

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

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**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 December 31, 2019

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: 001-36290

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**MALIBU BOATS, INC.**

*(Exact Name of Registrant as specified in its charter)*

**Delaware**  
*(State or other jurisdiction of incorporation or organization)*

**5075  
Kimberly  
Way, Loudon, Tennessee 37774**  
*(Address of principal executive offices,  
including zip code)*

**46-4024640**  
*(I.R.S. Employer  
Identification No.)*

**(865) 458-5478**  
*(Registrant's telephone  
number,  
including area code)*

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

| Title of each class                    | Trading Symbol(s) | Name of each exchange on which registered |
|--|-------------------|---|
| Class A Common Stock, par value \$0.01 | MBUU              | Nasdaq Global Select Market               |

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, 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 | <input checked="" type="checkbox"/> | Accelerated filer         | <input type="checkbox"/> |
| Non-accelerated filer   | <input type="checkbox"/>            | Smaller reporting company | <input type="checkbox"/> |
|                         |                                     | Emerging growth company   | <input type="checkbox"/> |

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

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Class A Common Stock, par value \$0.01, outstanding as of February 5, 2020:

20,584,619 shares

Class B Common Stock, par value \$0.01, outstanding as of February 5, 2020:

15 shares

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**Part I - Financial Information**

**Item 1. Financial Statements**

**MALIBU BOATS, INC. AND SUBSIDIARIES**

**Condensed Consolidated Statements of Operations and Comprehensive Income (Unaudited)**  
(In thousands, except share and per share data)

|   | Three Months Ended December 31, |            | Six Months Ended December 31, |            |
|---|---------------------------------|------------|-------------------------------|------------|
|   | 2019                            | 2018       | 2019                          | 2018       |
| Net sales   | \$ 180,112                      | \$ 165,793 | \$ 352,192                    | \$ 289,276 |
| Cost of sales   | 140,244                         | 127,478    | 272,323                       | 220,460    |
| Gross profit  | 39,868                          | 38,315     | 79,869                        | 68,816     |
| Operating expenses:   |                                 |            |                               |            |
| Selling and marketing   | 4,666                           | 4,601      | 9,732                         | 8,099      |
| General and administrative  | 10,078                          | 11,232     | 20,746                        | 20,203     |
| Amortization  | 1,537                           | 1,538      | 3,121                         | 2,818      |
| Operating income  | 23,587                          | 20,944     | 46,270                        | 37,696     |
| Other (income) expense, net:  |                                 |            |                               |            |
| Other income, net   | (9)                             | (17)       | (19)                          | (34)       |
| Interest expense  | 957                             | 1,844      | 2,124                         | 3,015      |
| Other expense, net  | 948                             | 1,827      | 2,105                         | 2,981      |
| Income before provision for income taxes  | 22,639                          | 19,117     | 44,165                        | 34,715     |
| Provision for income taxes  | 5,041                           | 4,119      | 9,885                         | 7,702      |
| Net income  | 17,598                          | 14,998     | 34,280                        | 27,013     |
| Net income attributable to non-controlling interest                             | 876                             | 741        | 1,699                         | 1,458      |
| Net income attributable to Malibu Boats, Inc.                                   | \$ 16,722                       | \$ 14,257  | \$ 32,581                     | \$ 25,555  |
| <b>Comprehensive income:</b>  |                                 |            |                               |            |
| Net income  | \$ 17,598                       | \$ 14,998  | \$ 34,280                     | \$ 27,013  |
| Other comprehensive income (loss), net of tax:                                  |                                 |            |                               |            |
| Change in cumulative translation adjustment                                     | 615                             | (367)      | (8)                           | (771)      |
| Other comprehensive income (loss), net of tax                                   | 615                             | (367)      | (8)                           | (771)      |
| Comprehensive income, net of tax  | 18,213                          | 14,631     | 34,272                        | 26,242     |
| Less: comprehensive income attributable to non-controlling interest, net of tax | 907                             | 723        | 1,699                         | 1,416      |
| Comprehensive income attributable to Malibu Boats, Inc., net of tax             | \$ 17,306                       | \$ 13,908  | \$ 32,573                     | \$ 24,826  |

**Weighted average shares outstanding used in computing net income per share:**

|         |            |            |            |            |
|---------|------------|------------|------------|------------|
| Basic   | 20,591,241 | 20,875,243 | 20,710,681 | 20,758,095 |
| Diluted | 20,701,473 | 20,990,313 | 20,816,830 | 20,883,868 |

**Net income available to Class A Common Stock per share:**

|         |         |         |         |         |
|---------|---------|---------|---------|---------|
| Basic   | \$ 0.81 | \$ 0.68 | \$ 1.57 | \$ 1.23 |
| Diluted | \$ 0.81 | \$ 0.68 | \$ 1.57 | \$ 1.22 |

The accompanying notes are an integral part of the Condensed Consolidated Financial Statements (Unaudited).

**MALIBU BOATS, INC. AND SUBSIDIARIES**  
**Condensed Consolidated Balance Sheets (Unaudited)**  
**(In thousands, except share data)**

|  | <u>December 31, 2019</u> | <u>June 30, 2019</u> |
|--|--------------------------|----------------------|
| <b>Assets</b>  |                          |                      |
| Current assets   |                          |                      |
| Cash   | \$ 27,707                | \$ 27,392            |
| Trade receivables, net   | 15,637                   | 27,961               |
| Inventories, net   | 76,783                   | 67,768               |
| Prepaid expenses and other current assets  | 5,989                    | 4,530                |
| Total current assets   | 126,116                  | 127,651              |
| Property, plant and equipment, net   | 81,368                   | 65,756               |
| Goodwill   | 51,396                   | 51,404               |
| Other intangible assets, net   | 142,934                  | 146,061              |
| Deferred tax assets  | 57,586                   | 60,407               |
| Other assets   | 15,305                   | 35                   |
| Total assets   | \$ 474,705               | \$ 451,314           |
| <b>Liabilities</b>   |                          |                      |
| Current liabilities  |                          |                      |
| Accounts payable   | \$ 24,774                | \$ 21,174            |
| Accrued expenses   | 52,596                   | 49,097               |
| Income taxes and tax distribution payable  | 494                      | 1,469                |
| Payable pursuant to tax receivable agreement, current portion  | 3,592                    | 3,592                |
| Total current liabilities  | 81,456                   | 75,332               |
| Deferred tax liabilities   | 117                      | 145                  |
| Other liabilities  | 16,772                   | 1,689                |
| Payable pursuant to tax receivable agreement, less current portion   | 50,162                   | 50,162               |
| Long-term debt   | 93,837                   | 113,633              |
| Total liabilities  | 242,344                  | 240,961              |
| Commitments and contingencies (See Note 17)  |                          |                      |
| <b>Stockholders' Equity</b>  |                          |                      |
| Class A Common Stock, par value \$0.01 per share, 100,000,000 shares authorized; 20,583,449 shares issued and outstanding as of December 31, 2019; 20,852,640 issued and outstanding as of June 30, 2019 | 204                      | 207                  |
| Class B Common Stock, par value \$0.01 per share, 25,000,000 shares authorized; 15 shares issued and outstanding as of December 31, 2019; 15 shares issued and outstanding as of June 30, 2019           | —                        | —                    |
| Preferred Stock, par value \$0.01 per share; 25,000,000 shares authorized; no shares issued and outstanding as of December 31, 2019 and June 30, 2019  | —                        | —                    |
| Additional paid in capital   | 103,291                  | 113,004              |
| Accumulated other comprehensive loss   | (2,836)                  | (2,828)              |
| Accumulated earnings   | 124,730                  | 93,852               |
| Total stockholders' equity attributable to Malibu Boats, Inc.  | 225,389                  | 204,235              |
| Non-controlling interest   | 6,972                    | 6,118                |
| Total stockholders' equity   | 232,361                  | 210,353              |
| Total liabilities and stockholders' equity   | \$ 474,705               | \$ 451,314           |

The accompanying notes are an integral part of the Condensed Consolidated Financial Statements (Unaudited).

