-	-	-	-	3,549	-	3,549	
Redemption value adjustment	-	-	-	-	-	-	(1,485)	-	(1,485)	-	(1,485)	
Net income	-	-	-	-	-	-	75,574	-	75,574	(109)	75,465	
Balance at September 30, 2019	71,640,792	\$ 716	\$ 492,671	(9,100,922)	\$ (324,351)	\$ (202,116)	\$ 1,013,707	\$ (46,363)	\$ 934,264	\$ 4,951	\$ 939,215	

Generac Holdings Inc.												
	Common Stock		Additional	Treasury Stock		Excess	Retained	Accumulated	Total	Noncontrolling	Total	
	Shares	Amount	Paid-In Capital	Shares	Amount	Purchase Price Over Predecessor Basis	Earnings (Accumulated Deficit)	Other Comprehensive Income (Loss)	Stockholders' Equity	Interest		
Balance at January 1, 2019	71,186,418	\$ 712	\$ 476,116	(9,047,060)	\$ (321,473)	\$ (202,116)	\$ 831,123	\$ (23,813)	\$ 760,549	\$ 712	\$ 4,125	\$ 761,261
Acquisition of business	-	-	-	-	-	-	-	-	-	-	4,125	4,125
Unrealized loss on interest rate swaps, net of tax of (\$5,234)	-	-	-	-	-	-	-	(14,898)	(14,898)	-	-	(14,898)
Foreign currency translation adjustment	-	-	-	-	-	-	-	(7,652)	(7,652)	27	-	(7,625)
Common stock issued under equity incentive plans, net of shares withheld for employee taxes and strike price	454,374	4	5,078	-	-	-	-	-	5,082	-	-	5,082
Net share settlement of restricted stock awards	-	-	-	(53,862)	(2,878)	-	-	-	(2,878)	-	-	(2,878)
Cash dividends paid to noncontrolling interest of subsidiary	-	-	-	-	-	-	-	-	-	(285)	-	(285)
Share-based compensation	-	-	11,477	-	-	-	-	-	11,477	-	-	11,477
Redemption value adjustment	-	-	-	-	-	-	191	-	191	-	-	191
Net income	-	-	-	-	-	-	182,393	-	182,393	372	-	182,765
Balance at September 30, 2019	71,640,792	\$ 716	\$ 492,671	(9,100,922)	\$ (324,351)	\$ (202,116)	\$ 1,013,707	\$ (46,363)	\$ 934,264	\$ 4,951	\$ 939,215	

See notes to condensed consolidated financial statements.

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Generac Holdings Inc.
Condensed Consolidated Statements of Cash Flows
(U.S. Dollars in Thousands)
(Unaudited)

	Nine Months Ended September 30,	
	2020	2019
Operating activities		
Net income	\$ 222,238	\$ 182,372
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	26,747	22,842
Amortization of intangible assets	23,340	19,999
Amortization of original issue discount and deferred financing costs	1,940	3,597
Deferred income taxes	15,433	19,514
Share-based compensation expense	14,327	11,477
Other non-cash charges	6,414	557
Net changes in operating assets and liabilities, net of acquisitions:		
Accounts receivable	(85,474)	(45,543)
Inventories	(14,604)	27,190
Other assets	2,543	1,488
Accounts payable	11,624	(83,174)
Accrued wages and employee benefits	11,793	(7,517)
Other accrued liabilities	38,211	(17,092)
Excess tax benefits from equity awards	(6,222)	(1,908)
Net cash provided by operating activities	268,310	133,802
Investing activities		
Proceeds from sale of property and equipment	26	83
Proceeds from beneficial interests in securitization transactions	1,998	2,036
Expenditures for property and equipment	(33,940)	(45,447)
Acquisition of business, net of cash acquired	(22,815)	(120,863)
Net cash used in investing activities	(54,731)	(164,191)
Financing activities		
Proceeds from short-term borrowings	198,087	68,802
Proceeds from long-term borrowings	297	-
Repayments of short-term borrowings	(210,854)	(45,437)
Repayments of long-term borrowings and finance lease obligations	(3,584)	(3,110)
Payment of contingent acquisition consideration	(4,000)	-
Cash dividends paid to noncontrolling interest of subsidiary	-	(285)
Taxes paid related to equity awards	(13,533)	(5,749)
Proceeds from exercise of stock options	11,991	7,957
Net cash (used in) provided by financing activities	(21,596)	22,178

Effect of exchange rate changes on cash and cash equivalents	(922)	(233)
Net increase (decrease) in cash and cash equivalents	191,061	(8,444)
Cash and cash equivalents at beginning of period	322,883	224,482
Cash and cash equivalents at end of period	<u>\$ 513,944</u>	<u>\$ 216,038</u>

See notes to condensed consolidated financial statements.

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Generac Holdings Inc.
Notes to Condensed Consolidated Financial Statements
(U.S. Dollars in Thousands, Except Share and Per Share Data)
(Unaudited)

1. Description of Business and Basis of Presentation

Founded in 1959, Generac Holdings Inc. (the Company) is a leading global designer and manufacturer of a wide range of energy technology solutions and other power products. The Company provides power generation equipment, energy storage systems, and other power products serving the residential, light commercial and industrial markets. Generac's power products are available globally through a broad network of independent dealers, distributors, retailers, wholesalers, equipment rental companies, and e-commerce partners, as well as sold direct to certain end user customers.

Over the years, the Company has executed a number of acquisitions that support its strategic plan (as discussed in Item 1 of the Annual Report on Form 10-K for the year ended December 31, 2019). A summary of acquisitions affecting the reporting periods presented include:

- In February 2019, the Company acquired a majority share of Captiva Energy Solutions Private Limited (Captiva). Captiva, founded in 2010 and headquartered in Kolkata, India, specializes in customized industrial generators.
- In March 2019, the Company acquired Neuroio Technology Inc. (Neuroio), founded in 2005 and headquartered in Vancouver, British Columbia. Neuroio is a leading energy data company focused on metering technology and sophisticated analytics to optimize energy use within a home or business.
- In April 2019, the Company acquired Pika Energy, Inc. (Pika), founded in 2010 and located in Westbrook, Maine. Pika is a designer and manufacturer of battery storage technologies that capture and store solar or grid power for homeowners and businesses, and is also a developer of advanced power electronics, software and controls for smart energy storage and management.
- In July 2020, the Company acquired West Coast Energy Systems LLC. (Energy Systems), its industrial distributor in northern California. This addition enhances the Company's ability to serve the west coast markets for both commercial & industrial (C&I) and residential products.
- In September 2020, the Company acquired Mean Green Products, LLC. (Mean Green), founded in 2009 and located in Ross, Ohio. Mean Green is a designer and manufacturer of commercial grade, battery-powered turf care products that provide quiet, zero emissions and reduced maintenance options as compared to traditional commercial mowers.

The condensed consolidated financial statements include the accounts of the Company and its subsidiaries that are consolidated in conformity with U.S. generally accepted accounting principles (GAAP). All intercompany amounts and transactions have been eliminated in consolidation.

The condensed consolidated balance sheet as of September 30, 2020, the condensed consolidated statements of comprehensive income for the three and nine months ended September 30, 2020 and 2019, the condensed consolidated statements of stockholders' equity for the three and nine months ended September 30, 2020 and 2019, and the condensed consolidated statements of cash flows for the nine months ended September 30, 2020 and 2019 have been prepared by the Company and have not been audited. In the opinion of management, all adjustments (which include only normal recurring adjustments except where disclosed) necessary for the fair presentation of the financial position, results of operation and cash flows have been made. The results of operations for any interim period are not necessarily indicative of the results to be expected for the full year.

The preparation of the condensed consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the condensed consolidated financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Certain information and footnote disclosures normally included in consolidated financial statements prepared in accordance with GAAP have been condensed or omitted. These condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Annual Report on Form 10-K for the year ended December 31, 2019.

Goodwill and Other Indefinite-Lived Intangible Assets

The Company applies a fair value-based impairment test to the carrying value of goodwill and other indefinite-lived intangible assets on an annual basis (as of October 31) and, if certain events or circumstances indicate that an impairment loss may have been incurred, on an interim basis. As disclosed in Note 2, "Significant Accounting Policies – Goodwill and Other Indefinite-Lived Intangible Assets," to the consolidated financial statements in Item 8 of its 2019 Annual Report on Form 10-K, the Company concluded there was no impairment in its goodwill and other indefinite-lived intangible assets as of October 31, 2019.

Given the uncertainty within the global markets caused by the onset of the COVID-19 pandemic and the collapse in the price of oil during the first quarter of 2020, the Company determined that it should perform an interim quantitative assessment of its reporting units for possible goodwill and other indefinite-lived intangible asset impairment as of March 31, 2020. Estimates and assumptions used when preparing the discounted cash flow analysis for purposes of the interim impairment test for each reporting unit were based on current projections that are subject to various risks and uncertainties, including forecasted

revenues, expenses, and cash flows, the duration and extent of the impact from the COVID-19 pandemic, and current discount rates based on the estimated weighted average cost of capital for the business.

Based on the interim impairment assessment as of March 31, 2020, the Company has determined that its goodwill and other indefinite-lived intangible assets are not impaired. If management's estimates of future operating results change or if there are changes to other assumptions due to the current economic environment, the estimate of the fair values may change significantly. Such change could result in impairment charges in future periods, which could have a significant impact on the Company's operating results and financial condition.

The Company did not identify any indicators of impairment for any of its reporting units during the three months ended June 30, 2020 and the three months ended September 30, 2020.

Adoption of New Accounting Pronouncements

Changes to GAAP are established by the Financial Accounting Standards Board (FASB) in the form of accounting standard updates (“ASUs”) to the FASB Accounting Standards Codification (ASC). ASUs not listed below were assessed and determined to be either not applicable or are not expected to have a material impact on the Company’s consolidated financial statements.

Recently Adopted Accounting Standards

On January 1, 2020, the Company adopted ASU 2016-13, *Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*. This guidance was issued to provide financial statement users with more useful information about the expected credit losses on financial instruments and other commitments to extend credit held by a reporting entity at each reporting date. Specifically, this guidance requires entities to utilize a new “expected loss” model as it relates to trade and other receivables. The Company adopted this standard using the modified retrospective approach as of the date of adoption, meaning no prior period balances were impacted by the adoption. The adoption of the standard impacts the way the Company estimates the allowance for doubtful accounts on its trade and other receivables, and the Company recorded a decrease to retained earnings of \$1,147 as a result of adopting ASU 2016-13. Results for reporting periods beginning after January 1, 2020 are presented under ASC 326 while prior period amounts continue to be reported in accordance with previously applicable GAAP. Refer to Note 9 to the condensed consolidated financial statements, “Allowance for Credit Losses,” for further information regarding the Company’s allowance for expected credit losses.

On January 1, 2020, the Company elected to apply the optional expedients discussed in ASU 2020-04, *Reference Rate Reform*. This guidance was issued to address challenges likely to arise in accounting for contract modifications and hedge accounting because of reference rate reform. The update provides optional expedients and exceptions for applying GAAP to contracts, hedging relationships, and other transactions that reference LIBOR or another reference rate expected to be discontinued if certain criteria are met. The adoption of the optional expedients in this standard permits the Company to account for the change to a reference rate on its LIBOR based term loan as a continuation of the existing contract rather than having to account for the change in rate as a modification or extinguishment. Additionally, the election of the optional expedients permits the Company to continue with its hedge accounting treatment for its interest rate swaps despite expected changes due to reference rate reform.

2. Acquisitions

Acquisition of Pika

On April 26, 2019, the Company acquired Pika for a purchase price, net of cash acquired, of \$49,068. The acquisition purchase price was funded solely through cash on hand.

The Company finalized the Pika purchase price allocation during the first quarter of 2020 based upon its estimates of the fair value of the acquired assets and assumed liabilities. As a result, the Company recorded \$58,196 of intangible assets, including \$19,896 of goodwill recorded in the Domestic segment, as of the acquisition date. The goodwill ascribed to the acquisition is not deductible for tax purposes. The accompanying condensed consolidated financial statements include the results of Pika from the date of acquisition. Pro forma financial information is not presented as the effects of this acquisition or the combined acquisitions are not material to the Company’s results of operations or financial position prior to the acquisition dates.

Acquisition of Neurio

On March 12, 2019, the Company acquired Neurio for a purchase price of \$59,071, net of cash acquired and inclusive of a deferred payment of \$7,922 which was made during the third quarter of 2019. The acquisition purchase price was funded solely through cash on hand.

The Company finalized the Neurio purchase price allocation during the first quarter of 2020 based upon its estimates of the fair value of the acquired assets and assumed liabilities. As a result, the Company recorded \$58,762 of intangible assets, including \$17,862 of goodwill recorded in the Domestic segment, as of the acquisition date. Substantially all of the goodwill ascribed to this acquisition is deductible for tax purposes. The accompanying condensed consolidated financial statements include the results of Neurio from the date of acquisition. Pro forma financial information is not presented as the effects of this acquisition or the combined acquisitions are not material to the Company’s results of operations or financial position prior to the acquisition dates.