**MALIBU BOATS, INC. AND SUBSIDIARIES**
**Condensed Consolidated Statements of Stockholders' Equity (Unaudited)**  
**(In thousands, except number of Class B shares)**

|  | Class A Common Stock |        | Class B Common Stock |        | Additional Paid In Capital | Accumulated Other Comprehensive Loss | Accumulated Earnings | Non-controlling Interest in LLC | Total Stockholders' Equity |
|--|----------------------|--------|----------------------|--------|----------------------------|--------------------------------------|----------------------|---------------------------------|----------------------------|
|  | Shares               | Amount | Shares               | Amount |                            |                                      |                      |                                 |                            |
| <b>Balance at June 30, 2019</b>  | 20,853               | \$ 207 | 15                   | \$ —   | \$ 113,004                 | \$ (2,828)                           | \$ 93,852            | \$ 6,118                        | \$ 210,353                 |
| Net income   | —                    | —      | —                    | —      | —                          | —                                    | 15,859               | 823                             | 16,682                     |
| Stock based compensation, net of withholding taxes on vested equity awards | (5)                  | —      | —                    | —      | 435                        | —                                    | —                    | —                               | 435                        |
| Issuances of equity for services   | —                    | —      | —                    | —      | 80                         | —                                    | —                    | —                               | 80                         |
| Repurchase and retirement of common stock                                  | (383)                | (4)    | —                    | —      | (11,119)                   | —                                    | —                    | —                               | (11,123)                   |
| Cumulative-effect transition adjustment for ASC 842                        | —                    | —      | —                    | —      | —                          | —                                    | (1,703)              | —                               | (1,703)                    |
| Distributions to LLC Unit holders  | —                    | —      | —                    | —      | —                          | —                                    | —                    | (399)                           | (399)                      |
| Foreign currency translation adjustment                                    | —                    | —      | —                    | —      | —                          | (623)                                | —                    | (25)                            | (648)                      |
| <b>Balance at September 30, 2019</b>                                       | 20,465               | \$ 203 | 15                   | \$ —   | \$ 102,400                 | \$ (3,451)                           | \$ 108,008           | \$ 6,517                        | \$ 213,677                 |
| Net income   | —                    | —      | —                    | —      | —                          | —                                    | 16,722               | 876                             | 17,598                     |
| Stock based compensation, net of withholding taxes on vested equity awards | 116                  | 1      | —                    | —      | 236                        | —                                    | —                    | —                               | 237                        |
| Issuances of equity for services   | 2                    | —      | —                    | —      | 655                        | —                                    | —                    | —                               | 655                        |
| Distributions to LLC Unit holders  | —                    | —      | —                    | —      | —                          | —                                    | —                    | (446)                           | (446)                      |
| Foreign currency translation adjustment                                    | —                    | —      | —                    | —      | —                          | 615                                  | —                    | 25                              | 640                        |
| <b>Balance at December 31, 2019</b>  | 20,583               | \$ 204 | 15                   | \$ —   | \$ 103,291                 | \$ (2,836)                           | \$ 124,730           | \$ 6,972                        | \$ 232,361                 |

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|  | Class A Common Stock |        | Class B Common Stock |        | Additional Paid In Capital | Accumulated Other Comprehensive Loss | Accumulated Earnings | Non-controlling Interest in LLC | Total Stockholders' Equity |
|--|----------------------|--------|----------------------|--------|----------------------------|--------------------------------------|----------------------|---------------------------------|----------------------------|
|  | Shares               | Amount | Shares               | Amount |                            |                                      |                      |                                 |                            |
| <b>Balance at June 30, 2018</b>  | 20,555               | \$ 204 | 17                   | \$ —   | \$ 108,360                 | \$ (1,984)                           | \$ 27,789            | \$ 5,502                        | \$ 139,871                 |
| Net Income   | —                    | —      | —                    | —      | —                          | —                                    | 11,298               | 717                             | 12,015                     |
| Stock based compensation, net of withholding taxes on vested equity awards | (4)                  | —      | —                    | —      | (50)                       | —                                    | —                    | —                               | (50)                       |
| Issuances of equity for services   | —                    | —      | —                    | —      | 71                         | —                                    | —                    | —                               | 71                         |
| Issuances of equity for exercise of options                                | 26                   | —      | —                    | —      | 672                        | —                                    | —                    | —                               | 672                        |
| Increase in payable pursuant to the tax receivable agreement               | —                    | —      | —                    | —      | (2,553)                    | —                                    | —                    | —                               | (2,553)                    |
| Increase in deferred tax asset from step-up in tax basis                   | —                    | —      | —                    | —      | 3,138                      | —                                    | —                    | —                               | 3,138                      |
| Exchange of LLC for Class A Common Stock                                   | 199                  | 2      | —                    | —      | 1,047                      | —                                    | —                    | (1,047)                         | 2                          |
| Cancellation of Class B Common Stock                                       | —                    | —      | (1)                  | —      | —                          | —                                    | —                    | —                               | —                          |
| Distributions to LLC Unit Holders  | —                    | —      | —                    | —      | —                          | —                                    | —                    | (354)                           | (354)                      |
| Foreign currency translation adjustment                                    | —                    | —      | —                    | —      | —                          | (404)                                | —                    | (15)                            | (419)                      |
| <b>Balance at September 30, 2018</b>                                       | 20,776               | \$ 206 | 16                   | \$ —   | \$ 110,685                 | \$ (2,388)                           | \$ 39,087            | \$ 4,803                        | \$ 152,393                 |
| Net Income   | —                    | —      | —                    | —      | —                          | —                                    | 14,257               | 741                             | 14,998                     |
| Stock based compensation, net of withholding taxes on vested equity awards | 57                   | 1      | —                    | —      | (12)                       | —                                    | —                    | —                               | (11)                       |
| Issuances of equity for services   | —                    | —      | —                    | —      | 597                        | —                                    | —                    | —                               | 597                        |
| Issuances of equity for exercise of options                                | 3                    | —      | —                    | —      | 77                         | —                                    | —                    | —                               | 77                         |
| Distributions to LLC Unit Holders  | —                    | —      | —                    | —      | —                          | —                                    | 2                    | (364)                           | (362)                      |
| Foreign currency translation adjustment                                    | —                    | —      | —                    | —      | —                          | (367)                                | —                    | (20)                            | (387)                      |
| <b>Balance at December 31, 2018</b>  | 20,836               | \$ 207 | 16                   | \$ —   | \$ 111,347                 | \$ (2,755)                           | \$ 53,346            | \$ 5,160                        | \$ 167,305                 |

The accompanying notes are an integral part of the Condensed Consolidated Financial Statements (Unaudited).

## MALIBU BOATS, INC. AND SUBSIDIARIES

Condensed Consolidated Statements of Cash Flows (Unaudited)  
(In thousands)

|   | Six Months Ended December 31, |           |
|---|-------------------------------|-----------|
|   | 2019                          | 2018      |
| <b>Operating activities:</b>  |                               |           |
| Net income  | \$ 34,280                     | \$ 27,013 |
| Adjustments to reconcile net income to net cash provided by operating activities: |                               |           |
| Non-cash compensation expense   | 1,490                         | 1,131     |
| Non-cash compensation to directors  | 415                           | 421       |
| Depreciation  | 6,102                         | 4,358     |
| Amortization  | 3,121                         | 2,818     |
| Deferred income taxes   | 2,794                         | 2,617     |
| Other items, net  | 1,034                         | 217       |
| Change in operating assets and liabilities:                                       |                               |           |
| Trade receivables   | 12,125                        | 11,231    |
| Inventories   | (9,022)                       | (16,073)  |
| Prepaid expenses and other assets   | (675)                         | (2,006)   |
| Accounts payable  | 1,155                         | 2,169     |
| Income taxes payable  | (1,234)                       | (2,112)   |
| Accrued expenses  | 1,668                         | 3,694     |
| Other liabilities   | (744)                         | 134       |
| Net cash provided by operating activities   | 52,509                        | 35,612    |
| <b>Investing activities:</b>  |                               |           |
| Purchases of property, plant and equipment  | (19,313)                      | (6,837)   |
| Payment for acquisition, net of cash acquired                                     | —                             | (100,073) |
| Net cash used in investing activities   | (19,313)                      | (106,910) |
| <b>Financing activities:</b>  |                               |           |
| Proceeds from revolving credit facility   | —                             | 50,000    |
| Payments on revolving credit facility   | (20,000)                      | (15,000)  |
| Proceeds received from exercise of stock option                                   | —                             | 749       |
| Cash paid for withholding taxes on vested restricted stock                        | (811)                         | (1,186)   |
| Distributions to LLC Unit holders   | (969)                         | (909)     |
| Repurchase and retirement of common stock   | (11,123)                      | —         |
| Net cash (used in) provided by in financing activities                            | (32,903)                      | 33,654    |
| Effect of exchange rate changes on cash   | 22                            | (76)      |
| Changes in cash   | 315                           | (37,720)  |
| Cash—Beginning of period  | 27,392                        | 61,623    |
| Cash—End of period  | \$ 27,707                     | \$ 23,903 |
| <b>Supplemental cash flow information:</b>  |                               |           |
| Cash paid for interest  | \$ 2,133                      | \$ 2,361  |
| Cash paid for income taxes  | 7,300                         | 6,628     |

The accompanying notes are an integral part of the Condensed Consolidated Financial Statements (Unaudited).



**MALIBU BOATS, INC. AND SUBSIDIARIES**

**Notes to Unaudited Condensed Consolidated Financial Statements  
(Dollars in thousands, except per unit and per share data)**

**1. Organization, Basis of Presentation, and Summary of Significant Accounting Policies**

*Organization*

Malibu Boats, Inc. (together with its subsidiaries, the “Company” or “Malibu”), a Delaware corporation formed on November 1, 2013, is the sole managing member of Malibu Boats Holdings, LLC, a Delaware limited liability company (the “LLC”). The Company operates and controls all of the LLC’s business and affairs and, therefore, pursuant to Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”) Topic 810, *Consolidation*, consolidates the financial results of the LLC and its subsidiaries, and records a non-controlling interest for the economic interest in the Company held by the non-controlling holders of units in the LLC (“LLC Units”). Malibu Boats Holdings, LLC was formed in 2006 with Malibu’s acquisition by an investor group, including affiliates of Black Canyon Capital LLC, Horizon Holdings, LLC and then-current management. The LLC, through its wholly owned subsidiary, Malibu Boats, LLC, is engaged in the design, engineering, manufacturing and marketing of innovative, high-quality, recreational powerboats that are sold through a world-wide network of independent dealers. On July 6, 2017, the Company acquired all outstanding units of Cobalt Boats, LLC (“Cobalt”) further expanding the Company’s product offering across a broader segment of the recreational boating industry including performance sport boats, sterndrive and outboard boats. As a result of the acquisition, the Company consolidates the financial results of Cobalt. On October 15, 2018, the Company’s subsidiary Malibu Boats, LLC, purchased the assets of Pursuit Boats (“Pursuit”) from S2 Yachts, Inc., expanding the Company’s product offering into the fiberglass outboard fishing boat market.

*Basis of Presentation*

The accompanying unaudited interim condensed consolidated financial statements of the Company have been prepared in accordance with U.S. generally accepted accounting principles (“GAAP”) for interim condensed financial statements and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all information and disclosures of results of operations, financial position and changes in cash flow in conformity with GAAP for complete financial statements. Such statements should be read in conjunction with the audited consolidated financial statements and notes thereto of Malibu Boats, Inc. and subsidiaries for the year ended June 30, 2019, included in the Company’s Annual Report on Form 10-K. In the opinion of management, the accompanying unaudited interim condensed consolidated financial statements reflect all adjustments considered necessary to present fairly the Company’s financial position at December 31, 2019, and the results of its operations for the three and six month periods ended December 31, 2019 and December 31, 2018, and its cash flows for the six month periods ended December 31, 2019 and December 31, 2018. Operating results for the three and six months ended December 31, 2019, are not necessarily indicative of the results that may be expected for the full year ending June 30, 2020. Certain reclassifications have been made to the prior period presentation to conform to the current period presentation. Units and shares are presented as whole numbers while all dollar amounts are presented in thousands, unless otherwise noted.

*Segment Information*

Effective July 1, 2019, the Company revised its segment reporting to conform to changes in its internal management reporting based on the Company’s boat manufacturing operations. Segment information has been revised for comparison purposes for all periods presented in the condensed consolidated financial statements. The Company previously had four reportable segments, Malibu U.S., Malibu Australia, Cobalt and Pursuit. The Company now aggregates Malibu U.S. and Malibu Australia into one reportable segment as they have similar economic characteristics and qualitative factors. As a result the Company now has three reportable segments, Malibu, Cobalt and Pursuit. See Note 18 for revised segment information for the current and prior periods.

*Principles of Consolidation*

The accompanying unaudited interim condensed consolidated financial statements include the operations and accounts of the Company and all subsidiaries thereof. All intercompany balances and transactions have been eliminated upon consolidation.

*Recent Accounting Pronouncements*

In February 2016, the FASB issued Accounting Standards Update (ASU) 2016-02, *Leases (Topic 842)*. The amendments in this update create ASC Topic 842, *Leases*, and supersede the requirements in ASC Topic 840, *Leases*. ASC Topic 842 requires lessees to recognize on the balance sheet a right-of-use asset, representing its right to use the underlying asset for the

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lease term, and a lease liability for all leases with terms greater than 12 months. The guidance also requires qualitative and quantitative disclosures designed to assess the amount, timing, and uncertainty of cash flows arising from leases. The standard requires the use of a modified retrospective transition approach, which includes a number of optional practical expedients that entities may elect to apply. In June 2018, the FASB issued ASU 2018-11, *Leases (Topic 842): Targeted Improvement*, which provides entities with an additional (optional) transition method to adopt the new lease standard. Under this new transition method, an entity initially applies the new leases standard at the adoption date and recognizes a cumulative-effect adjustment to the opening balance of retained earnings in the period of adoption. On July 1, 2019, the Company adopted the new leasing standard and all the related amendments. The Company elected the package of practical expedients permitted under the transition guidance within the new standard, which among other things, allowed the Company to carry forward the historical lease classification.

The Company made an accounting policy election to not record leases with an initial term of 12 months or less on the balance sheet. The Company also elected the practical expedient to not separate non-lease components from the lease components to which they relate, and instead account for each separate lease and non-lease component associated with that lease component as a single lease component for all underlying asset classes. Accordingly, all payments associated with a lease contract are accounted for as lease cost.

The adoption of ASC Topic 842 did not have a material impact on the Company's consolidated results of operations, equity or cash flows as of the adoption date. Under the optional transition approach, comparative information was not restated, but will continue to be reported under the standards in effect for those periods. See Note 11 for further information regarding the Company's leases.

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*, and in November 2018 issued a subsequent amendment, ASU 2018-19, *Codification Improvements to Topic 326, Financial Instruments - Credit Losses*. ASU 2016-13 significantly changes how entities will measure credit losses for most financial assets and certain other instruments that are not measured at fair value through net income. ASU 2016-13 will replace today's "incurred loss" approach with an "expected loss" model for instruments measured at amortized cost. ASU 2018-19 will affect loans, debt securities, trade receivables, net investments in leases, off balance sheet credit exposures, reinsurance receivables, and any other financial assets not excluded from the scope of this amendment that have the contractual right to receive cash. ASU 2016-13 is effective for fiscal years and interim periods beginning after December 15, 2019, and is effective for the Company's fiscal year beginning July 1, 2020. The adoption of the ASU is not expected to have a material impact on the Company's consolidated financial position, results of operations, equity or cash flows.

There are no other new accounting pronouncements that are expected to have a significant impact on the Company's consolidated financial statements and related disclosures.

## 2. Revenue Recognition

The following table disaggregates the Company's revenue by major product type and geography:

|                        | Three Months Ended December 31, 2019 |                  |                  |                   | Six Months Ended December 31, 2019 |                  |                  |                   |
|------------------------|--------------------------------------|------------------|------------------|-------------------|------------------------------------|------------------|------------------|-------------------|
|                        | Malibu                               | Cobalt           | Pursuit          | Consolidated      | Malibu                             | Cobalt           | Pursuit          | Consolidated      |
| Revenue by product:    |                                      |                  |                  |                   |                                    |                  |                  |                   |
| Boat and trailer sales | \$ 94,350                            | \$ 48,579        | \$ 33,715        | \$ 176,644        | \$ 176,433                         | \$ 97,879        | \$ 69,521        | \$ 343,833        |
| Part and other sales   | 2,977                                | 415              | 76               | 3,468             | 6,774                              | 1,266            | 319              | 8,359             |
| Total revenue          | <u>\$ 97,327</u>                     | <u>\$ 48,994</u> | <u>\$ 33,791</u> | <u>\$ 180,112</u> | <u>\$ 183,207</u>                  | <u>\$ 99,145</u> | <u>\$ 69,840</u> | <u>\$ 352,192</u> |
| Revenue by geography:  |                                      |                  |                  |                   |                                    |                  |                  |                   |
| North America          | \$ 89,643                            | \$ 46,822        | \$ 33,114        | \$ 169,579        | \$ 168,560                         | \$ 95,580        | \$ 65,365        | \$ 329,505        |
| International          | 7,684                                | 2,172            | 677              | 10,533            | 14,647                             | 3,565            | 4,475            | 22,687            |
| Total revenue          | <u>\$ 97,327</u>                     | <u>\$ 48,994</u> | <u>\$ 33,791</u> | <u>\$ 180,112</u> | <u>\$ 183,207</u>                  | <u>\$ 99,145</u> | <u>\$ 69,840</u> | <u>\$ 352,192</u> |

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|                        | Three Months Ended December 31, 2018 |                  |                  |                   | Six Months Ended December 31, 2018 |                  |                  |                   |
|------------------------|--------------------------------------|------------------|------------------|-------------------|------------------------------------|------------------|------------------|-------------------|
|                        | Malibu                               | Cobalt           | Pursuit          | Consolidated      | Malibu                             | Cobalt           | Pursuit          | Consolidated      |
| Revenue by product:    |                                      |                  |                  |                   |                                    |                  |                  |                   |
| Boat and trailer sales | \$ 87,878                            | \$ 45,360        | \$ 29,852        | \$ 163,090        | \$ 159,789                         | \$ 92,799        | \$ 29,852        | \$ 282,440        |
| Part and other sales   | 2,142                                | 486              | 75               | 2,703             | 5,454                              | 1,307            | 75               | 6,836             |
| Total revenue          | <u>\$ 90,020</u>                     | <u>\$ 45,846</u> | <u>\$ 29,927</u> | <u>\$ 165,793</u> | <u>\$ 165,243</u>                  | <u>\$ 94,106</u> | <u>\$ 29,927</u> | <u>\$ 289,276</u> |
| Revenue by geography:  |                                      |                  |                  |                   |                                    |                  |                  |                   |
| North America          | \$ 82,282                            | \$ 43,171        | \$ 26,833        | \$ 152,286        | \$ 150,140                         | \$ 88,145        | \$ 26,833        | \$ 265,118        |
| International          | 7,738                                | 2,675            | 3,094            | 13,507            | 15,103                             | 5,961            | 3,094            | 24,158            |
| Total revenue          | <u>\$ 90,020</u>                     | <u>\$ 45,846</u> | <u>\$ 29,927</u> | <u>\$ 165,793</u> | <u>\$ 165,243</u>                  | <u>\$ 94,106</u> | <u>\$ 29,927</u> | <u>\$ 289,276</u> |

*Boat and Trailer Sales*

Consists of sales of boats and trailers to the Company's dealer network, net of sales returns, discounts, rebates and free flooring incentives. Boat and trailer sales also includes optional boat features. Sales returns consist of boats returned by dealers under our warranty program. Rebates, free flooring and discounts are incentives that the Company provides to its dealers based on sales of eligible products.