Other Acquisitions

In February 2019, the Company acquired a majority share of Captiva, a manufacturer of customized industrial generators in Kolkata, India.

In July 2020, the Company acquired Energy Systems, its industrial distributor in northern California.

In September 2020, the Company acquired Mean Green, a designer and manufacturer of commercial grade, battery-powered turf care products.

The combined purchase price for these acquisitions was \$24,070 and was funded solely through cash on hand. The accompanying condensed consolidated financial statements include the results of the acquired businesses since the dates of acquisition. Pro forma financial information and allocation of the purchase price are not presented for these other acquisitions as the effects of the combined acquisitions are not material to the Company’s results of operations or financial position prior to the acquisition dates.

3. Redeemable Noncontrolling Interest

On March 1, 2016, the Company acquired a 65% ownership interest in PR Industrial S.r.l. and its subsidiaries (Pramac). The 35% noncontrolling interest in Pramac had an acquisition date fair value of \$34,253, and was recorded as a redeemable noncontrolling interest in the condensed consolidated balance sheet, as the noncontrolling interest holder had within its control the right to require the Company to redeem its interest in Pramac. In February 2019, the Company amended its agreement with the noncontrolling interest holder of Pramac, extending the agreement by five years, allowing the Company to exercise its call option rights in partial increments at certain times during the five year period, and providing that the noncontrolling interest holder no longer holds the right to put its shares to the Company until April 1, 2021. The put and call option price is based on a multiple of earnings, subject to a floor and the terms of the acquisition agreement, as amended.

On February 1, 2019, the Company acquired a 51% ownership interest in Captiva. The 49% noncontrolling interest in Captiva had an acquisition date fair value of \$3,165, and was recorded as a redeemable noncontrolling interest in the condensed consolidated balance sheet, as the noncontrolling interest holder had within its control the right to require the Company to redeem its interest in Captiva. The noncontrolling interest holder has a put option to sell his interest to the Company any time after five years from the date of acquisition, or earlier upon the occurrence of certain circumstances. Further, the Company has a call option that it may redeem any time after five years from the date of acquisition, or earlier upon the occurrence of certain circumstances. The put and call option price is based on a multiple of earnings, subject to the terms of the acquisition.

For both transactions, the redeemable noncontrolling interest is recorded at the greater of the initial fair value, increased or decreased for the noncontrolling interests' share of comprehensive income (loss), or the estimated redemption value, with any adjustments to the redemption value impacting retained earnings, but not net income. However, the redemption value adjustments are reflected in the earnings per share calculation, as detailed in Note 14, "Earnings Per Share," to the condensed consolidated financial statements. The following table presents the changes in the redeemable noncontrolling interest:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
Balance at beginning of period	\$ 61,019	\$ 59,117	\$ 61,227	\$ 61,004
Net income (loss)	80	(563)	(2,601)	(388)
Foreign currency translation	3,257	(3,475)	2,638	(3,861)
Redemption value adjustment	(811)	1,485	2,281	(191)
Balance at end of period	<u>\$ 63,545</u>	<u>\$ 56,564</u>	<u>\$ 63,545</u>	<u>\$ 56,564</u>

4. Derivative Instruments and Hedging Activities

The Company records all derivatives in accordance with ASC 815, *Derivatives and Hedging*, which requires derivative instruments to be reported on the condensed consolidated balance sheets at fair value and establishes criteria for designation and effectiveness of hedging relationships. The Company is exposed to market risk such as changes in commodity prices, foreign currencies and interest rates. The Company does not hold or issue derivative financial instruments for trading purposes.

The Company periodically utilizes commodity derivatives and foreign currency forward purchase and sales contracts in the normal course of business. Because these contracts do not qualify for hedge accounting, the related gains and losses are recorded in the Company's condensed consolidated statements of comprehensive income. These gains and losses are not material to the Company's condensed consolidated financial statements.

Interest Rate Swaps

In 2017, the Company entered into twenty interest rate swap agreements, twelve of which were still outstanding as of September 30, 2020. In December 2019, in conjunction with the amendment to its term loan, the Company amended those interest rate swaps to remove the LIBOR floor, which also resulted in minor reductions to the future dated swap fixed rates. In March 2020, the Company entered into three additional interest rate swap agreements, bringing the total outstanding interest rate swaps to fifteen as of September 30, 2020. The Company formally documented all relationships between interest rate hedging instruments and the related hedged items, as well as its risk-management objectives and strategies for undertaking various hedge transactions. These interest rate swap agreements qualify as cash flow hedges and therefore, the effective portions of their gains or losses are reported as a component of accumulated other comprehensive loss (AOCL) in the condensed consolidated balance sheets. The amount of gains and losses, net of tax, recognized for the three and nine months ended September 30, 2020 were \$1,003 and \$(18,406), respectively. The amount of losses, net of tax, recognized for the three and nine months ended September 30, 2019 were \$(2,721) and \$(14,898), respectively. The cash flows of the swaps are recognized as adjustments to interest expense each period. The ineffective portions of the derivatives' changes in fair value, if any, are immediately recognized in earnings.

Fair Value

The following table presents the fair value of all of the Company's derivatives:

	September 30, 2020	December 31, 2019
Commodity contracts	\$ 1,522	\$ 6
Foreign currency contracts	(3)	31
Interest rate swaps	(35,049)	(10,425)

The fair value of the commodity contracts is included in prepaid expenses and other current assets, and the fair values of the foreign currency contracts and interest rate swaps are included in other accrued liabilities and other long-term liabilities in the condensed consolidated balance sheets as of September 30, 2020. The fair values of the commodity and foreign currency contracts are included in prepaid expenses and other current assets, and the fair value of the interest rate swaps is included in other accrued liabilities and other long-term liabilities in the condensed consolidated balance sheets as of December 31, 2019. Excluding the impact of credit risk, the fair value of the derivative contracts as of September 30, 2020 and December 31, 2019 is a liability of \$34,134 and \$10,588, respectively, which represents the amount the Company would pay upon exit of the agreements on those dates.

5. Fair Value Measurements

ASC 820-10, *Fair Value Measurement*, defines fair value, establishes a consistent framework for measuring fair value, and expands disclosure for each major asset and liability category measured at fair value on either a recurring basis or nonrecurring basis. ASC 820-10 clarifies that fair value is an exit price, representing the amount that would be received in the sale of an asset or paid to transfer a liability in an orderly transaction between market participants. As such, fair value is a market-based measurement that should be determined based on assumptions that market participants would use in pricing an asset or liability. As a basis for considering such assumptions, the pronouncement establishes a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value as follows: (Level 1) observable inputs such as quoted prices in active markets; (Level 2) inputs, other than quoted prices in active markets, that are observable either directly or indirectly; and (Level 3) unobservable inputs in which there is little or no market data, which require the reporting entity to develop its own assumptions.

The Company believes the carrying amount of its financial instruments (cash and cash equivalents, accounts receivable, accounts payable, accrued liabilities, short-term borrowings and ABL facility borrowings), excluding Term Loan borrowings, approximates the fair value of these instruments based upon their short-term nature. The fair value of Term Loan borrowings, which have an aggregate carrying value of \$814,675, was approximately \$828,963 (Level 2) at September 30, 2020, as calculated based on independent valuations whose inputs and significant value drivers are observable.

For the fair value of the derivatives measured on a recurring basis, refer to the fair value table in Note 4, "Derivative Instruments and Hedging Activities," to the condensed consolidated financial statements. The fair value of all derivative contracts is classified as Level 2. The valuation techniques used to measure the fair value of derivative contracts, all of which have counterparties with high credit ratings, were based on quoted market prices or model driven valuations using significant inputs derived from or corroborated by observable market data. The fair value of derivative contracts above considers the Company's credit risk in accordance with ASC 820-10.

6. Accumulated Other Comprehensive Loss

The following presents a tabular disclosure of changes in AOCL during the three and nine months ended September 30, 2020 and 2019, net of tax:

	Foreign Currency Translation Adjustments	Defined Benefit Pension Plan	Unrealized Gain (Loss) on Cash Flow Hedges	Total
Beginning Balance – July, 1 2020	\$ (44,822)	\$ -	\$ (27,704)	\$ (72,526)
Other comprehensive income (loss) before reclassifications	9,484	-	1,003 (1)	10,487
Amounts reclassified from AOCL	-	-	-	-
Net current-period other comprehensive income (loss)	9,484	-	1,003	10,487
Ending Balance – September 30, 2020	<u>\$ (35,338)</u>	<u>\$ -</u>	<u>\$ (26,701)</u>	<u>\$ (62,039)</u>

	Foreign Currency Translation Adjustments	Defined Benefit Pension Plan	Unrealized Loss on Cash Flow Hedges	Total
Beginning Balance – July, 1 2019	\$ (16,673)	\$ (10,541)	\$ (6,617)	\$ (33,831)
Other comprehensive income (loss) before reclassifications	(9,811)	-	(2,721) (2)	(12,532)
Amounts reclassified from AOCL	-	-	-	-
Net current-period other comprehensive income (loss)	(9,811)	-	(2,721)	(12,532)
Ending Balance – September 30, 2019	<u>\$ (26,484)</u>	<u>\$ (10,541)</u>	<u>\$ (9,338)</u>	<u>\$ (46,363)</u>

	Foreign Currency Translation Adjustments	Defined Benefit Pension Plan	Unrealized Loss on Cash Flow Hedges	Total
Beginning Balance – January 1, 2020	\$ (16,622)	\$ -	\$ (8,295)	\$ (24,917)
Other comprehensive income (loss) before reclassifications	(18,716) (3)	-	(18,406) (4)	(37,122)
Amounts reclassified from AOCL	-	-	-	-
Net current-period other comprehensive loss	(18,716)	-	(18,406)	(37,122)
Ending Balance – September 30, 2020	<u>\$ (35,338)</u>	<u>\$ -</u>	<u>\$ (26,701)</u>	<u>\$ (62,039)</u>

	Foreign Currency Translation Adjustments	Defined Benefit Pension Plan	Unrealized Gain (Loss) on Cash Flow Hedges	Total
Beginning Balance – January 1, 2019	\$ (18,832)	\$ (10,541)	\$ 5,560	\$ (23,813)
Other comprehensive income (loss) before reclassifications	(7,652)	-	(14,898) (5)	(22,550)
Amounts reclassified from AOCL	-	-	-	-
Net current-period other comprehensive income (loss)	(7,652)	-	(14,898)	(22,550)
Ending Balance – September 30, 2019	<u>\$ (26,484)</u>	<u>\$ (10,541)</u>	<u>\$ (9,338)</u>	<u>\$ (46,363)</u>

(1) Represents unrealized gains of \$1,342, net of tax effect of \$(339) for the three months ended September 30, 2020.

- (2) Represents unrealized losses of \$(3,677), net of tax effect of \$956 for the three months ended September 30, 2019.
- (3) Represents the unfavorable impact from the strengthening of the U.S. dollar against foreign currencies during the nine months ended September 30, 2020, particularly the Mexican Peso, Euro, Brazilian Real, and Russian Ruble.
- (4) Represents unrealized losses of \$(24,623), net of tax effect of \$6,217 for the nine months ended September 30, 2020.
- (5) Represents unrealized losses of \$(20,132), net of tax effect of \$5,234 for the nine months ended September 30, 2019.

7. Segment Reporting

The Company has two reportable segments for financial reporting purposes – Domestic and International. The Domestic segment includes the legacy Generac business (excluding its traditional Latin American export operations), and the acquisitions that are based in the U.S. and Canada, all of which have revenues that are substantially derived from the U.S. and Canada. The International segment includes the legacy Generac business' Latin American export operations, and the Ottomotores, Tower Light, Pramac, Motortech and Selmeac acquisitions, all of which have revenues that are substantially derived from outside the U.S. and Canada. Both reportable segments design and manufacture a wide range of power generation equipment, energy technology solutions, and other power products. The Company has multiple operating segments, which it aggregates into the two reportable segments, based on materially similar economic characteristics, products, production processes, classes of customers, distribution methods, and regional considerations.