*Part and Other Sales*

Consists primarily of parts and accessories sales, royalty income and clothing sales. Parts and accessories sales include replacement and aftermarket boat parts and accessories sold to the Company's dealer network. Royalty income is earned from license agreements with various boat manufacturers, including Nautique, Chaparral, Mastercraft, and Tige related to the use of the Company's intellectual property.

**3. Non-controlling Interest**

The non-controlling interest on the unaudited interim condensed consolidated statement of operations and comprehensive income represents the portion of earnings attributable to the economic interest in the Company's subsidiary, Malibu Boats Holdings, LLC, held by the non-controlling LLC Unit holders. Non-controlling interest on the unaudited interim condensed consolidated balance sheets represents the portion of net assets of the Company attributable to the non-controlling LLC Unit holders, based on the portion of the LLC Units owned by such Unit holders. The ownership of Malibu Boats Holdings, LLC is summarized as follows:

|  | As of December 31, 2019 |               | As of June 30, 2019 |               |
|--|-------------------------|---------------|---------------------|---------------|
|  | Units                   | Ownership %   | Units               | Ownership %   |
| Non-controlling LLC Unit holders ownership in Malibu Boats Holdings, LLC | 830,152                 | 3.9%          | 830,152             | 3.8%          |
| Malibu Boats, Inc. ownership in Malibu Boats Holdings, LLC               | 20,583,449              | 96.1%         | 20,852,640          | 96.2%         |
|  | <u>21,413,601</u>       | <u>100.0%</u> | <u>21,682,792</u>   | <u>100.0%</u> |

*Issuance of Additional LLC Units*

Under the first amended and restated limited liability agreement of the LLC, as amended (the "LLC Agreement"), the Company is required to cause the LLC to issue additional LLC Units to the Company when the Company issues additional shares of Class A Common Stock. Other than in connection with the issuance of Class A Common Stock in connection with an equity incentive program, the Company must contribute to the LLC net proceeds and property, if any, received by the Company with respect to the issuance of such additional shares of Class A Common Stock. The Company must cause the LLC to issue a number of LLC Units equal to the number of shares of Class A Common Stock issued such that, at all times, the number of LLC Units held by the Company equals the number of outstanding shares of Class A Common Stock. During the six months ended December 31, 2019, the Company caused the LLC to issue a total of 129,946 LLC Units to the Company in connection with (i) the Company's issuance of Class A Common Stock to a non-employee director for her services, (ii) the issuance of Class A Common Stock for the vesting of awards granted under the Malibu Boats, Inc. Long-Term Incentive Plan (the "Incentive Plan") and (iii) the issuance of restricted Class A Common Stock granted under the Incentive Plan. During the six months ended December 31, 2019, 15,733 LLC Units were canceled in connection with the vesting of share-based equity

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awards to satisfy employee tax withholding requirements and the retirement of 15,733 treasury shares in accordance with the LLC Agreement. During the six months ended December 31, 2019, 383,404 LLC Units were redeemed and canceled by the LLC in connection with the purchase and retirement of 383,404 treasury shares under the Company's stock repurchase program.

### *Distributions and Other Payments to Non-controlling Unit Holders*

#### *Distributions for Taxes*

As a limited liability company (treated as a partnership for income tax purposes), Malibu Boats Holdings, LLC does not incur significant federal, state or local income taxes, as these taxes are primarily the obligations of its members. As authorized by the LLC Agreement, the LLC is required to distribute cash, to the extent that the LLC has cash available, on a pro rata basis, to its members to the extent necessary to cover the members' tax liabilities, if any, with respect to their share of LLC earnings. The LLC makes such tax distributions to its members based on an estimated tax rate and projections of taxable income. If the actual taxable income of the LLC multiplied by the estimated tax rate exceeds the tax distributions made in a calendar year, the LLC may make true-up distributions to its members, if cash or borrowings are available for such purposes. As of December 31, 2019 and June 30, 2019, tax distributions payable to non-controlling LLC Unit holders were \$446 and \$568, respectively. During the six months ended December 31, 2019 and 2018, tax distributions paid to the non-controlling LLC Unit holders were \$969 and \$909, respectively.

#### *Other Distributions*

Pursuant to the LLC Agreement, the Company has the right to determine when distributions will be made to LLC members and the amount of any such distributions. If the Company authorizes a distribution, such distribution will be made to the members of the LLC (including the Company) pro rata in accordance with the percentages of their respective LLC units.

## **4. Acquisitions**

### ***Pursuit***

On October 15, 2018, the Company completed its acquisition of the assets of Pursuit. The aggregate purchase price for the transaction was \$100,073, funded with cash and borrowings under the Company's credit agreement. The aggregate purchase price was subject to certain adjustments, including customary adjustments for the amount of working capital in the business at the closing date. The Company accounted for the transaction in accordance with ASC Topic 805, *Business Combinations*.

The total consideration given to the former owners of Pursuit has been allocated to the assets acquired and liabilities assumed based on estimates of fair value as of the date of the acquisition. The measurements of fair value were determined based upon estimates utilizing the assistance of third party valuation specialists.

The following table summarizes the purchase price allocation based on the estimated fair values of the assets acquired and liabilities of Pursuit assumed at the acquisition date:

#### **Consideration:**

|                         |    |         |
|-------------------------|----|---------|
| Cash consideration paid | \$ | 100,073 |
|-------------------------|----|---------|

#### **Recognized amounts of identifiable assets acquired and (liabilities assumed), at fair value:**

|   |    |         |
|---|----|---------|
| Inventories   | \$ | 8,332   |
| Other current assets                                  |    | 350     |
| Property, plant and equipment                         |    | 17,454  |
| Identifiable intangible assets                        |    | 57,900  |
| Current liabilities                                   |    | (3,488) |
| Fair value of assets acquired and liabilities assumed |    | 80,548  |
| Goodwill  |    | 19,525  |
| Total purchase price                                  | \$ | 100,073 |

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The fair value estimates for the Company's identifiable intangible assets acquired as part of the acquisition are as follows:

|   | Estimates of Fair Value | Estimated Useful Life (in<br>years) |
|---|-------------------------|-------------------------------------|
| Definite-lived intangibles:             |                         |                                     |
| Dealer relationships                    | \$ 25,400               | 20                                  |
| <b>Total definite-lived intangibles</b> | <b>25,400</b>           |                                     |
| Indefinite-lived intangible:            |                         |                                     |
| Trade name                              | 32,500                  |                                     |
| <b>Total intangible assets</b>          | <b>\$ 57,900</b>        |                                     |

The value allocated to inventories reflects the estimated fair value of the acquired inventory based on the expected sales price of the inventory, less an estimated cost to complete and a reasonable profit margin. The fair value of the identifiable intangible assets were determined based on the following approaches:

*Dealer Relationships* - The value associated with Pursuit's dealer relationships is attributed to its long standing dealer distribution network. The estimate of fair value assigned to this asset was determined using the income approach, which requires an estimate or forecast of the expected future cash flows from the dealer relationships through the application of the multi-period excess earnings approach. The estimated remaining useful life of dealer relationships is approximately twenty years.

*Trade Name* - The value attributed to Pursuit's trade name was determined using a variation of the income approach called the relief from royalty method, which requires an estimate or forecast of the expected future cash flows. The trade name has an indefinite life.

The fair value of the definite-lived intangible assets are being amortized using the straight-line method to general and administrative expenses over their estimated useful lives. Indefinite-lived intangible assets are not amortized, but instead are evaluated for potential impairment on an annual basis in accordance with the provisions of ASC Topic 350, *Intangibles—Goodwill and Other*. The weighted average useful life of identifiable definite-lived intangible assets acquired was 20 years. Goodwill of \$19,525 arising from the acquisition consists of expected synergies and cost savings as well as intangible assets that do not qualify for separate recognition. The indefinite-lived intangible asset and goodwill acquired are expected to be deductible for income tax purposes.

Acquisition-related costs of \$2,809, which were incurred by the Company in the first half of fiscal year 2019 related to the Pursuit acquisition, were expensed in the period incurred, and are included in general and administrative expenses in the consolidated statement of operations and comprehensive income for the six months ended December 31, 2018.