The Company's product offerings consist primarily of power generation equipment, energy technology solutions, and other power products geared for varying end customer uses. Residential products and C&I products are each a similar class of products based on similar power output and end customer. The breakout of net sales between residential, C&I, and other products by reportable segment is as follows:

Product Classes	Net Sales by Segment		
	Three Months Ended September 30, 2020		
	Domestic	International	Total
Residential products	\$ 441,532	\$ 17,345	\$ 458,877
Commercial & industrial products	108,774	67,426	176,200
Other	56,569	9,709	66,278
Total net sales	<u>\$ 606,875</u>	<u>\$ 94,480</u>	<u>\$ 701,355</u>

Product Classes	Three Months Ended September 30, 2019		
	Domestic	International	Total
	Residential products	\$ 322,134	\$ 12,895
Commercial & industrial products	132,491	82,414	214,905
Other	40,185	11,016	51,201
Total net sales	<u>\$ 494,810</u>	<u>\$ 106,325</u>	<u>\$ 601,135</u>

Product Classes	Net Sales by Segment		
	Nine Months Ended September 30, 2020		
	Domestic	International	Total
Residential products	\$ 1,013,219	\$ 44,629	\$ 1,057,848
Commercial & industrial products	294,940	208,216	503,156
Other	135,521	27,593	163,114
Total net sales	<u>\$ 1,443,680</u>	<u>\$ 280,438</u>	<u>\$ 1,724,118</u>

Product Classes	Nine Months Ended September 30, 2019		
	Domestic	International	Total
	Residential products	\$ 778,733	\$ 42,500
Commercial & industrial products	390,514	263,944	654,458
Other	103,593	34,120	137,713
Total net sales	<u>\$ 1,272,840</u>	<u>\$ 340,564</u>	<u>\$ 1,613,404</u>

Residential products consist primarily of automatic home standby generators ranging in output from 6kW to 60kW, portable generators, energy storage and monitoring solutions, and other outdoor power equipment. These products are predominantly sold through independent residential dealers, national and regional retailers, e-commerce merchants, electrical/HVAC/solar wholesalers, solar installers, and outdoor power equipment dealers. The residential products revenue consists of the sale of the product to our distribution partners, which in turn sell or rent the product to the end consumer, including installation and maintenance services. In some cases, residential products are sold direct to the end consumer. Substantially all of the residential products revenues are transferred to the customer at a point in time.

C&I products consist of larger output stationary generators used in C&I applications and fueled by diesel, natural gas, liquid propane and bi-fuel, with power outputs ranging from 10kW up to 3,250kW. Also included in C&I products are commercial-grade mobile generators, light towers, mobile heaters and mobile pumps. These products are predominantly sold through industrial distributors and dealers, equipment rental companies and equipment distributors. The C&I products revenue consists of the sale of the product to our distribution partners, which in turn sell or rent the product to the end customer, including installation and maintenance services. In some cases, C&I products are sold direct to the end customer. Substantially all of the C&I products revenues are transferred to the customer at a point in time.

Other products and services consist primarily of aftermarket service parts and product accessories sold to our dealers, the amortization of extended warranty deferred revenue, and remote monitoring subscription revenue. The aftermarket service parts and product accessories are generally transferred to the customer at a point in time, while the extended warranty revenue and subscription revenue are recognized over the life of the contract.

Management evaluates the performance of its segments based primarily on Adjusted EBITDA, which is reconciled to Income before provision for income taxes below. The computation of Adjusted EBITDA is based on the definition contained in the Company's credit agreements.

	Adjusted EBITDA			
	Three Months Ended		Nine Months Ended September	
	September 30,		30,	
	2020	2019	2020	2019
Domestic	\$ 171,359	\$ 120,833	\$ 374,065	\$ 305,747
International	7,419	5,120	13,877	19,220
Total adjusted EBITDA	\$ 178,778	\$ 125,953	\$ 387,942	\$ 324,967
Interest expense	(8,096)	(10,704)	(25,081)	(31,428)
Depreciation and amortization	(17,168)	(15,494)	(50,087)	(42,841)
Non-cash write-down and other adjustments (1)	(477)	(347)	(1,868)	(673)
Non-cash share-based compensation expense (2)	(4,353)	(3,549)	(14,327)	(11,477)
Transaction costs and credit facility fees (3)	(568)	(358)	(1,160)	(2,047)
Business optimization and other charges (4)	(531)	(567)	(12,503)	(809)
Other	(300)	27	(711)	556
Income before provision for income taxes	\$ 147,285	\$ 94,961	\$ 282,205	\$ 236,248

- (1) Includes certain foreign currency and purchase accounting related adjustments, gains/losses on disposal of assets, and unrealized mark-to-market adjustments on commodity contracts.
- (2) Represents share-based compensation expense to account for stock options, restricted stock and other stock awards over their respective vesting periods.
- (3) Represents transaction costs incurred directly in connection with any investment, as defined in our credit agreement, equity issuance, debt issuance or refinancing, together with certain fees relating to our senior secured credit facilities.
- (4) For the three and nine months ended September 30, 2020, represents severance, non-cash asset write-downs, and other charges to address the impact of the COVID-19 pandemic and decline in oil prices on demand for C&I products. For the three and nine months ended September 30, 2019, represents severance and other charges related to the consolidation of certain of our facilities.

In the fourth quarter of 2019, management determined that the Latin American export operations of the legacy Generac business (GPS LATAM) should have been included in the International reportable segment beginning in 2018. Previously, GPS LATAM was reported in the Domestic segment, in amounts that were not material. To reflect this change, management has chosen to correct the net sales and adjusted EBITDA by segment as follows: For the three and nine months ended September 30, 2019, net sales of \$3,353 and \$10,509, and adjusted EBITDA of \$384 and \$976, respectively, were moved from the Domestic segment to the International segment.

The Company's sales in the U.S. represented approximately 84% and 78% of total sales for the three months ended September 30, 2020 and 2019, respectively. The Company's sales in the U.S. represented approximately 82% and 75% of total sales for the nine months ended September 30, 2020 and 2019, respectively. Approximately 82% and 80% of the Company's identifiable long-lived assets were located in the U.S. at September 30, 2020 and December 31, 2019, respectively.

8. Balance Sheet Details

Inventories consist of the following:

	September 30, 2020	December 31, 2019
Raw materials	\$ 340,275	\$ 328,021
Work-in-process	8,817	10,387
Finished goods	183,860	183,616
Total	<u>\$ 532,952</u>	<u>\$ 522,024</u>

Property and equipment consists of the following:

	September 30, 2020	December 31, 2019
Land and improvements	\$ 17,464	\$ 18,252
Buildings and improvements	194,994	177,079
Machinery and equipment	147,590	117,114
Dies and tools	23,677	22,040
Vehicles	5,258	3,955
Office equipment and systems	104,363	99,124
Leasehold improvements	4,914	4,293
Construction in progress	11,913	36,299
Gross property and equipment	<u>510,173</u>	<u>478,156</u>
Accumulated depreciation	<u>(188,813)</u>	<u>(161,180)</u>
Total	<u>\$ 321,360</u>	<u>\$ 316,976</u>

Total property and equipment included finance leases of \$26,976 and \$26,063 at September 30, 2020 and December 31, 2019, respectively, primarily made up of buildings and improvements. Amortization of finance lease right of use assets is recorded within depreciation expense in the condensed consolidated statements of comprehensive income. The initial measurement of new finance lease right of use assets is accounted for as a non-cash item in the condensed consolidated statements of cash flows.

9. Allowance for Credit Losses

The Company's trade and other receivables primarily arise from the sale of our products to independent residential dealers, industrial distributors and dealers, national and regional retailers, electrical/HVAC/solar wholesalers, e-commerce partners, equipment rental companies, equipment distributors, solar installers, and certain end users with payment terms generally ranging from 30 to 60 days. The Company evaluates the credit risk of a customer when extending credit based on a combination of various financial and qualitative factors that may affect the customers' ability to pay. These factors include the customer's financial condition, past payment experience, credit bureau information, and regional considerations.

The Company maintains an allowance for credit losses, which represents an estimate of expected losses over the remaining contractual life of its receivables considering current market conditions and estimates for supportable forecasts when appropriate. The Company measures expected credit losses on its trade receivables on an entity by entity basis. The estimate of expected credit losses considers a historical loss experience rate that is adjusted for delinquency trends, collection experience, and/or economic risk where appropriate based on current market conditions. Additionally, management develops a specific allowance for trade receivables known to have a high risk of expected future credit loss.

The Company has historically experienced immaterial write-offs given the nature of the customers that receive credit. In addition, the Company holds a credit insurance plan that covers the risk of loss up to specified amounts on certain trade receivables. As of September 30, 2020, the Company had gross receivables of \$409,423 and an allowance for credit losses of \$11,183.

The following is a tabular reconciliation of the Company's allowance for credit losses:

	Three Months Ended September 30, 2020	Nine Months Ended September 30, 2020
Balance at beginning of period	\$ 11,097	\$ 6,968
Adoption of ASU 2016-13	-	1,147
Provision for credit losses	152	3,982
Charge-offs	(336)	(615)
Currency translation	270	(299)
Balance at end of period	<u>\$ 11,183</u>	<u>\$ 11,183</u>

10. Product Warranty Obligations

The Company records a liability for standard product warranty obligations accounted for as assurance warranties at the time of sale of the product to a customer based upon historical warranty experience. The Company also records a liability for specific warranty matters when they become known and are reasonably estimable. The following is a tabular reconciliation of the Company's standard product warranty liability accounted for as an assurance warranty:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
Balance at beginning of period	\$ 50,324	\$ 45,324	\$ 49,316	\$ 41,785
Product warranty reserve assumed in acquisition	124	-	124	407
Payments	(8,667)	(7,576)	(24,136)	(18,867)
Provision for warranty issued	10,949	8,518	27,691	23,656
Changes in estimates for pre-existing warranties	(575)	230	(840)	(485)
Balance at end of period	<u>\$ 52,155</u>	<u>\$ 46,496</u>	<u>\$ 52,155</u>	<u>\$ 46,496</u>

Additionally, the Company sells extended warranty coverage for certain products, which it accounts for as a service warranty. The sales of extended warranties are recorded as deferred revenue, and typically have a duration of five to ten years. The deferred revenue related to extended warranty coverage is amortized over the duration of the extended warranty contract period, following the standard warranty period, using the straight-line method. Revenue is recognized on extended warranty contracts when the revenue recognition criteria are met, resulting in ratable recognition over the contract term. The amortization of deferred revenue is recorded to net sales in the condensed consolidated statements of comprehensive income. The following is a tabular reconciliation of the deferred revenue related to extended warranty coverage:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
Balance at beginning of period	\$ 83,153	\$ 74,517	\$ 78,738	\$ 68,340
Deferred revenue contracts issued	6,802	5,918	18,966	18,832
Amortization of deferred revenue contracts	(4,241)	(3,573)	(11,990)	(10,310)
Balance at end of period	<u>\$ 85,714</u>	<u>\$ 76,862</u>	<u>\$ 85,714</u>	<u>\$ 76,862</u>

The timing of recognition of the Company's deferred revenue balance related to extended warranties at September 30, 2020 is as follows:

Remainder of 2020	\$ 4,382
2021	19,630
2022	18,567
2023	14,058
2024	9,801
After 2024	19,276
Total	<u>\$ 85,714</u>

Standard product warranty obligations and extended warranty related deferred revenues are included in the condensed consolidated balance sheets as follows:

	September 30, 2020	December 31, 2019
Product warranty liability		
Current portion - other accrued liabilities	\$ 29,962	\$ 27,885
Long-term portion - other long-term liabilities	22,193	21,431
Total	<u>\$ 52,155</u>	<u>\$ 49,316</u>
Deferred revenue related to extended warranties		
Current portion - other accrued liabilities	\$ 21,846	\$ 15,519
Long-term portion - other long-term liabilities	63,868	63,219
Total	<u>\$ 85,714</u>	<u>\$ 78,738</u>

11. Contract Balances

In certain cases, the Company's customers pay for their goods in advance. These prepayments are recognized as customer deposits (contract liabilities) and recorded in other accrued liabilities in the condensed consolidated balance sheets. The balance of customer deposits was \$17,637 and \$9,952 at September 30, 2020 and December 31, 2019, respectively. During the nine months ended September 30, 2020, the Company recognized revenue of \$7,991 related to amounts included in the December 31, 2019 customer deposit balance. The Company typically recognizes revenue within one year of the receipt of the customer deposit.

12. Credit Agreements

Short-term borrowings are included in the condensed consolidated balance sheets as follows:

	September 30, 2020	December 31, 2019
ABL Facility	\$ 5,269	\$ 30,961
Other lines of credit	39,531	27,753
Total	<u>\$ 44,800</u>	<u>\$ 58,714</u>

Long-term borrowings are included in the condensed consolidated balance sheets as follows:

	September 30, 2020	December 31, 2019
Term Loan	\$ 830,000	\$ 830,000
Original issue discount and deferred financing costs	(16,107)	(18,048)
Finance lease obligation	27,021	25,962
Other	3,848	2,236
Total	<u>844,762</u>	<u>840,150</u>
Less: current portion of debt	1,313	553
Less: current portion of finance lease obligation	2,108	1,830
Total	<u>\$ 841,341</u>	<u>\$ 837,767</u>

The Company's credit agreements originally provided for a \$1,200,000 term loan B credit facility (Term Loan) and currently include a \$300,000 uncommitted incremental term loan facility. The maturity date of the Term Loan is currently December 13, 2026. The Term Loan is guaranteed by all of the Company's wholly-owned domestic restricted subsidiaries, and is secured by associated collateral agreements which pledge a first priority lien on virtually all of the Company's assets, including fixed assets and intangibles, other than all cash, trade accounts receivable, inventory, and other current assets and proceeds thereof, which are secured by a second priority lien. The Term Loan initially bore interest at rates based upon either a base rate plus an applicable margin of 1.75% or adjusted LIBOR rate plus an applicable margin of 2.75%, subject to a LIBOR floor of 0.75%. Currently, the Term Loan bears interest at rates based upon either a base rate plus an applicable margin of 0.75% or adjusted LIBOR rate plus an applicable margin of 1.75%. The Term Loan agreement has been amended a number of times since inception.