### *Pro Forma Financial Information (unaudited):*

The following unaudited pro forma consolidated results of operations for the three and six months ended December 31, 2019 and 2018, assumes that the acquisition of Pursuit occurred as of July 1, 2018. The unaudited interim pro forma financial information combines historical results of Malibu and Pursuit, with adjustments for depreciation and amortization attributable to preliminary fair value estimates on acquired tangible and intangible assets for the respective periods. Non-recurring pro forma adjustments associated with the fair value step up of inventory were included in the reported pro forma cost of sales and earnings. The unaudited interim pro forma financial information is presented for informational purposes only and is not indicative of the results of operations that would have been achieved if the acquisition had taken place at the beginning of fiscal year 2019 or the results that may occur in the future:

|   | Three Months Ended December 31, |            | Six Months Ended December 31, |            |
|---|---------------------------------|------------|-------------------------------|------------|
|   | 2019                            | 2018       | 2019                          | 2018       |
| Net sales                                     | \$ 180,112                      | \$ 172,219 | \$ 352,192                    | \$ 330,918 |
| Net income                                    | 17,598                          | 15,553     | 34,280                        | 31,083     |
| Net income attributable to Malibu Boats, Inc. | 16,722                          | 14,784     | 32,581                        | 29,394     |
| Basic earnings per share                      | \$ 0.81                         | \$ 0.71    | \$ 1.57                       | \$ 1.42    |
| Diluted earnings per share                    | \$ 0.81                         | \$ 0.70    | \$ 1.57                       | \$ 1.41    |

## 5. Inventories

Inventories, net consisted of the following:

|                   | As of December 31, 2019 | As of June 30, 2019 |
|-------------------|-------------------------|---------------------|
| Raw materials     | \$ 53,768               | \$ 45,910           |
| Work in progress  | 12,762                  | 10,839              |
| Finished goods    | 10,253                  | 11,019              |
| Total inventories | <u>\$ 76,783</u>        | <u>\$ 67,768</u>    |

## 6. Property, Plant and Equipment

Property, plant and equipment, net consisted of the following:

|                                     | As of December 31, 2019 | As of June 30, 2019 |
|-------------------------------------|-------------------------|---------------------|
| Land                                | \$ 2,194                | \$ 2,194            |
| Building and leasehold improvements | 32,847                  | 28,957              |
| Machinery and equipment             | 51,055                  | 46,618              |
| Furniture and fixtures              | 6,949                   | 6,734               |
| Construction in process             | 22,910                  | 9,764               |
|                                     | <u>115,955</u>          | <u>94,267</u>       |
| Less: Accumulated depreciation      | (34,587)                | (28,511)            |
| Property, plant and equipment, net  | <u>\$ 81,368</u>        | <u>\$ 65,756</u>    |

Depreciation expense was \$3,005 and \$2,495 for the three months ended December 31, 2019 and 2018, respectively, and \$6,102 and \$4,358 for the six months ended December 31, 2019 and 2018, respectively, substantially all of which was recorded in cost of sales. During the first quarter of fiscal 2019, the Company disposed of various molds for models not currently in production with zero net book value and historical costs of \$3,285.

## 7. Goodwill and Other Intangible Assets

Changes in the carrying amount of goodwill for the six months ended December 31, 2019 were as follows:

|  |                  |
|--|------------------|
| Goodwill as of June 30, 2019                   | \$ 51,404        |
| Effect of foreign currency changes on goodwill | (8)              |
| Goodwill as of December 31, 2019               | <u>\$ 51,396</u> |

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The components of other intangible assets were as follows:

|   | As of December 31, 2019 | As of June 30, 2019 | Estimated Useful Life<br>(in years) | Weighted Average<br>Remaining Useful Life<br>(in years) |
|---|-------------------------|---------------------|-------------------------------------|---|
| <b>Definite-lived intangibles:</b>          |                         |                     |                                     |   |
| Reacquired franchise rights                 | \$ 1,262                | \$ 1,264            | 5                                   | 0.0   |
| Dealer relationships                        | 111,336                 | 111,339             | 8-20                                | 17.8  |
| Patent                                      | 3,986                   | 3,986               | 12-15                               | 12.5  |
| Trade name                                  | 24,667                  | 24,667              | 15                                  | 1.8   |
| Non-compete agreement                       | 49                      | 49                  | 10                                  | 4.8   |
| Backlog                                     | 88                      | 88                  | 0.3                                 | 0.0   |
| Total                                       | 141,388                 | 141,393             |                                     |   |
| Less: Accumulated amortization              | (61,954)                | (58,832)            |                                     |   |
| Total definite-lived intangible assets, net | 79,434                  | 82,561              |                                     |   |
| <b>Indefinite-lived intangible:</b>         |                         |                     |                                     |   |
| Trade name                                  | 63,500                  | 63,500              |                                     |   |
| Total other intangible assets, net          | \$ 142,934              | \$ 146,061          |                                     |   |

Amortization expense recognized on all amortizable intangibles was \$1,537 and \$1,538 for the three months ended December 31, 2019 and 2018, respectively, and \$3,121 and \$2,818 for the six months ended December 31, 2019 and 2018, respectively.

The estimated future amortization of definite-lived intangible assets is as follows:

| Fiscal years ending June 30: | Amount    |
|------------------------------|-----------|
| Remainder of 2020            | \$ 3,011  |
| 2021                         | 6,057     |
| 2022                         | 4,556     |
| 2023                         | 4,420     |
| 2024                         | 4,420     |
| 2025 and thereafter          | 56,970    |
|                              | \$ 79,434 |

## 8. Accrued Expenses

Accrued expenses consisted of the following:

|                                     | As of December 31, 2019 | As of June 30, 2019 |
|-------------------------------------|-------------------------|---------------------|
| Warranties                          | \$ 26,710               | \$ 23,820           |
| Dealer incentives                   | 10,677                  | 7,394               |
| Accrued compensation                | 8,979                   | 13,122              |
| Current operating lease liabilities | 2,027                   | —                   |
| Accrued legal and professional fees | 745                     | 740                 |
| Accrued interest                    | 19                      | 161                 |
| Other accrued expenses              | 3,439                   | 3,860               |
| Total accrued expenses              | \$ 52,596               | \$ 49,097           |

## 9. Product Warranties

Malibu and Axis brands have a limited warranty for a period up to five years for both Malibu and Axis brand boats. Prior to fiscal year 2016, the Company provided a limited warranty for a period of up to three years for its Malibu brand boats and two years for its Axis boats. For its Cobalt brand boats, the Company provides a structural warranty of up to ten years which

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covers the hull, deck joints, bulkheads, floor, transom, stringers, and motor mount. In addition, the Company provides a five year bow-to-stern warranty on all components manufactured or purchased (excluding hull and deck structural components), including canvas and upholstery. Gelcoat is covered up to three years for Cobalt and one year for Malibu and Axis. For Pursuit boats, the Company provides a limited warranty for a period of up to five years on structural components such as the hull, deck and defects in the gelcoat surface of the hull bottom. Some materials, components or parts of the boat that are not covered by the Company's limited product warranties are separately warranted by their manufacturers or suppliers. These other warranties include warranties covering engines purchased from suppliers and other components. The Company provides a limited warranty of up to five years or five-hundred hours on engines that it manufactures for Malibu and Axis models.

The Company's standard warranties require the Company or its dealers to repair or replace defective products during such warranty period at no cost to the consumer. The Company estimates the costs that may be incurred under its limited warranty and records a liability for such costs at the time the product revenue is recognized. Factors that affect the Company's warranty liability include the number of units sold, historical and anticipated rates of warranty claims and cost per claim. The Company assesses the adequacy of its recorded warranty liabilities by brand on a quarterly basis and adjusts the amounts as necessary. The Company utilizes historical claims trends and analytical tools to assist in determining the appropriate warranty liability.

Changes in the Company's product warranty liability, which is included in accrued expenses on the unaudited interim condensed consolidated balance sheets, were as follows:

|                            | Three Months Ended December 31, |           | Six Months Ended December 31, |           |
|----------------------------|---------------------------------|-----------|-------------------------------|-----------|
|                            | 2019                            | 2018      | 2019                          | 2018      |
| Beginning balance          | \$ 25,034                       | \$ 17,999 | \$ 23,820                     | \$ 17,217 |
| Add: Warranty expense      | 5,196                           | 3,107     | 9,102                         | 6,023     |
| Additions for acquisitions | —                               | 1,872     | —                             | 1,872     |
| Less: Warranty claims paid | (3,520)                         | (2,035)   | (6,212)                       | (4,169)   |
| Ending balance             | \$ 26,710                       | \$ 20,943 | \$ 26,710                     | \$ 20,943 |

## 10. Financing

Outstanding debt consisted of the following:

|  | As of December 31, 2019 | As of June 30, 2019 |
|--|-------------------------|---------------------|
| Term loans                             | \$ 75,000               | \$ 75,000           |
| Revolving credit loan                  | 20,000                  | 40,000              |
| Less unamortized debt issuance costs   | (1,163)                 | (1,367)             |
| Total debt                             | 93,837                  | 113,633             |
| Less current maturities                | —                       | —                   |
| Long-term debt less current maturities | \$ 93,837               | \$ 113,633          |

### *Long-Term Debt*

The Company currently has a revolving credit facility with borrowing capacity of up to \$120,000 and a \$75,000 term loan outstanding. As of December 31, 2019, the Company had \$20,000 outstanding under its revolving credit facility and \$1,170 in outstanding letters of credit. The revolving credit facility matures on July 1, 2024 and the term loan matures on July 1, 2022. The revolving credit facility and term loan are governed by a credit agreement (the "Credit Agreement") with Malibu Boats, LLC ("Boats LLC") as the borrower and Truist Financial Corp. (previously known as SunTrust Bank), as the administrative agent, swingline lender and issuing bank. The obligations of Boats LLC under the Credit Agreement are guaranteed by the LLC, and, subject to certain exceptions, the present and future domestic subsidiaries of Boats LLC, and all such obligations are secured by substantially all of the assets of the the LLC, Boats LLC and such subsidiary guarantors. Malibu Boats, Inc. is not a party to the Credit Agreement.