In December 2019, the Company amended its Term Loan to extend the maturity date from May 31, 2023 to December 13, 2026, as well as to remove the LIBOR floor of 0.75% from the adjusted LIBOR rate. Additionally, language was added to the agreement to include a benchmark replacement rate, selected by the administrative agent and the borrower, as a replacement to LIBOR that would take effect at the time LIBOR ceases. In connection with this amendment and in accordance with ASC 470-50, the Company capitalized \$1,247 of fees paid to creditors as deferred financing costs on long-term borrowings and expensed \$432 of transaction fees in the fourth quarter of 2019. Additionally at the time of the amendment, the Company made a voluntary prepayment of \$49,000 on the Term Loan, which resulted in the write-off of \$926 of original issue discount and capitalized debt issuance costs as a loss on extinguishment of debt in the condensed consolidated statements of comprehensive income.

The Term Loan does not require an excess cash flow payment if the Company's secured leverage ratio is maintained below 3.75 to 1.00 times. As of September 30, 2020, the Company's net secured leverage ratio was 1.26 to 1.00 times, and the Company was in compliance with all covenants of the Term Loan. There are no financial maintenance covenants on the Term Loan.

The Company's credit agreements also originally provided for a senior secured ABL revolving credit facility (ABL Facility). Borrowings under the ABL Facility are guaranteed by all of the Company's wholly-owned domestic restricted subsidiaries, and are secured by associated collateral agreements which pledge a first priority lien on all cash, trade accounts receivable, inventory, and other current assets and proceeds thereof, and a second priority lien on all other assets, including fixed assets and intangibles of the Company and certain domestic subsidiaries. ABL Facility borrowings initially bore interest at rates based upon either a base rate plus an applicable margin of 1.00% or adjusted LIBOR rate plus an applicable margin of 2.00%, in each case, subject to adjustments based upon average availability under the ABL Facility. Currently, the ABL Facility bears interest at rates based upon either a base rate plus an applicable margin of 0.125% or an adjusted LIBOR rate plus an applicable margin of 1.125%, in each case, subject to adjustments based upon average availability under the ABL Facility. The ABL Facility agreement has been amended a number of times since inception.

As of September 30, 2020, there was \$5,269 outstanding under the ABL Facility, leaving \$294,338 of availability, net of outstanding letters of credit.

As of September 30, 2020 and December 31, 2019, short-term borrowings consisted of borrowings by the Company's foreign subsidiaries on local lines of credit and the ABL Facility, which totaled \$44,800 and \$58,714, respectively.

13. Stock Repurchase Program

In September 2018, the Company's Board of Directors approved a \$250,000 stock repurchase program that is due to expire in the fourth quarter of 2020. In September 2020, the Company's Board of Directors approved another stock repurchase program, which will commence upon the expiration of the previous stock repurchase program, and allows for the repurchase of up to \$250,000 of the Company's common stock over a 24-month period. The Company may repurchase its common stock from time to time, in amounts and at prices the Company deems appropriate, subject to market conditions and other considerations. The repurchases may be executed using open market purchases, privately negotiated agreements or other transactions. The actual timing, number and value of shares repurchased under the program will be determined by management at its discretion and will depend on a number of factors, including the market price of the Company's common stock, general market and economic conditions, applicable legal requirements, and compliance with the terms of the Company's outstanding indebtedness. The repurchases may be funded with cash on hand, available borrowings, or proceeds from potential debt or other capital markets sources. The stock repurchase program may be suspended or discontinued at any time without prior notice. There were no share repurchases during the three and nine months ended September 30, 2020. Since the inception of all programs starting in August 2015, the Company has repurchased 8,676,706 shares of its common stock for \$305,547 (at an average cost per share of \$35.21), all funded with cash on hand.

14. Earnings Per Share

Basic earnings per share is calculated by dividing net income attributable to the common shareholders of the Company by the weighted average number of common shares outstanding during the period, exclusive of restricted shares. Except where the result would be anti-dilutive, diluted earnings per share is calculated by assuming the vesting of unvested restricted stock and the exercise of stock options. Refer to Note 3 to the condensed consolidated financial statements, "Redeemable Noncontrolling Interest" for further information regarding the accounting for redeemable noncontrolling interests.

The following table reconciles the numerator and the denominator used to calculate basic and diluted earnings per share:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
Numerator				
Net income attributable to Generac Holdings Inc.	\$ 114,970	\$ 75,574	\$ 225,575	\$ 182,393
Redeemable noncontrolling interest redemption value adjustment	811	(1,485)	(2,281)	191
Net income attributable to common shareholders	<u>\$ 115,781</u>	<u>\$ 74,089</u>	<u>\$ 223,294</u>	<u>\$ 182,584</u>
Denominator				
Weighted average shares, basic	62,353,473	61,973,447	62,244,872	61,878,500
Dilutive effect of stock compensation awards (1)	1,407,907	797,145	1,301,260	640,705
Diluted shares	<u>63,761,380</u>	<u>62,770,592</u>	<u>63,546,132</u>	<u>62,519,205</u>
Net income attributable to common shareholders per share				
Basic	\$ 1.86	\$ 1.20	\$ 3.59	\$ 2.95
Diluted	\$ 1.82	\$ 1.18	\$ 3.51	\$ 2.92

(1) There were no awards with an anti-dilutive impact for the three and nine months ended September 30, 2020 and September 30, 2019.

15. Income Taxes

The effective income tax rates for the nine months ended September 30, 2020 and 2019 were 21.3% and 22.8%, respectively. The decrease in the effective tax rate in the current year is primarily the result of a discrete tax benefit related to equity compensation as well as the favorable mix of earnings in the jurisdictions where the Company operates.

16. Commitments and Contingencies

The Company has an arrangement with a finance company to provide floor plan financing for certain dealers. The Company receives payment from the finance company after shipment of product to the dealer. The Company participates in the cost of dealer financing up to certain limits and has agreed to repurchase products repossessed by the finance company, but does not indemnify the finance company for any credit losses they incur. The amount financed by dealers which remained outstanding under this arrangement at September 30, 2020 and December 31, 2019 was approximately \$45,700 and \$49,600, respectively.

In the normal course of business, the Company is named as a defendant in various lawsuits in which claims are asserted against the Company. In the opinion of management, the liabilities, if any, which may result from such lawsuits are not expected to have a material adverse effect on the financial position, results of operations or cash flows of the Company.

17. Subsequent Event

On October 7, 2020, the Company acquired Enbala Power Networks Inc. (Enbala), one of the leading providers of distributed energy optimization and control software needed to ensure the operational stability of the world's power grids. Enbala was founded in 2003 and is headquartered in Denver, Colorado.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

This quarterly report contains forward-looking statements that are subject to risks and uncertainties. Forward-looking statements give our current expectations and projections relating to our financial condition, results of operations, plans, objectives, future performance and business. You can identify forward-looking statements by the fact that they do not relate strictly to historical or current facts. These statements may include words such as "anticipate," "estimate," "expect," "forecast," "project," "plan," "intend," "believe," "confident," "may," "should," "can have," "likely," "future," "optimistic" and other words and terms of similar meaning in connection with any discussion of the timing or nature of future operating or financial performance or other events.

The forward-looking statements contained in this quarterly report are based on assumptions that we have made in light of our industry experience and on our perceptions of historical trends, current conditions, expected future developments and other factors we believe are appropriate under the circumstances. As you read and consider this report, you should understand that these statements are not guarantees of performance or results. They involve risks, uncertainties (some of which are beyond our control) and assumptions. Although we believe that these forward-looking statements are based on reasonable assumptions, you should be aware that many factors could affect our actual financial results and cause them to differ materially from those anticipated in the forward-looking statements. The forward-looking statements contained in this quarterly report include estimates regarding:

- our business, financial and operating results, and future economic performance;
- proposed new product and service offerings; and
- management's goals, expectations, objectives and other similar expressions concerning matters that are not historical facts.

Factors that could affect our actual financial results and cause them to differ materially from those anticipated in the forward-looking statements include:

- the impact of the COVID-19 pandemic on our business, as discussed below;
- frequency and duration of power outages impacting demand for our products;
- availability, cost and quality of raw materials, key components and labor needed in producing our products;
- the impact on our results of possible fluctuations in interest rates, foreign currency exchange rates, commodities, product mix and regulatory tariffs;
- the possibility that the expected synergies, efficiencies and cost savings of our acquisitions will not be realized, or will not be realized within the expected time period;
- the risk that our acquisitions will not be integrated successfully;
- difficulties we may encounter as our business expands globally or into new markets;
- our dependence on our distribution network;
- our ability to invest in, develop or adapt to changing technologies and manufacturing techniques;
- loss of our key management and employees;
- increase in product and other liability claims or recalls;
- failures or security breaches of our networks or information technology systems; and
- changes in environmental, health and safety, or product compliance laws and regulations affecting our products or operations.

Should one or more of these risks or uncertainties materialize, or should any of these assumptions prove incorrect, our actual results may vary in material respects from those projected in any forward-looking statements. A detailed discussion of these and other factors that may affect future results is contained in our filings with the Securities and Exchange Commission, including in Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2019 and in Part II, Item 1A of this Quarterly Report on Form 10-Q. Stockholders, potential investors and other readers should consider these factors carefully in evaluating the forward-looking statements.

Any forward-looking statement made by us in this report speaks only as of the date on which it is made. Factors or events that could cause our actual results to differ may emerge from time to time, and it is not possible for us to predict all of them. We undertake no obligation to update any forward-looking statement, whether as a result of new information, future developments or otherwise, except as may be required by law.

Overview

We are a leading global designer and manufacturer of a wide range of energy technology solutions. The Company provides power generation equipment, energy storage systems, and other power products serving the residential, light commercial and industrial markets. Power generation and energy storage are our key focus, which differentiates us from our main competitors that also have broad operations outside of the power equipment markets. As the only significant market participant focused predominantly on these products, we have one of the leading market positions in the power equipment markets in North America and an expanding presence internationally. We believe we have one of the widest ranges of products in the marketplace, including residential, commercial and industrial standby generators, as well as portable and mobile generators used in a variety of applications. A key strategic focus for the Company in recent years has been leveraging our leading position in the growing market for cleaner burning, more cost effective natural gas-fueled generators to expand into applications beyond standby power. We have also been focused on "connecting" the equipment we manufacture to the users of that equipment, helping to drive additional value to our customers and our distribution partners over the product lifecycle. Other power products that we design and manufacture include light towers that provide temporary lighting for various end markets; commercial and industrial mobile heaters and pumps used in the oil & gas, construction and other industrial markets; and a broad product line of outdoor power equipment for residential and commercial use. During 2019, we began providing energy storage systems as a clean energy solution for residential use that captures and stores electricity from solar panels or other power sources and helps reduce home energy costs while also protecting homes from brief power outages.

Impact of COVID-19 on Our Business

The global outbreak of COVID-19 was declared a pandemic by the World Health Organization in March 2020 and has negatively affected the global economy, disrupted global supply chains and created significant market volatility and uncertainty. Our management team has been very proactive in addressing the impact of COVID-19 on our business. The situation continues to evolve, and we are working to ensure employee safety, monitor customer

demand, proactively address supply chain or production challenges, and support our communities during this challenging time. We manufacture and provide essential products and services to a variety of critical infrastructure customers around the globe, and as a result, substantially all of our operations and production activities have, to-date, been operational. We have implemented changes in our work practices, maintaining a safe working environment for production employees at our facilities, while enabling other employees to productively work from home.

The further extent of the impact of COVID-19 on our business is dependent on future developments, including the duration of the pandemic, our ability to operate during the pandemic, actions taken by domestic and foreign governments to contain the spread of the virus, and the related length of its impact on the global economy and our customers.

Demand

The COVID-19 pandemic has created significant uncertainty within various global markets that we serve. Several areas of our business have been and may continue to be negatively impacted, in particular our Commercial and Industrial (C&I) products around the world. The decline in oil prices is impacting our C&I mobile products demand significantly as national rental customers are deferring their capital spending. C&I stationary product shipments through our North American distributor channel and our Telecom customers have slowed due to declines in quoting activity. Additionally, the COVID-19 pandemic has caused a broad-based sharp drop in global demand for our C&I products in our International segment, which magnified the slower economic growth and geopolitical headwinds already being experienced by our international business. Given the magnitude of the downturn in demand for C&I products, we initiated a number of meaningful cost-cutting actions for this part of our business during the second quarter to better align our cost structure with customer demand. We are continuing to monitor these negative impacts on our C&I product demand closely and may implement additional measures in response.

With regard to our Residential products, historical experience and our current year results have shown that demand for Residential products can be defensive in nature, and tends to decouple from broader economic trends as these products are largely driven by power outages. The aging and underinvested electrical grid in the U.S. continues to be more vulnerable to elevated power outages across the country. As the vast majority of U.S. citizens are spending much more time at home due to the pandemic, it is becoming more essential to have a backup power strategy, especially as homeowners are doing more critical activities like working and learning from home. In addition, with California emerging as a major market for back-up power and our entrance into clean energy, these incremental growth drivers have helped to more than offset the impact of lower consumer spending due to COVID-19.

Supply Chain and Operations

As a result of the COVID-19 pandemic, governmental authorities have implemented and are continuing to implement numerous and constantly evolving measures to try to contain the virus, such as travel bans and restrictions, limits on gatherings, quarantines, and business shutdowns. While we are deemed an essential, critical infrastructure business and our facilities currently remain operational, this continues to be a fluid process and subject to change. We have experienced and may continue to experience increased employee absences at several of our production facilities. If we were to encounter a significant work stoppage, disruption, or COVID-19 outbreak at one or more of our locations or suppliers, we may not be able to satisfy customer demand for a period of time.

The COVID-19 pandemic has disrupted the global supply chain and we are continually monitoring scheduled material receipts to mitigate any delays. To date, we have not experienced significant impacts or interruptions to our supply chain as a result of the COVID-19 pandemic, but this could be subject to change if one or more of our suppliers can no longer operate in this environment. We have maintained business continuity by utilizing safety stock inventory levels and executing air freight strategies. The COVID-19 pandemic has also impacted the global logistics network. Although we have experienced inbound and outbound logistics delays in moving shipments across several regions, the impact to our business thus far has not been significant. This could change if freight carriers are delayed or not able to operate.

Liquidity

Although the COVID-19 outbreak has created uncertain market conditions, we believe our business model, current cash balance, projected cash flow generation, and availability under our ABL credit facility provide us a strong balance sheet and liquidity position. This financial strength allows us, notwithstanding unforeseen impacts of the current COVID-19 pandemic, to remain focused on our strategic plan and provides the flexibility to continue to invest in future growth opportunities.

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Business Drivers and Operational Factors

In operating our business and monitoring its performance, we pay attention to a number of business drivers and trends as well as operational factors. The statements in this section are based on our current expectations.

Business Drivers and Trends

Our performance is affected by the demand for reliable power generation products, energy storage systems, and other power products by our customer base. This demand is influenced by several important drivers and trends affecting our industry, including the following:

Increasing penetration opportunity. Many potential customers are still not aware of the costs and benefits of automatic backup power solutions. We estimate that penetration rates for home standby generators are only approximately 5% of the addressable market of homes in the United States. As such, a significant penetration opportunity exists for residential back-up generators. The decision to purchase backup power for many light-commercial buildings such as convenience stores, restaurants and gas stations is more return-on-investment driven, and as a result these applications have relatively lower penetration rates as compared to buildings used in code-driven or mission critical applications such as hospitals, wastewater treatment facilities, 911 call centers, data centers and certain industrial locations. The emergence of lower cost, cleaner burning natural gas fueled generators has helped to increase the penetration of standby generators over the past decade in the light-commercial market. In addition, the installed base of backup power for telecommunications infrastructure is still increasing due to a variety of factors including the impending rollout of next-generation 5G wireless networks enabling new technologies and the growing importance for critical communications and other uninterrupted voice and data services. We believe by expanding our distribution network, continuing to develop our product lines, and targeting our marketing efforts, we can continue to build awareness and increase penetration for our standby generators for residential, commercial and industrial purposes.

Effect of large scale and baseline power disruptions. Power disruptions are an important driver of customer awareness for back-up power and have historically influenced demand for generators, both in the United States and internationally. Increased frequency and duration of major power outage events, that have a broader impact beyond a localized level, increases product awareness and may drive consumers to accelerate their purchase of a portable or standby generator during the immediate and subsequent period, which we believe may last for six to twelve months following a major power outage event for standby generators. For example, the major outage events that occurred during the second half of 2017 drove strong demand for portable and home standby generators, and the increased awareness of these products contributed to strong revenue growth in both 2017 and 2018. Major power disruptions are unpredictable by nature and, as a result, our sales levels and profitability may fluctuate from period to period. In addition, there are smaller, more localized power outages that occur frequently across the United States that drive the baseline level of demand for back-up power solutions. The level of baseline power outage activity occurring across the United States can also fluctuate, and may cause our financial results to fluctuate from year to year.

Energy storage and monitoring markets developing quickly. During 2019, we entered the rapidly developing energy storage and monitoring markets with the acquisitions of Pika Energy and Neurio Technologies. We believe the electric power landscape will undergo significant changes in the decade ahead as a result of rising utility rates, grid instability and power utility quality issues, environmental concerns, and the continuing performance and cost improvements in renewable energy and batteries. On-site power generation from solar, wind, geothermal, and natural gas generators is projected to become more prevalent as will the need to monitor, manage and store this power – potentially developing into a significant market opportunity annually. The capabilities provided by Pika and Neurio have enabled us to bring an efficient and intelligent energy-savings solution to the energy storage and monitoring markets which we believe will position Generac as a key participant going forward. Although very different from the emergency backup power space we serve today, we believe this market will develop similarly as the home standby generator market has over the past two decades. Our efforts to develop a cost-effective global supply chain, omni-channel distribution, targeted consumer-based marketing content, and proprietary in-home sales tools have played a critical role in creating the market for home standby generators, and we intend to leverage our expertise and capabilities in these areas as we work to grow the energy storage and monitoring markets.

California market for backup power increasing. During 2019, the largest utility in the state of California, along with other utilities, executed a number of Public Safety Power Shutoff (PSPS) events in large portions of their service areas. These events were proactive measures to prevent their equipment from potentially causing catastrophic wildfires during the dry and windy season of the year. The occurrence of these events, along with the utilities warning these actions could continue in the future as they upgrade their transmission and distribution infrastructure, has resulted in significant awareness and increased demand for our generators in California, where penetration rates of home standby generators stand at approximately 1%. We have a significant focus on expanding distribution in California and are working together with local regulators, inspectors, and gas utilities to increase their bandwidth and sense of urgency around approving and providing the infrastructure necessary for home standby and other backup power products. Our efforts in this part of the country will also be helpful in developing the market for energy storage and monitoring where the installed base of solar and other renewable sources of electricity is among the highest in the U.S., and California regulators began mandating renewable energy on new construction starting in 2020.

Impact of residential investment cycle. The market for residential generators and energy storage systems is also affected by the residential investment cycle and overall consumer confidence and sentiment. When homeowners are confident of their household income, the value of their home and overall net worth, they are more likely to invest in their home. These trends can have an impact on demand for residential generators and energy storage systems. Trends in the new housing market highlighted by residential housing starts can also impact demand for these products. Demand for outdoor power equipment is also impacted by several of these factors, as well as weather precipitation patterns. Finally, the existence of renewable energy mandates and investment tax credits and other subsidies can also have an impact on the demand for energy storage systems.

Impact of business capital investment and other economic cycles. The global markets for our commercial and industrial products are affected by different capital investment cycles, which can vary across the numerous regions around the world in which we operate. These markets include non-residential building construction, durable goods and infrastructure spending, as well as investments in the exploration and production of oil & gas, as businesses or organizations either add new locations or make investments to upgrade existing locations or equipment. These trends can have a material impact on demand for these products. The capital investment cycle may differ for the various commercial and industrial end markets that we serve including light commercial, retail, office, telecommunications, industrial, data centers, healthcare, construction, oil & gas and municipal infrastructure, among others. The market for these products is also affected by general economic and geopolitical conditions as well as credit availability in the geographic regions that we serve. In addition, we believe demand for our mobile power products will continue to benefit from a secular shift towards renting versus buying this type of equipment.

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Factors Affecting Results of Operations

We are subject to various factors that can affect our results of operations, which we attempt to mitigate through factors we can control, including continued product development, expanded distribution, pricing, cost reductions and hedging. Certain operational and other factors that affect our business include the following:

Effect of commodity, currency and component price fluctuations. Industry-wide price fluctuations of key commodities, such as steel, copper and aluminum, along with other components we use in our products, as well as changes in labor costs required to produce our products, can have a material impact on our results of operations. Acquisitions in recent years have further expanded our commercial and operational presence outside of the United States. These international acquisitions, along with our extensive global supply chain, expose us to fluctuations in foreign currency exchange rates and regulatory tariffs that can also have a material impact on our results of operations.

We have historically attempted to mitigate the impact of any inflationary pressures through improved product design and sourcing, manufacturing efficiencies, price increases and select hedging transactions. Our results are also influenced by changes in fuel prices on our freight rates, which in some cases are accepted by our customers and in other cases are absorbed by us.

Seasonality. Although there is demand for our products throughout the year, in each of the past five years, approximately 20% to 24% of our net sales occurred in the first quarter, 22% to 25% in the second quarter, 26% to 28% in the third quarter and 27% to 29% in the fourth quarter, with different seasonality depending on the occurrence, timing and severity of major power outage activity in each year. Major outage activity is unpredictable by nature and, as a result, our sales levels and profitability may fluctuate from period to period. The seasonality experienced during a major power outage, and for the subsequent quarters following the event, will vary relative to other periods where no major outage events occurred. We maintain a flexible production and supply chain infrastructure in order to respond to outage-driven peak demand.

Factors influencing interest expense and cash interest expense. Interest expense can be impacted by a variety of factors, including market fluctuations in LIBOR, interest rate election periods, interest rate swap agreements, repayments or borrowings of indebtedness, and amendments to our credit agreements. In connection with our term loan amendment in December 2019, language was added to the agreement to include a benchmark replacement rate, selected by the administrative agent and the borrower, as a replacement to LIBOR that would take affect at the time LIBOR ceases. We plan to work with our lenders in the future to amend other LIBOR based debt agreements to add a replacement rate should the use of LIBOR cease. During the nine months ended September 30, 2020, interest expense decreased compared to the nine months ended September 30, 2019, primarily due to lower LIBOR rates and lower outstanding borrowings. Refer to Note 12, "Credit Agreements," to the condensed consolidated financial statements for further information.

Factors influencing provision for income taxes and cash income taxes paid. On March 27, 2020, the U.S. government enacted the Coronavirus Aid, Relief and Economic Security Act (CARES Act) providing relief to taxpayers due to the COVID-19 pandemic. We have reviewed and implemented elements of the CARES Act based on guidance provided by the U.S. Treasury Department. However, the benefits were not material to our financial results. Despite this, we will continue to review the CARES Act and any regulations or guidance issued by the U.S. Treasury Department or by a state which may create an additional tax expense or benefit. We will update our future tax provisions based on new regulations or guidance accordingly.

As of December 31, 2019, we had approximately \$225 million of tax-deductible goodwill and intangible asset amortization remaining from our acquisition by CCMP Capital Advisors, LLC in 2006 that we expect to generate aggregate cash tax savings of approximately \$57 million through 2021, assuming continued profitability of our U.S. business and a combined federal and state tax rate of 25.3%. The recognition of the tax benefit associated with these assets for tax purposes is expected to be \$122 million in 2020 and \$102 million in 2021, which is expected to generate annual cash tax savings of \$31 million in 2020 and \$26 million in 2021. Based on current business plans, we believe that our cash tax obligations through 2021 will be significantly reduced by these tax attributes, after which our cash tax obligation will increase. Other domestic acquisitions have resulted in additional tax deductible goodwill and intangible assets that will generate tax savings, but are not material to our condensed consolidated financial statements.

Acquisitions. Over the years, we have executed a number of acquisitions that support our strategic plan. A summary of the recent acquisitions can be found in Note 1, "Description of Business and Basis of Presentation," to the condensed consolidated financial statements in Item 1 of this Quarterly Report on Form 10-Q, and in Item 8 (Note 1, "Description of Business") of the Annual Report on Form 10-K for the year ended December 31, 2019.