Borrowings under the Credit Agreement bear interest at a rate equal to either, at the Company's option, (i) the highest of the prime rate, the Federal Funds Rate plus 0.5%, or one-month LIBOR plus 1% (the "Base Rate") or (ii) LIBOR, in each case plus an applicable margin ranging from 1.25% to 2.25% with respect to LIBOR borrowings and 0.25% to 1.25% with respect to Base Rate borrowings. The applicable margin will be based upon the consolidated leverage ratio of the LLC and its subsidiaries calculated on a consolidated basis. As of December 31, 2019, the interest rate on the Company's term loan and revolving credit



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facility was 3.01%. The Company is required to pay a commitment fee for the unused portion of the revolving credit facility which will range from 0.20% to 0.40% per annum, depending on the LLC's and its subsidiaries' consolidated leverage ratio.

The Credit Agreement permits prepayment of the term loan without any penalties. On August 17, 2017 the Company made a voluntary principal payment on the term loan in the amount of \$50,000 with a portion of the net proceeds from its equity offering completed on August 14, 2017. The Company exercised its option to apply the prepayment in forward order to principal installments on its term loan through December 31, 2021 and a portion of the principal installments due on March 31, 2022. As a result, the term loan is subject to a quarterly installment of approximately \$3,000 on March 31, 2022 and the balance of the term loan is due on the scheduled maturity date of July 1, 2022. The Credit Agreement is also subject to prepayments from the net cash proceeds received by Boats LLC or any guarantors from certain asset sales and recovery events, subject to certain reinvestment rights, and from excess cash flow, subject to the terms and conditions of the Credit Agreement. As of December 31, 2019, the outstanding principal amount of the Company's term loan and revolving credit facility was \$95,000.

The Credit Agreement contains certain customary representations and warranties, and notice requirements for the occurrence of specific events such as the occurrence of any event of default, or pending or threatened litigation. The Credit Agreement also requires compliance with certain customary financial covenants, including a minimum ratio of EBITDA to fixed charges and a maximum ratio of total debt to EBITDA. The Credit Agreement contains certain restrictive covenants, which, among other things, place limits on certain activities of the loan parties under the Credit Agreement, such as the incurrence of additional indebtedness and additional liens on property and limit the future payment of dividends or distributions. For example, the Credit Agreement generally prohibits the LLC, Boats LLC and the subsidiary guarantors from paying dividends or making distributions, including to the Company. The credit facility permits, however, (i) distributions based on a member's allocated taxable income, (ii) distributions to fund payments that are required under the LLC's tax receivable agreement, (iii) purchase of stock or stock options of the LLC from former officers, directors or employees of loan parties or payments pursuant to stock option and other benefit plans up to \$2,000 in any fiscal year, and (iv) share repurchase payments up to \$35,000 in any fiscal year subject to one-year carry forward and compliance with other financial covenants. In addition, the LLC may make dividends and distributions of up to \$10,000 in any fiscal year, subject to compliance with other financial covenants.

In connection with entering into the Credit Agreement, the Company capitalized \$2,074 in deferred financing costs during fiscal 2017. These costs, in addition to the unamortized balance related to costs associated with the Company's previous credit facility of \$671, are being amortized over the term of the Credit Agreement into interest expense using the effective interest method and presented as a direct offset to the total debt outstanding on the consolidated balance sheet.

As described above, the Company used proceeds from an offering on August 24, 2017 to repay \$50,000 on its term loan under the Credit Agreement and exercised its option to apply the prepayment to principal installments through December 31, 2021, and a portion of principal installments due on March 31, 2022. Accordingly, no principal payments are required under the Credit Agreement until March 31, 2022, and as such, all borrowings as of December 31, 2019 and June 30, 2019, are reflected as noncurrent. The \$50,000 repayment resulted in a write off of deferred financing costs of \$829 in fiscal year 2018, which was included in amortization expense on the consolidated statement of operations and comprehensive income.

On May 8, 2019, the Company entered into the Second Incremental Facility Amendment and Second Amendment (the "Amendment") to the Credit Agreement dated as of June 28, 2017. The Amendment converted \$35,000 of the outstanding principal amount under the term loan to outstanding borrowings under the revolving credit facility, increased the borrowing capacity of the revolving credit facility by \$35,000 and extended the maturity date of the revolving credit facility by two years to July 1, 2024. In connection with the Amendment, the Company wrote off \$137 of deferred financing costs and capitalized an additional \$370 of deferred financing cost related to insubstantial modification leaving an unamortized balance of \$1,367 in deferred financing costs. These are being amortized into interest expense using the effective interest method and presented as a direct offset to the total debt outstanding on the consolidated balance sheet.

### *Covenant Compliance*

As of December 31, 2019, the Company was in compliance with the covenants contained in the Credit Agreement.

### *Interest Rate Swap*

On July 1, 2015, the Company entered into a five year floating to fixed interest rate swap with an effective start date of July 1, 2015. The swap is based on a one-month LIBOR rate versus a 1.52% fixed rate on a notional value of \$39,250, which was equal to 50% of the outstanding balance of the term loan at the time of the swap arrangement. Under ASC Topic 815, *Derivatives and Hedging*, all derivative instruments are recorded on the unaudited interim condensed consolidated balance sheets at fair value as either short term or long term assets or liabilities based on their anticipated settlement date. Refer to Fair

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Value Measurements in Note 13. The Company has elected not to designate its interest rate swap as a hedge for accounting purposes; therefore, changes in the fair value of the derivative instrument are being recognized in earnings in the Company's unaudited interim condensed consolidated statements of operations and comprehensive income. For the three months ended December 31, 2019 and 2018 the Company recorded a loss of \$20 and \$129, respectively, and for the six months ended December 31, 2019 and 2018 the Company recorded a loss of \$58 and \$132, respectively, for the change in fair value of the interest rate swap, which is included in interest expense in the unaudited interim condensed consolidated statements of operations and comprehensive income.

### 11. Leases

The Company leases certain manufacturing facilities, warehouses, office space, land, and equipment. The Company determines if a contract is a lease or contains an embedded lease at the inception of the agreement. The Company recorded right-of-use assets, included in other assets on the balance sheet, totaling \$16,142 as of July 1, 2019. Leases with an initial term of 12 months or less are not recorded on the balance sheet. The Company does not separate non-lease components from the lease components to which they relate, and instead accounts for each separate lease and non-lease component associated with that lease component as a single lease component for all underlying asset classes. The Company's lease liabilities do not include future lease payments related to options to extend or terminate lease agreements as it is not reasonably certain those options will be exercised. Lease expense recorded in the three-month and six-month period ended December 31, 2019 under ASC Topic 842 was not materially different from lease expense that would have been recorded under the previous lease accounting standard.

Other information concerning the Company's operating leases accounted for under ASC Topic 842 is as follows (in thousands):

| Classification                        |                   | As of December 31, 2019 |        |
|---------------------------------------|-------------------|-------------------------|--------|
| <b>Assets</b>                         |                   |                         |        |
| Right-of-use assets                   | Other assets      | \$                      | 15,270 |
| <b>Liabilities</b>                    |                   |                         |        |
| Current operating lease liabilities   | Accrued expenses  | \$                      | 2,027  |
| Long-term operating lease liabilities | Other liabilities |                         | 14,991 |
| Total lease liabilities               |                   | \$                      | 17,018 |

| Classification   |                                      | Three Months Ended<br>December 31, 2019 | Six Months Ended<br>December 31, 2019 |
|--|--------------------------------------|---|---------------------------------------|
| Operating lease costs <sup>(1)</sup>   | Cost of sales                        | \$ 473                                  | \$ 950                                |
|  | Selling, general and administrative  | 220                                     | 443                                   |
| Sublease income  | Other income (expense)               | 9                                       | 19                                    |
| Cash paid for amounts included in the measurement of operating lease liabilities | Cash flows from operating activities | 655                                     | 1,302                                 |

<sup>(1)</sup> Includes short-term leases, which are insignificant, and are not included in the lease liability.

The lease liability for operating leases that contain variable escalating rental payments with scheduled increases that are based on the lesser of a stated percentage increase or the cumulative increase in an index, are determined using the stated percentage increase.

The weighted average remaining lease term is 7.73 years. The weighted average discount rate determined based on the Company's incremental borrowing rate is 3.65%, as of December 31, 2019.