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Results of Operations

Three months ended September 30, 2020 compared to the three months ended September 30, 2019

The following table sets forth our consolidated statements of operations information for the periods indicated:

(U.S. Dollars in thousands)	Three Months Ended September 30,		\$ Change	% Change
	2020	2019		
Net sales	\$ 701,355	\$ 601,135	\$ 100,220	16.7%
Costs of goods sold	425,206	383,618	41,588	10.8%
Gross profit	276,149	217,517	58,632	27.0%
Operating expenses:				
Selling and service	60,901	59,356	1,545	2.6%
Research and development	20,658	17,603	3,055	17.4%
General and administrative	31,061	27,596	3,465	12.6%
Amortization of intangible assets	7,892	7,406	486	6.6%
Total operating expenses	120,512	111,961	8,551	7.6%
Income from operations	155,637	105,556	50,081	47.4%
Total other expense, net	(8,352)	(10,595)	2,243	-21.2%
Income before provision for income taxes	147,285	94,961	52,324	55.1%
Provision for income taxes	32,050	20,064	11,986	59.7%
Net income	115,235	74,897	40,338	53.9%
Net income (loss) attributable to noncontrolling interests	265	(677)	942	-139.1%
Net income attributable to Generac Holdings Inc.	\$ 114,970	\$ 75,574	\$ 39,396	52.1%

The following table sets forth our reportable segment information for the periods indicated:

(U.S. Dollars in thousands)	Net Sales Three Months Ended September 30,		\$ Change	% Change
	2020	2019		
Domestic	\$ 606,875	\$ 494,810	\$ 112,065	22.6%
International	94,480	106,325	(11,845)	-11.1%
Total net sales	\$ 701,355	\$ 601,135	\$ 100,220	16.7%
Adjusted EBITDA Three Months Ended September 30,				
	2020	2019	\$ Change	% Change
Domestic	\$ 171,359	\$ 120,833	\$ 50,526	41.8%
International	7,419	5,120	2,299	44.9%

Total Adjusted EBITDA	\$ 178,778	\$ 125,953	\$ 52,825	41.9%
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The following table sets forth our product class information for the periods indicated:

(U.S. Dollars in thousands)	Three Months Ended			
	September 30,			
	2020	2019	\$ Change	% Change
Residential products	\$ 458,877	\$ 335,029	\$ 123,848	37.0%
Commercial & industrial products	176,200	214,905	(38,705)	-18.0%
Other	66,278	51,201	15,077	29.4%
Total net sales	\$ 701,355	\$ 601,135	\$ 100,220	16.7%

Net sales. Domestic segment sales increased 22.6% to \$606.9 million as compared to \$494.8 million in the prior year quarter. As a result of heightened awareness of the need for backup power, shipments of home standby generators experienced strong growth during the quarter. In addition, significant power outage activity also drove elevated shipments of portable generators and aftermarket service parts. Shipments of the recently launched PWRcell energy storage system also had a strong impact on growth following the expected recovery in the solar market during the third quarter. This residential products growth was partially offset by continued weakness in sales of C&I mobile products following the onset of the COVID-19 pandemic and lower oil prices.

International segment sales decreased 11.1% to \$94.5 million as compared to \$106.3 million in the prior year quarter. The decline was driven by continued broad-based weakness in global C&I product demand caused by the COVID-19 pandemic.

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Net income attributable to Generac Holdings Inc. Net income attributable to Generac Holdings Inc. was \$115.0 million as compared to \$75.6 million in the prior year third quarter. The increase was primarily driven by increased sales volumes and related favorable sales mix.

Gross profit. Gross profit margin for the third quarter of 2020 was 39.4% compared to 36.2% in the prior year third quarter. The gross profit margin increase was primarily driven by favorable sales mix from significantly higher shipments of residential products and lower mix of C&I products.

Operating expenses. Operating expenses increased \$8.6 million, or 7.6%, as compared to the prior year third quarter. The increase was primarily driven by incremental spend related to clean energy products and higher incentive compensation. These increases were partially offset by lower advertising and promotional costs, along with a reduction in operating expenses for the International segment as a result of restructuring actions initiated in the second quarter of 2020.

Other expense. The decrease in Other expense, net was primarily driven by a reduction in interest expense due to lower LIBOR rates and lower outstanding borrowings.

Provision for income taxes. The effective income tax rates for the three months ended September 30, 2020 and 2019 were 21.8% and 21.1%, respectively. The increase in the effective tax rate was primarily due to the prior year having more favorable discrete tax items compared to the current year quarter, which was partially offset by an overall more favorable mix of pretax income in the current year quarter.

Adjusted EBITDA. Adjusted EBITDA for the Domestic segment in the third quarter of 2020 was \$171.4 million, or 28.2% of net sales, as compared to \$120.8 million, or 24.4% of net sales, in the prior year quarter. This margin increase was driven by favorable sales mix and higher operating leverage from the significant revenue growth.

Adjusted EBITDA for the International segment in the third quarter of 2020, before deducting for non-controlling interests, was \$7.4 million, or 7.9% of net sales, as compared to \$5.1 million, or 4.8% of net sales, in the prior year quarter. Decreased operating leverage on the lower sales volumes was more than offset by lower operating expenses as a result of the restructuring activities initiated in the second quarter of 2020.

Adjusted Net Income. Adjusted Net Income of \$132.9 million for the three months ended September 30, 2020 increased 47.7% from \$90.0 million for the three months ended September 30, 2019, due to the factors outlined above.

See “Non-GAAP Measures” for a discussion of how we calculate Adjusted EBITDA and Adjusted Net Income and the limitations on their usefulness.

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Nine months ended September 30, 2020 compared to the nine months ended September 30, 2019

The following table sets forth our consolidated statements of operations information for the periods indicated:

(U.S. Dollars in thousands)	Nine Months Ended September			
	30,			
	2020	2019	\$ Change	% Change
Net sales	\$ 1,724,118	\$ 1,613,404	\$ 110,714	6.9%
Costs of goods sold	1,066,666	1,037,874	28,792	2.8%
Gross profit	657,452	575,530	81,922	14.2%
Operating expenses:				
Selling and service	178,566	158,954	19,612	12.3%
Research and development	58,762	48,906	9,856	20.2%

General and administrative	88,732	80,016	8,716	10.9%
Amortization of intangible assets	23,340	19,999	3,341	16.7%
Total operating expenses	349,400	307,875	41,525	13.5%
Income from operations	308,052	267,655	40,397	15.1%
Total other expense, net	(25,847)	(31,407)	5,560	-17.7%
Income before provision for income taxes	282,205	236,248	45,957	19.5%
Provision for income taxes	59,967	53,876	6,091	11.3%
Net income	222,238	182,372	39,866	21.9%
Net income (loss) attributable to noncontrolling interests	(3,337)	(21)	(3,316)	N/A
Net income attributable to Generac Holdings Inc.	\$ 225,575	\$ 182,393	\$ 43,182	23.7%

The following table sets forth our reportable segment information for the periods indicated:

(U.S. Dollars in thousands)	Net Sales			
	Nine Months Ended September 30,			
	2020	2019	\$ Change	% Change
Domestic	\$ 1,443,680	\$ 1,272,840	\$ 170,840	13.4%
International	280,438	340,564	(60,126)	-17.7%
Total net sales	\$ 1,724,118	\$ 1,613,404	\$ 110,714	6.9%

(U.S. Dollars in thousands)	Adjusted EBITDA			
	Nine Months Ended September 30,			
	2020	2019	\$ Change	% Change
Domestic	\$ 374,065	\$ 305,747	\$ 68,318	22.3%
International	13,877	19,220	(5,343)	-27.8%
Total Adjusted EBITDA	\$ 387,942	\$ 324,967	\$ 62,975	19.4%

The following table sets forth our product class information for the periods indicated:

(U.S. Dollars in thousands)	Nine Months Ended September 30,			
	2020	2019	\$ Change	% Change
	Residential products	\$ 1,057,848	\$ 821,233	\$ 236,615
Commercial & industrial products	503,156	654,458	(151,302)	-23.1%
Other	163,114	137,713	25,401	18.4%
Total net sales	\$ 1,724,118	\$ 1,613,404	\$ 110,714	6.9%

Net sales. Domestic segment sales increased 13.4% to \$1,443.7 million from \$1,272.8 million in the prior year. The current year experienced strong growth in shipments of home standby and portable generators as elevated outage activity and nationwide stay-at-home orders heightened consumer awareness of power reliability concerns. Chore products sold directly to consumers were also strong during the current year as homeowners increased outdoor project activity while spending more time at home. In addition, shipments of the recently launched PWRcell energy storage system had a strong impact on growth. This residential products growth was partially offset by weakness in C&I mobile products sales following the onset of the COVID-19 pandemic and lower oil prices, as well as lower shipments of C&I products to national telecom customers as compared to a strong prior year comparison.

International sales for the nine months ended September 30, 2020 decreased 17.7% compared to the prior year period. The decline was primarily driven by a broad-based sharp drop in global demand caused by the COVID-19 pandemic and its impact on certain key regions of the world, which magnified the slower economic growth and geopolitical headwinds already being experienced prior to the pandemic.

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Net income attributable to Generac Holdings Inc. Net income attributable to Generac Holdings Inc. was \$225.6 million as compared to \$182.4 million in the prior year period. The current year net income includes \$12.5 million of pre-tax charges relating to business optimization, restructuring, and other costs to address the impact of the COVID-19 pandemic and decline in oil prices. The cost actions taken include certain headcount reductions, non-cash asset write-downs, and other charges. The charges, which primarily relate to C&I products, consist of \$6.6 million classified within costs of goods sold and \$5.9 million classified within operating expenses.

Gross profit. Gross profit margin for the nine months ended September 30, 2020 was 38.1% compared to 35.7% in the prior year period. The current year period includes the impact of the aforementioned \$6.6 million of charges classified within costs of goods sold. The increase was primarily driven by favorable sales mix from significantly higher shipments of home standby generators, along with lower mix of C&I products.

Operating expenses. Operating expenses increased \$41.5 million, or 13.5%, as compared to the prior year period. The current year period includes the impact of the aforementioned \$5.9 million of charges classified within operating expenses. In addition to the COVID-19 charges, the increase in operating expenses was primarily driven by incremental spend related to Clean Energy products, incentive compensation and other employee costs, higher marketing spend, and additional intangible amortization.

Other expense. The decrease in Other expense, net was primarily driven by a reduction in interest expense due to lower LIBOR rates and lower outstanding borrowings.

Provision for income taxes. The effective income tax rates for the nine months ended September 30, 2020 and 2019 were 21.3% and 22.8%, respectively. The decrease in the effective tax rate in the current year is primarily the result of a discrete tax benefit related to equity compensation as well as the mix of

earnings in the jurisdictions in which we operate.

Adjusted EBITDA. Adjusted EBITDA for the Domestic segment was \$374.1 million, or 25.9% of net sales, as compared to \$305.7 million in the prior year period, or 24.0% of net sales. This margin increase was driven by favorable sales mix, partially offset by the aforementioned higher operating expense investments.

Adjusted EBITDA for the International segment, before deducting for non-controlling interests, was \$13.9 million, or 4.9% of net sales, as compared to \$19.2 million in the prior year, or 5.6% of net sales. Decreased operating leverage on the lower sales volumes was the primary contributor to the margin decline, partially offset by lower operating expenses as a result of restructuring activities initiated in the current year.

Adjusted Net Income. Adjusted Net Income of \$276.5 million for the nine months ended September 30, 2020 increased 24.9% from \$221.4 million for the nine months ended September 30, 2019, due to the factors outlined above.

See “Non-GAAP Measures” for a discussion of how we calculate Adjusted EBITDA and Adjusted Net Income and the limitations on their usefulness.

Liquidity and Financial Condition

Our primary cash requirements include payment for our raw material and component supplies, salaries and benefits, facility and lease costs, operating expenses, interest and principal payments on our debt and capital expenditures. We finance our operations primarily through cash flow generated from operations and, if necessary, borrowings under our ABL Facility.

Our credit agreements originally provided for a \$1.2 billion term loan B credit facility (Term Loan) and include a \$300.0 million uncommitted incremental term loan facility. Following several amendments, the Term Loan matures on December 13, 2026 and bears interest at rates based upon either a base rate plus an applicable margin of 0.75% or adjusted LIBOR rate plus an applicable margin of 1.75%. The Term Loan does not require an Excess Cash Flow payment (as defined in our credit agreement) if our secured leverage ratio is maintained below 3.75 to 1.00 times. As of September 30, 2020, our secured leverage ratio was 1.26 to 1.00 times, and we are in compliance with all covenants of the Term Loan. There are no financial maintenance covenants on the Term Loan.

Our credit agreements also provide for the \$300.0 million ABL Facility. The ABL Facility matures June 12, 2023 and bears interest at rates based upon either a base rate plus an applicable margin of 0.125% or an adjusted LIBOR rate plus an applicable margin of 1.125%, in each case, subject to adjustments based upon average availability under the ABL Facility. As of September 30, 2020, there were \$5.3 million of borrowings outstanding and \$294.3 million of availability under the ABL Facility, net of outstanding letters of credit. We are in compliance with all covenants of the ABL Facility as of September 30, 2020.

As of September 30, 2020, we had \$808.2 million of liquidity comprised of \$513.9 million of cash and equivalents and \$294.3 million available under our ABL Facility. Additionally, we have no maturities on our Term Loan until December 2026. We believe we have a strong liquidity position that allows us, notwithstanding unforeseen impacts of the current COVID-19 pandemic, to execute our strategic plan and provides the flexibility to continue to invest in future growth opportunities.