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Future annual minimum lease payments for the following fiscal years as of December 31, 2019 are as follows:

|                                    | <b>Amount</b>    |
|------------------------------------|------------------|
| Remainder of 2020                  | \$ 1,309         |
| 2021                               | 2,541            |
| 2022                               | 2,384            |
| 2023                               | 2,439            |
| 2024                               | 2,576            |
| 2025 and thereafter                | 8,323            |
| Total                              | <u>19,572</u>    |
| Less imputed interest              | (2,554)          |
| Present value of lease liabilities | <u>\$ 17,018</u> |

The following represents the Company's future minimum rental payments at June 30, 2019 for agreements classified as operating leases under ASC Topic 840:

|                     | <b>Amount</b>    |
|---------------------|------------------|
| 2020                | \$ 2,552         |
| 2021                | 2,541            |
| 2022                | 2,432            |
| 2023                | 2,489            |
| 2024                | 2,649            |
| 2025 and thereafter | 8,577            |
| Total               | <u>\$ 21,240</u> |

## **12. Tax Receivable Agreement Liability**

The Company has a tax receivable agreement with the pre-IPO owners of the LLC that provides for payment by the Company to the pre-IPO owners (or their permitted assignees) of 85% of the amount of the benefits, if any, that the Company is deemed to realize as a result of (i) increases in tax basis and (ii) certain other tax benefits related to the Company entering into the tax receivable agreement, including those attributable to payments under the tax receivable agreement. These contractual payment obligations are obligations of the Company and not of the LLC. The Company's tax receivable agreement liability was determined on an undiscounted basis in accordance with ASC Topic 450, *Contingencies*, since the contractual payment obligations were deemed to be probable and reasonably estimable. The tax receivable agreement further provides that, upon certain mergers, asset sales or other forms of business combinations or other changes of control, the Company (or its successor) would owe to the pre-IPO owners of the LLC a lump-sum payment equal to the present value of all forecasted future payments that would have otherwise been made under the tax receivable agreement that would be based on certain assumptions, including a deemed exchange of LLC Units and that the Company would have sufficient taxable income to fully utilize the deductions arising from the increased tax basis and other tax benefits related to entering into the tax receivable agreement. The Company also is entitled to terminate the tax receivable agreement, which, if terminated, would obligate the Company to make early termination payments to the pre-IPO owners of the LLC. In addition, a pre-IPO owner may elect to unilaterally terminate the tax receivable agreement with respect to such pre-IPO owner, which would obligate the Company to pay to such existing owner certain payments for tax benefits received through the taxable year of the election.

For purposes of the tax receivable agreement, the benefit deemed realized by the Company will be computed by comparing the actual income tax liability of the Company (calculated with certain assumptions) to the amount of such taxes that the Company would have been required to pay had there been no increase to the tax basis of the assets of the LLC as a result of the purchases or exchanges, and had the Company not entered into the tax receivable agreement.

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The following table reflects the changes to the Company's tax receivable agreement liability:

|  | As of December 31, 2019 | As of June 30, 2019 |
|--|-------------------------|---------------------|
| Payable pursuant to tax receivable agreement                       | \$ 53,754               | \$ 55,046           |
| Additions (reductions) to tax receivable agreement:                |                         |                     |
| Exchange of LLC Units for Class A Common Stock                     | —                       | 2,676               |
| Adjustment for change in estimated tax rate                        | —                       | (103)               |
| Payments under tax receivable agreement                            | —                       | (3,865)             |
|  | <u>53,754</u>           | <u>53,754</u>       |
| Less current portion under tax receivable agreement                | (3,592)                 | (3,592)             |
| Payable pursuant to tax receivable agreement, less current portion | <u>\$ 50,162</u>        | <u>\$ 50,162</u>    |

When estimating the expected tax rate to use in order to determine the tax benefit expected to be recognized from the Company's increased tax basis as a result of exchanges of LLC Units by the pre-IPO owners of the LLC, the Company continuously monitors changes in its overall tax posture, including changes resulting from new legislation and changes as a result of new jurisdictions in which the Company is subject to tax.

As of both December 31, 2019 and June 30, 2019, the Company had deferred tax assets of \$110,545 associated with basis differences in assets upon acquiring an interest in Malibu Boats Holdings, LLC and pursuant to making an election under Section 754 of the Internal Revenue Code of 1986 (the "Internal Revenue Code"), as amended. The aggregate tax receivable agreement liability represents 85% of the tax benefits that the Company expects to receive in connection with the Section 754 election. In accordance with the tax receivable agreement, the next annual payment is anticipated approximately 75 days after filing the federal tax return due by April 15, 2020.

### 13. Fair Value Measurements

In determining the fair value of certain assets and liabilities, the Company employs a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. As defined in ASC Topic 820, *Fair Value Measurements and Disclosures*, fair value is the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (i.e., the exit price). Financial assets and financial liabilities recorded on the unaudited interim condensed consolidated balance sheets at fair value are categorized based on the reliability of inputs to the valuation techniques as follows:

- Level 1—Financial assets and financial liabilities whose values are based on unadjusted quoted prices in active markets for identical assets.
- Level 2—Financial assets and financial liabilities whose values are based on quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in non-active markets; or valuation models whose inputs are observable, directly or indirectly, for substantially the full term of the asset or liability.
- Level 3—Financial assets and financial liabilities whose values are based on prices or valuation techniques that require inputs that are both unobservable and significant to the overall fair value measurement. These inputs reflect the Company's estimates of the assumptions that market participants would use in valuing the financial assets and financial liabilities.

The hierarchy gives the highest priority to Level 1 inputs and the lowest priority to Level 3 inputs. In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, the level in the fair value hierarchy within which the fair value measurement in its entirety falls has been determined based on the lowest level input that is significant to the fair value measurement in its entirety. The Company's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment and considers factors specific to the asset or liability.

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Assets and liabilities that had recurring fair value measurements were as follows:

|  | Fair Value Measurements at Reporting Date Using |  |   |  |
|--|---|--|---|--|
|  | Total   | Quoted Prices<br>in Active<br>Markets for<br>Identical Assets<br>(Level 1) | Significant<br>Other<br>Observable<br>Inputs<br>(Level 2) | Significant<br>Unobservable<br>Inputs<br>(Level 3) |
| <b>As of December 31, 2019:</b>                      |   |  |   |  |
| Assets   |   |  |   |  |
| Interest rate swap not designated as cash flow hedge | \$ 10   | \$ —   | \$ 10   | \$ —   |
| Total assets at fair value                           | \$ 10   | \$ —   | \$ 10   | \$ —   |
| <b>As of June 30, 2019:</b>                          |   |  |   |  |
| Assets   |   |  |   |  |
| Interest rate swap not designated as cash flow hedge | \$ 68   | \$ —   | \$ 68   | \$ —   |
| Total assets at fair value                           | \$ 68   | \$ —   | \$ 68   | \$ —   |

Fair value measurements for the Company's interest rate swap are classified under Level 2 because such measurements are based on significant other observable inputs. There were no transfers of assets or liabilities between Level 1 and Level 2 as of December 31, 2019 or June 30, 2019.

The Company's nonfinancial assets and liabilities that have nonrecurring fair value measurements include property, plant and equipment, goodwill and intangibles.

In assessing the need for goodwill impairment, management relies on a number of factors, including operating results, business plans, economic projections, anticipated future cash flows, transactions and marketplace data. Accordingly, these fair value measurements fall in Level 3 of the fair value hierarchy. The Company generally uses projected cash flows, discounted as necessary, to estimate the fair values of property, plant and equipment and intangibles using key inputs such as management's projections of cash flows on a held-and-used basis (if applicable), management's projections of cash flows upon disposition and discount rates. Accordingly, these fair value measurements fall in Level 3 of the fair value hierarchy. These assets and certain liabilities are measured at fair value on a nonrecurring basis as part of the Company's impairment assessments and as circumstances require.

## 14. Income Taxes

Malibu Boats, Inc. is taxed as a C corporation for U.S. income tax purposes and is therefore subject to both federal and state taxation at a corporate level. The LLC continues to operate in the United States as a partnership for U.S. federal income tax purposes.

Income taxes are computed in accordance with ASC Topic 740, *Income Taxes*, and reflect the net tax effects of temporary differences between the financial reporting carrying amounts of assets and liabilities and the corresponding income tax amounts. The Company has deferred tax assets and liabilities and maintains valuation allowances where it is more likely than not that all or a portion of deferred tax assets will not be realized. To the extent the Company determines that it will not realize the benefit of some or all of its deferred tax assets, such deferred tax assets will be adjusted through the Company's provision for income taxes in the period in which this determination is made.

As of both December 31, 2019 and June 30, 2019, the Company maintained a total valuation allowance of \$14,252 against deferred tax assets related to state net operating losses and future amortization deductions (with respect to the Section 754 election) that are reported in the Tennessee corporate tax return without offsetting income, which is taxable at the LLC. This also includes a valuation allowance in the amount of \$761 related to foreign tax credit carryforward that is not expected to be utilized in the future.

On December 22, 2017, the Tax Cuts and Jobs Act was enacted which, among a number of its provisions, lowered the U.S. corporate tax rate from 35% to 21%, effective January 1, 2018. The Company's consolidated interim effective tax rate is based upon expected annual income from operations, statutory tax rates and tax laws in the various jurisdictions in which the Company operates. Significant or unusual items, including those related to the change in U.S. tax law noted above as well as other adjustments to accruals for tax uncertainties, are recognized in the quarter in which the related event occurs.

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For the three months ended December 31, 2019 and 2018, the Company's effective tax rate was 22.3% and 21.5%, respectively. For the six months ended December 31, 2019 and 2018, the Company's effective tax rate was 22.4% and 22.2%, respectively. For the three and six months ended December 31, 2019, the Company's effective tax rate exceeded the statutory federal income tax rate of 21% primarily due to the impact of U.S. state taxes. This increase was partially offset by the benefits of the foreign derived intangible income deduction, the research and development tax credit, a windfall benefit generated by certain stock-based compensation, and the impact of non-controlling interests in the LLC. For the three and six months ended December 31, 2018, the Company's effective tax rate exceeded the statutory federal income tax rate of 21% due to the impact of U.S. state taxes. This effect was partially offset by a windfall benefit generated by certain stock based compensation for the three and six months ended December 31, 2018 and the impact of non-controlling interests in the LLC, a passthrough entity for U.S. federal tax purposes.