In September 2018, the Company’s Board of Directors approved a \$250 million stock repurchase program that is due to expire in the fourth quarter of 2020. In September 2020, the Company’s Board of Directors approved another stock repurchase program, which will commence upon the expiration of the previous stock repurchase program, and allows for the repurchase of up to \$250 million of its common stock over a 24 month period from time to time; in amounts and at prices the Company deems appropriate, subject to market conditions and other considerations. During the nine months ended September 30, 2020 and 2019, no share repurchases were made. Since the inception of all stock repurchase programs starting in August 2015, we have repurchased 8,676,706 shares of our common stock for \$305.5 million (an average repurchase price of \$35.21 per share), all funded with cash on hand.

See Note 12, “Credit Agreements,” and Note 13, “Stock Repurchase Program” to the condensed consolidated financial statements included in Item 1 of this Quarterly Report on Form 10-Q.

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Long-term Liquidity

We believe that our cash flow from operations and availability under our ABL Facility and other short-term lines of credit, combined with our cash on hand, provide us with sufficient capital to continue to grow our business in the future. We may use a portion of our cash flow to pay down principal on our outstanding debt as well as repurchase shares of our common stock, impacting the amount available for working capital, capital expenditures and other general corporate purposes. As we continue to expand our business, we may require additional capital to fund working capital, capital expenditures or acquisitions.

Cash Flow

Nine months ended September 30, 2020 compared to the nine months ended September 30, 2019

The following table summarizes our cash flows by category for the periods presented:

(U.S. Dollars in thousands)	Nine Months Ended September 30,			
	2020	2019	\$ Change	% Change
Net cash provided by operating activities	\$ 268,310	\$ 133,802	\$ 134,508	100.5%
Net cash used in investing activities	(54,731)	(164,191)	109,460	66.7%
Net cash (used in) provided by financing activities	(21,596)	22,178	(43,774)	197.4%

The increase in net cash provided by operating activities was primarily due to higher sales volumes and resulting higher operating earnings in the current year, as well as a significant working capital investment that was made in the prior year which did not repeat in the current year.

Net cash used in investing activities for the nine months ended September 30, 2020 primarily represents cash payments of \$33.9 million related to the purchase of property and equipment and \$22.8 million related to the acquisition of businesses. Net cash used in investing activities for the nine months ended September 30, 2019 primarily represents cash payments of \$120.9 million related to the acquisition of businesses and \$45.4 million related to the purchase of property and equipment.

Net cash used in financing activities for the nine months ended September 30, 2020 primarily represents \$214.4 million of debt repayments (\$210.8 million of short-term borrowings and \$3.6 million of long-term borrowings and finance lease obligations), \$13.5 million of taxes paid related to equity awards, and \$4.0 million of contingent consideration for acquired businesses. These cash payments were partially offset by proceeds of \$198.1 million from short-term borrowings and \$12 million from the exercise of stock options.

Net cash provided by financing activities for the nine months ended September 30, 2019 primarily represents \$68.8 million of cash proceeds from short-term borrowings partially offset by \$48.5 million of debt repayments (\$45.4 million of short-term borrowings and \$3.1 million of long-term borrowings and finance lease obligations).

Contractual Obligations

There have been no material changes to our contractual obligations since the February 25, 2020 filing of our Annual Report on Form 10-K for the year ended December 31, 2019.

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Off-Balance Sheet Arrangements

There have been no material changes to off-balance sheet arrangements since the February 25, 2020 filing of our Annual Report on Form 10-K for the year ended December 31, 2019.

Critical Accounting Policies

As discussed in our Annual Report on Form 10-K for the year ended December 31, 2019, in preparing the financial statements in accordance with U.S. GAAP, management is required to make estimates and assumptions that have an impact on the asset, liability, revenue and expense amounts reported. These estimates can also affect supplemental information disclosures of the Company, including information about contingencies, risk and financial condition. The Company believes, given current facts and circumstances, its estimates and assumptions are reasonable, adhere to U.S. GAAP, and are consistently applied. Inherent in the nature of an estimate or assumption is the fact that actual results may differ from estimates, and estimates may vary as new facts and circumstances arise. The Company makes routine estimates and judgments in determining net realizable value of accounts receivable, inventories, property and equipment, prepaid expenses, product warranties and other reserves. Management believes the Company's most critical accounting estimates and assumptions are in the following areas: goodwill and other indefinite-lived intangible asset impairment assessment; business combinations and purchase accounting; and income taxes.

There have been no material changes in our business combinations, purchase accounting and income taxes critical accounting policies since the February 25, 2020 filing of our Annual Report on Form 10-K for the year ended December 31, 2019.

Goodwill and Other Indefinite-Lived Intangible Assets

The Company applies a fair value-based impairment test to the carrying value of goodwill and other indefinite-lived intangible assets on an annual basis (as of October 31) and, if certain events or circumstances indicate that an impairment loss may have been incurred, on an interim basis.

Given the uncertainty within the global markets caused by the onset of the COVID-19 pandemic and the collapse in the price of oil during the first quarter of 2020, management determined that we should perform an interim quantitative assessment of our reporting units for possible goodwill and indefinite-lived intangible asset impairment as of March 31, 2020. The estimates and assumptions used when preparing the discounted cash flow analysis for purposes of our interim impairment test for each of our reporting units were based on current projections that are subject to various risks and uncertainties, including forecasted revenues, expenses, and cash flows, the duration and extent of impact to our reporting units from the COVID-19 pandemic, and current discount rates based on the estimated weighted average cost of capital for the business. Based on our interim impairment assessment as of March 31, 2020, we concluded no impairment existed.

As previously disclosed in our May 5, 2020 filing on Form 10-Q in the critical accounting policies section of Item 2, "Management's Discussion and Analysis of Financial Condition and Results of Operations," we determined that the goodwill for our Latin America and Generac Mobile Products reporting units was at risk for impairment should there be deterioration of current projections or changes to discount rates used. While we have concluded there to be no indicators of impairment during the second and third quarters of 2020 and do not anticipate any material impairments, any business deterioration or market pressures could cause our sales, earnings, and cash flows to decline below our current projections and cause goodwill to be impaired for these reporting units.

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Non-GAAP Measures

Adjusted EBITDA

The computation of Adjusted EBITDA attributable to Generac Holdings Inc. is based on the definition of EBITDA contained in our credit agreement, as amended. To supplement our condensed consolidated financial statements presented in accordance with U.S. GAAP, we provide the computation of

Adjusted EBITDA attributable to the Company, taking into account certain charges and gains that were recognized during the periods presented.

We view Adjusted EBITDA as a key measure of our performance. We present Adjusted EBITDA not only due to its importance for purposes of our credit agreements but also because it assists us in comparing our performance across reporting periods on a consistent basis as it excludes items that we do not believe are indicative of our core operating performance. Our management uses Adjusted EBITDA:

- for planning purposes, including the preparation of our annual operating budget and developing and refining our internal projections for future periods;
- to allocate resources to enhance the financial performance of our business;
- as a benchmark for the determination of the bonus component of compensation for our senior executives under our management incentive plan, as described further in our 2020 Proxy Statement;
- to evaluate the effectiveness of our business strategies and as a supplemental tool in evaluating our performance against our budget for each period; and
- in communications with our Board of Directors and investors concerning our financial performance.

We believe Adjusted EBITDA is used by securities analysts, investors and other interested parties in the evaluation of the Company. Management believes the disclosure of Adjusted EBITDA offers an additional financial metric that, when coupled with results prepared in accordance with U.S. GAAP and the reconciliation to U.S. GAAP results, provides a more complete understanding of our results of operations and the factors and trends affecting our business. We believe Adjusted EBITDA is useful to investors for the following reasons:

- Adjusted EBITDA and similar non-GAAP measures are widely used by investors to measure a company's operating performance without regard to items that can vary substantially from company to company depending upon financing and accounting methods, book values of assets, tax jurisdictions, capital structures and the methods by which assets were acquired;
- investors can use Adjusted EBITDA as a supplemental measure to evaluate the overall operating performance of our company, including our ability to service our debt and other cash needs; and
- by comparing our Adjusted EBITDA in different historical periods, our investors can evaluate our operating performance excluding the impact of items described below.

The adjustments included in the reconciliation table listed below are provided for under our Term Loan and ABL Facility, and also are presented to illustrate the operating performance of our business in a manner consistent with the presentation used by our management and Board of Directors. These adjustments eliminate the impact of a number of items that:

- we do not consider indicative of our ongoing operating performance, such as non-cash write-downs and other charges, non-cash gains, write-offs relating to the retirement of debt, severance costs and other restructuring-related business optimization expenses;
- we believe to be akin to, or associated with, interest expense, such as administrative agent fees, revolving credit facility commitment fees and letter of credit fees; or
- are non-cash in nature, such as share-based compensation.

We explain in more detail in footnotes (a) through (d) below why we believe these adjustments are useful in calculating Adjusted EBITDA as a measure of our operating performance.

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Adjusted EBITDA does not represent, and should not be a substitute for, net income or cash flows from operations as determined in accordance with U.S. GAAP. Adjusted EBITDA has limitations as an analytical tool, and you should not consider it in isolation, or as a substitute for analysis of our results as reported under U.S. GAAP. Some of the limitations are:

- Adjusted EBITDA does not reflect our cash expenditures, or future requirements for capital expenditures or contractual commitments;
- Adjusted EBITDA does not reflect changes in, or cash requirements for, our working capital needs;
- Adjusted EBITDA does not reflect the significant interest expense, or the cash requirements necessary to service interest or principal payments on our debt;
- although depreciation and amortization are non-cash charges, the assets being depreciated and amortized will often have to be replaced in the future, and Adjusted EBITDA does not reflect any cash requirements for such replacements;
- several of the adjustments that we use in calculating Adjusted EBITDA, such as non-cash write-downs and other charges, while not involving cash expense, do have a negative impact on the value of our assets as reflected in our consolidated balance sheet prepared in accordance with U.S. GAAP; and
- other companies may calculate Adjusted EBITDA differently than we do, limiting its usefulness as a comparative measure.

Furthermore, as noted above, one of our uses of Adjusted EBITDA is as a benchmark for determining elements of compensation for our senior executives. At the same time, some or all of these senior executives have responsibility for monitoring our financial results, generally including the adjustments in calculating Adjusted EBITDA (subject ultimately to review by our Board of Directors in the context of the Board's review of our quarterly financial statements). While many of the adjustments (for example, transaction costs and credit facility fees), involve mathematical application of items reflected in our financial statements, others involve a degree of judgment and discretion. While we believe all of these adjustments are appropriate, and while the quarterly calculations are subject to review by our Board of Directors in the context of the Board's review of our quarterly financial statements and certification by our Chief Financial Officer in a compliance certificate provided to the lenders under our Term Loan and ABL Facility credit agreements, this discretion may be viewed as an additional limitation on the use of Adjusted EBITDA as an analytical tool.

Because of these limitations, Adjusted EBITDA should not be considered as a measure of discretionary cash available to us to invest in the growth of our business. We compensate for these limitations by relying primarily on our U.S. GAAP results and using Adjusted EBITDA only supplementally.

The following table presents a reconciliation of net income to Adjusted EBITDA attributable to Generac Holdings Inc.:

Three Months Ended September	Nine Months Ended September
30,	30,

(U.S. Dollars in thousands)

	2020	2019	2020	2019
Net income attributable to Generac Holdings Inc.	\$ 114,970	\$ 75,574	\$ 225,575	\$ 182,393
Net income (loss) attributable to noncontrolling interests	265	(677)	(3,337)	(21)
Net income	115,235	74,897	222,238	182,372
Interest expense	8,096	10,704	25,081	31,428
Depreciation and amortization	17,168	15,494	50,087	42,841
Provision for income taxes	32,050	20,064	59,967	53,876
Non-cash write-down and other adjustments (a)	477	347	1,868	673
Non-cash share-based compensation expense (b)	4,353	3,549	14,327	11,477
Transaction costs and credit facility fees (c)	568	358	1,160	2,047
Business optimization and other charges (d)	531	567	12,503	809
Other	300	(27)	711	(556)
Adjusted EBITDA	178,778	125,953	387,942	324,967
Adjusted EBITDA attributable to noncontrolling interests	920	909	950	3,722
Adjusted EBITDA attributable to Generac Holdings Inc.	\$ 177,858	\$ 125,044	\$ 386,992	\$ 321,245

(a) Represents the following non-cash charges: transactional foreign currency gains/losses and certain purchase accounting related adjustments, gains/losses on disposals of assets and unrealized mark-to-market adjustments on commodity contracts. We believe that adjusting net income for these non-cash charges is useful for the following reasons:

- The purchase accounting adjustments represent non-cash items to reflect fair value at the date of acquisition, and therefore do not reflect our ongoing operations;
- The gains/losses on disposals of assets result from the sale of assets that are no longer useful in our business and therefore represent gains or losses that are not from our core operations; and
- The adjustments for unrealized mark-to-market gains and losses on commodity contracts represent non-cash items to reflect changes in the fair value of forward contracts that have not been settled or terminated. We believe it is useful to adjust net income for these items because the charges do not represent a cash outlay in the period in which the charge is incurred, although Adjusted EBITDA must always be used together with our U.S. GAAP statements of comprehensive income and cash flows to capture the full effect of these contracts on our operating performance.

(b) Represents share-based compensation expense to account for stock options, restricted stock and other stock awards over their respective vesting periods.

(c) Represents transaction costs incurred directly in connection with any investment, as defined in our credit agreement, equity issuance or debt issuance or refinancing, together with certain fees relating to our senior secured credit facilities, such as administrative agent fees and credit facility commitment fees under our Term Loan and ABL Facility, which we believe to be akin to, or associated with, interest expense and whose inclusion in Adjusted EBITDA is therefore similar to the inclusion of interest expense in that calculation.

(d) For the three and nine months ended September 30, 2020, represents severance, non-cash asset write-downs, and other charges to address the impact of the COVID-19 pandemic and decline in oil prices on demand for C&I products. For the three and nine months ended September 30, 2019, represents severance and other charges related to the consolidation of certain of our facilities.

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Adjusted Net Income

To further supplement our condensed consolidated financial statements in accordance with U.S. GAAP, we provide the computation of Adjusted Net Income attributable to the Company, which is defined as net income before noncontrolling interest and provision for income taxes adjusted for the following items: cash income tax expense, amortization of intangible assets, amortization of deferred financing costs and original issue discount related to our debt, intangible impairment charges, certain transaction costs and other purchase accounting adjustments, losses on extinguishment of debt, business optimization expenses, certain other non-cash gains and losses, and adjusted net income attributable to noncontrolling interests, as set forth in the reconciliation table below.

We believe Adjusted Net Income is used by securities analysts, investors and other interested parties in the evaluation of our company's operations. Management believes the disclosure of Adjusted Net Income offers an additional financial metric that, when used in conjunction with U.S. GAAP results and the reconciliation to U.S. GAAP results, provides a more complete understanding of our ongoing results of operations, and the factors and trends affecting our business.

The adjustments included in the reconciliation table listed below are presented to illustrate the operating performance of our business in a manner consistent with the presentation used by investors and securities analysts. Similar to the Adjusted EBITDA reconciliation, these adjustments eliminate the impact of a number of items we do not consider indicative of our ongoing operating performance or cash flows, such as amortization costs, transaction costs and write-offs relating to the retirement of debt. We also make adjustments to present cash taxes paid as a result of our favorable tax attributes.

Similar to Adjusted EBITDA, Adjusted Net Income does not represent, and should not be a substitute for, net income or cash flows from operations as determined in accordance with U.S. GAAP. Adjusted Net Income has limitations as an analytical tool, and you should not consider it in isolation, or as a substitute for analysis of our results as reported under U.S. GAAP. Some of the limitations are:

- Adjusted Net Income does not reflect changes in, or cash requirements for, our working capital needs;
- although amortization is a non-cash charge, the assets being amortized may have to be replaced in the future, and Adjusted Net Income does not reflect any cash requirements for such replacements; and
- other companies may calculate Adjusted Net Income differently than we do, limiting its usefulness as a comparative measure.

The following table presents a reconciliation of net income to Adjusted Net Income attributable to Generac Holdings Inc.:

(U.S. Dollars in thousands, except share and per share data)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
Net income attributable to Generac Holdings Inc.	\$ 114,970	\$ 75,574	\$ 225,575	\$ 182,393
Net income (loss) attributable to noncontrolling interests	265	(677)	(3,337)	(21)
Net income	115,235	74,897	222,238	182,372
Provision for income taxes	32,050	20,064	59,967	53,876
Income before provision for income taxes	147,285	94,961	282,205	236,248
Amortization of intangible assets	7,892	7,406	23,340	19,999
Amortization of deferred finance costs and original issue discount	654	1,221	1,940	3,597
Transaction costs and other purchase accounting adjustments (a)	381	165	612	1,373
Business optimization and other charges	531	567	12,503	809
Adjusted net income before provision for income taxes	156,743	104,320	320,600	262,026
Cash income tax expense (b)	(23,620)	(15,083)	(44,842)	(39,698)
Adjusted net income	133,123	89,237	275,758	222,328
Adjusted net income attributable to noncontrolling interests	198	(738)	(725)	958
Adjusted net income attributable to Generac Holdings Inc.	\$ 132,925	\$ 89,975	\$ 276,483	\$ 221,370
Adjusted net income per common share attributable to Generac Holdings Inc. - diluted:	\$ 2.08	\$ 1.43	\$ 4.35	\$ 3.54
Weighted average common shares outstanding - diluted:	63,761,380	62,770,592	63,546,132	62,519,205

(a) Represents transaction costs incurred directly in connection with any investment, as defined in our credit agreement, equity issuance or debt issuance or refinancing, and certain purchase accounting adjustments.

(b) Amounts for the three and nine months ended September 30, 2020 are now based on an anticipated cash income tax rate of approximately 16% for the year ending December 31, 2020. Amounts for the three and nine months ended September 30, 2019 were based on an anticipated cash income tax rate of approximately 17% for the year ended December 31, 2019. Cash income tax expense for the respective periods is based on the projected taxable income and corresponding cash tax rate for the full year after considering the effects of current and deferred income tax items, and is calculated for each respective period by applying the derived full year cash tax rate to the period's pretax income.

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New Accounting Standards

Refer to Note 1, "Description of Business and Basis of Presentation," to the condensed consolidated financial statements for further information on the new accounting standards applicable to the Company.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

Refer to Note 4, "Derivative Instruments and Hedging Activities," to the condensed consolidated financial statements for a discussion of changes in commodity, currency and interest rate related risks and hedging activities. Otherwise, there have been no material changes in market risk from the information provided in Item 7A (Quantitative and Qualitative Disclosures About Market Risk) of our Annual Report on Form 10-K for the year ended December 31, 2019.

Item 4. Controls and Procedures

Disclosure Controls and Procedures

Under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, we conducted an evaluation of our disclosure controls and procedures, as such term is defined under Rule 13a-15(e) or 15d-15(e) promulgated under the Securities Exchange Act of 1934, as amended, or the Exchange Act. Based on this evaluation, our principal executive officer and our principal financial officer concluded that our disclosure controls and procedures were effective as of the end of the period covered by this report.

Changes in Internal Control Over Financial Reporting

There have been no changes during the three months ended September 30, 2020 in our internal control over financial reporting (as defined in Exchange Act Rule 13a-15(f)) that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

From time to time, we are involved in legal proceedings primarily involving product liability, employment matters and general commercial disputes arising in the ordinary course of our business. As of September 30, 2020, we believe there is no litigation pending that would have a material effect on our results of operations or financial condition.

Item 1A. Risk Factors

There have been no material changes in our risk factors since the February 25, 2020 filing of our Annual Report on Form 10-K for the year ended December 31, 2019, other than the addition of the following:

The duration and scope of the impacts of the COVID-19 pandemic are uncertain and may continue to adversely affect our operations, supply chain, distribution, and demand for certain of our products and services. The global outbreak of COVID-19 has created significant uncertainty within the global markets that we serve. We have operations, customers and suppliers in countries significantly impacted by COVID-19. Governmental authorities around the world have taken a variety of measures to slow the spread of COVID-19, including travel bans or restrictions, increased border controls or closures, quarantines, shelter-in-place orders and business shutdowns and such authorities may impose additional restrictions in the future. We have also taken actions to protect our employees and to mitigate the spread of COVID-19 within our business. There can be no assurance that the measures implemented by governmental authorities or our own actions will be effective or achieve their desired results in a timely fashion.

The impact of COVID-19 on the global economy and our customers, as well as recent volatility in oil prices, has negatively impacted demand for certain of our products and is expected to continue to do so in the future. Its effects could also result in disruptions to our manufacturing operations and supply chain, which could negatively impact our ability to meet customer demand. Our forward-looking statements assume that our production facilities, supply chain and distribution partners continue to operate during the pandemic. To date, we have been able to operate the majority of our facilities given our status as an essential operation. If we were to encounter a significant work stoppage, disruption, or outbreak due to COVID-19 at one or more of our locations or suppliers, we may not be able to satisfy customer demand for a period of time.

Furthermore, the impact of COVID-19 on the economy, demand for our products and impacts to our operations, including the measures taken by governmental authorities to address it, may precipitate or exacerbate other risks and/or uncertainties, including specifically many of the risk factors set forth in our Annual Report on Form 10-K for the year ended December 31, 2019, including risks related to the fair market value of intangible assets that could lead to an impairment, which may have a significant impact on the Company's operating results and financial condition, although we are unable to predict the extent or nature of these impacts at this time.

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Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

The following table summarizes the stock repurchase activity for the three months ended September 30, 2020, which consisted of the withholding of shares upon the vesting of restricted stock awards to pay related withholding taxes on behalf of the recipient:

	<u>Total Number of Shares Purchased</u>	<u>Average Price Paid per Share</u>	<u>Total Number Of Shares Purchased As Part Of Publicly Announced Plans Or Programs</u>	<u>Approximate Dollar Value Of Shares That May Yet Be Purchased Under The Plans Or Programs</u>
07/01/2020 – 07/31/2020	-	-	-	\$ 250,000,000
08/01/2020 – 08/31/2020	538	\$ 169.96	-	\$ 250,000,000
09/01/2020 – 09/30/2020	34	\$ 190.96	-	\$ 250,000,000
Total	<u>572</u>	<u>\$ 171.21</u>		

For equity compensation plan information, please refer to our Annual Report on Form 10-K for the year ended December 31, 2019. For information on the Company's stock repurchase plans, refer to Note 13, "Stock Repurchase Program," to the condensed consolidated financial statements.

Item 6. Exhibits

<u>Exhibits Number</u>	<u>Description</u>
31.1*	Certification of Chief Executive Officer pursuant to Securities Exchange Act Rules 13a-14(a) and 15d-14(a), pursuant to section 302 of the Sarbanes-Oxley Act of 2002.
31.2*	Certification of Chief Financial Officer pursuant to Securities Exchange Act Rules 13a-14(a) and 15d-14(a), pursuant to section 302 of the Sarbanes-Oxley Act of 2002.
32.1**	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted by Section 906 of the Sarbanes-Oxley Act of 2002.
32.2**	Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted by Section 906 of the Sarbanes-Oxley Act of 2002.
101*	The following materials from the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2020 formatted in Inline eXtensible Business Reporting Language (iXBRL): (i) the Condensed Consolidated Balance Sheets, (ii) the Condensed Consolidated Statements of Comprehensive Income, (iii) the Condensed Consolidated Statements of Stockholders' Equity, (iv) the Condensed Consolidated Statements of Cash Flows, and (v) related Notes to Condensed Consolidated Financial Statements.
104	The cover page from the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2020 formatted in iXBRL (included in Exhibit 101).

* Filed herewith.

** Furnished herewith

**CERTIFICATION OF CHIEF EXECUTIVE OFFICER PURSUANT TO
SECURITIES EXCHANGE ACT RULES 13a-14(a) AND 15d-14(a), AS ADOPTED
PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Aaron Jagdfeld, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Generac Holdings Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 3, 2020

/s/ Aaron Jagdfeld

Name: Aaron Jagdfeld
Title: Chief Executive Officer

**CERTIFICATION OF CHIEF FINANCIAL OFFICER PURSUANT TO
SECURITIES EXCHANGE ACT RULES 13a-14(a) AND 15d-14(a), AS ADOPTED
PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, York A. Ragen, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Generac Holdings Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 3, 2020

/s/ York A. Ragen

Name: York A. Ragen
Title: Chief Financial Officer

**CERTIFICATION OF THE CHIEF EXECUTIVE OFFICER
PURSUANT TO 18 U.S.C. SECTION 1350, AS ADOPTED
BY SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

Pursuant to Section 1350, Chapter 63 of Title 18, United States Code, as adopted by Section 906 of the Sarbanes-Oxley Act of 2002, the undersigned, as Chief Executive Officer of Generac Holdings Inc. (the "Company"), does hereby certify that to my knowledge:

1. the Company's quarterly report on Form 10-Q for the fiscal quarter ended September 30, 2020 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
2. the information contained in the Company's quarterly report on Form 10-Q for the fiscal quarter ended September 30, 2020 fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: November 3, 2020

/s/ Aaron Jagdfeld

Name: Aaron Jagdfeld
Title: Chief Executive Officer

**CERTIFICATION OF THE CHIEF FINANCIAL OFFICER
PURSUANT TO 18 U.S.C. SECTION 1350, AS ADOPTED
BY SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

Pursuant to Section 1350, Chapter 63 of Title 18, United States Code, as adopted by Section 906 of the Sarbanes-Oxley Act of 2002, the undersigned, as Chief Financial Officer of Generac Holdings Inc. (the "Company"), does hereby certify that to my knowledge:

1. the Company's quarterly report on Form 10-Q for the fiscal quarter ended September 30, 2020 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
2. the information contained in the Company's quarterly report on Form 10-Q for the fiscal quarter ended September 30, 2020 fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: November 3, 2020

/s/ York A. Ragen

Name: York A. Ragen
Title: Chief Financial Officer