### 15. Stock-Based Compensation

The Company adopted a long term incentive plan which became effective on January 1, 2014, and reserves for issuance up to 1,700,000 shares of Malibu Boats, Inc. Class A Common Stock for the Company's employees, consultants, members of its board of directors and other independent contractors at the discretion of the compensation committee. Incentive stock awards authorized under the Incentive Plan include unrestricted shares of Class A Common Stock, stock options, stock appreciation rights, restricted stock, restricted stock units, dividend equivalent awards and performance awards. As of December 31, 2019, 712,363 shares remain available for future issuance under the long term incentive plan.

On November 22, 2019, under the Incentive Plan, the Company granted approximately 43,000 restricted service-based stock units and 28,000 restricted service based stock awards to key employees under the Incentive Plan. The grant date fair value of these awards was \$2,714 based on a stock price of \$38.05 per share on the date of grant. Under the terms of the agreements, approximately 60% of the awards will vest ratably over three years beginning on November 6, 2019 and approximately 40% of the awards will vest ratably over four years beginning on November 6, 2019. Stock-based compensation expense attributable to the service based units and awards is amortized on a straight-line basis over the requisite service period.

On November 22, 2019, under the Incentive Plan, the Company granted to key employees a target amount of approximately 21,000 restricted stock awards with a performance condition. The number of shares that will ultimately be issued, if any, is based on the attainment of a specified amount of earnings during the fiscal year ending June 30, 2022. The maximum number of shares that can be issued if an elevated earnings target is met is approximately 32,000. The grant date fair value of the awards were estimated to be \$810, based on a stock price of \$38.05. Compensation costs associated with the performance awards are recognized over the requisite service period based on probability of achievement in accordance with ASC Topic 718, *Compensation—Stock Compensation*.

On November 22, 2019, under the Incentive Plan, the Company granted to key employees a target amount of approximately 21,000 stock awards with a market condition. The number of shares that will ultimately be issued, if any, is based on a total shareholder return ("TSR") computation that involves comparing the movement in the Company's stock price to movement in a market index from the grant date through November 22, 2022. The maximum number of shares that can be issued if an elevated TSR target is met is approximately 42,000. The grant date fair value of the awards were estimated to be \$1,039, which is estimated using a Monte Carlo simulation. The Monte Carlo simulation model utilizes multiple input variables that determine the probability of satisfying the market condition stipulated in the award grant and calculates the fair market value for the stock award. Compensation costs are recognized over the requisite service period based on probability of achievement in accordance with ASC Topic 718, *Compensation—Stock Compensation*.

The following is a summary of the changes in the Company's stock options for the six months ended December 31, 2019:

|   | Shares  | Weighted Average Exercise Price/Share |
|---|---------|---------------------------------------|
| Total outstanding options as of June 30, 2019 | 185,473 | \$ 32.51                              |
| Options granted                               | —       | —                                     |
| Options exercised                             | —       | —                                     |
| Outstanding options as of December 31, 2019   | 185,473 | 32.51                                 |
| Exercisable as of December 31, 2019           | 56,000  | \$ 31.05                              |

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The following is a summary of the changes in non-vested restricted stock units and restricted stock awards for the six months ended December 31, 2019:

|   | <b>Number of Restricted Stock<br/>Units and Restricted Stock<br/>Awards Outstanding</b> | <b>Weighted Average Grant<br/>Date Fair Value</b> |
|---|---|---|
| Total Non-vested Restricted Stock Units and Restricted Stock Awards as of June 30, 2019     | 226,240   | \$ 29.64  |
| Granted   | 164,628   | 37.57   |
| Vested  | (106,999)   | (26.50)   |
| Forfeited   | (600)   | (36.36)   |
| Total Non-vested Restricted Stock Units and Restricted Stock Awards as of December 31, 2019 | 283,269   | \$ 35.42  |

Stock compensation expense attributable to the Company's share-based equity awards was \$813 and \$655 for the three months ended December 31, 2019 and 2018, respectively, and \$1,490 and \$1,131 for the six months ended December 31, 2019 and 2018, respectively. Stock compensation expense attributed to share-based equity awards issued under the Incentive Plan is recognized on a straight-line basis over the terms of the respective awards and is included in general and administrative expense in the Company's unaudited interim condensed consolidated statement of operations and comprehensive income. Awards vesting during the three and six months ended December 31, 2019 include 17,375 and 18,786, respectively, fully vested restricted stock units issued to non-employee directors for their service as directors for the Company.

### **16. Net Earnings Per Share**

Basic net income per share of Class A Common Stock is computed by dividing net income attributable to the Company's earnings by the weighted average number of shares of Class A Common Stock outstanding during the period. The weighted average number of shares of Class A Common Stock outstanding used in computing basic net income per share includes fully vested restricted stock units awarded to directors that are entitled to participate in distributions to common shareholders through receipt of additional units of equivalent value to the dividends paid to Class A Common Stock holders.

Diluted net income per share of Class A Common Stock is computed similarly to basic net income per share except the weighted average shares outstanding are increased to include additional shares from the assumed exercise of any common stock equivalents using the treasury method, if dilutive. The Company's LLC Units and non-qualified stock options are considered common stock equivalents for this purpose. The number of additional shares of Class A Common Stock related to these common stock equivalents and stock options are calculated using the treasury stock method.

Stock awards with a performance condition that are based on the attainment of a specified amount of earnings are only included in the computation of diluted earnings per share to the extent that the performance condition would be achieved based on the current amount of earnings, and only if the effect would be dilutive.

Stock awards with a market condition that are based on the performance of the Company's stock price in relation to a market index over a specified time period are only included in the computation of diluted earnings per share to the extent that the shares would be issued based on the current market price of the Company's stock in relation to the market index, and only if the effect would be dilutive.

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Basic and diluted net income per share of Class A Common Stock has been computed as follows (in thousands, except share and per share amounts):

|   | Three Months Ended December 31, |            | Six Months Ended December 31, |            |
|---|---------------------------------|------------|-------------------------------|------------|
|   | 2019                            | 2018       | 2019                          | 2018       |
| <b>Basic:</b>   |                                 |            |                               |            |
| Net income attributable to Malibu Boats, Inc.   | \$ 16,722                       | \$ 14,257  | \$ 32,581                     | \$ 25,555  |
| Shares used in computing basic net income per share:  |                                 |            |                               |            |
| Weighted-average Class A Common Stock   | 20,385,815                      | 20,689,779 | 20,510,896                    | 20,577,182 |
| Weighted-average participating restricted stock units convertible into Class A Common Stock | 205,426                         | 185,464    | 199,785                       | 180,913    |
| Basic weighted-average shares outstanding   | 20,591,241                      | 20,875,243 | 20,710,681                    | 20,758,095 |
| Basic net income per share  | \$ 0.81                         | \$ 0.68    | \$ 1.57                       | \$ 1.23    |
| <b>Diluted:</b>   |                                 |            |                               |            |
| Net income attributable to Malibu Boats, Inc.   | \$ 16,722                       | \$ 14,257  | \$ 32,581                     | \$ 25,555  |
| Shares used in computing diluted net income per share:                                      |                                 |            |                               |            |
| Basic weighted-average shares outstanding   | 20,591,241                      | 20,875,243 | 20,710,681                    | 20,758,095 |
| Restricted stock units granted to employees   | 81,661                          | 94,654     | 81,394                        | 117,374    |
| Stock options granted to employees  | 4,404                           | 20,416     | 588                           | 8,399      |
| Market performance awards granted to employees  | 24,167                          | —          | 24,167                        | —          |
| Diluted weighted-average shares outstanding <sup>1</sup>                                    | 20,701,473                      | 20,990,313 | 20,816,830                    | 20,883,868 |
| Diluted net income per share  | \$ 0.81                         | \$ 0.68    | \$ 1.57                       | \$ 1.22    |

<sup>1</sup> The Company excluded (i) 940,875 and 904,652 potentially dilutive shares from the calculation of diluted net income per share for the three months ended December 31, 2019 and 2018, respectively, and (ii) 1,042,509 and 924,652 potentially dilutive shares from the calculation of diluted net income per share for the six months ended December 31, 2019 and 2018, respectively, as these units would have been antidilutive.

The shares of Class B Common Stock do not share in the earnings or losses of Malibu Boats, Inc. and are therefore not included in the calculation. Accordingly, basic and diluted net earnings per share of Class B Common Stock has not been presented.

## 17. Commitments and Contingencies

### Repurchase Commitments

In connection with its dealers' wholesale floor plan financing of boats, the Company has entered into repurchase agreements with various lending institutions. The reserve methodology used to record an estimated expense and loss reserve in each accounting period is based upon an analysis of likely repurchases based on current field inventory and likelihood of repurchase. Subsequent to the inception of the repurchase commitment, the Company evaluates the likelihood of repurchase and adjusts the estimated loss reserve accordingly. When a potential loss reserve is recorded it is presented in accrued liabilities in the accompanying unaudited interim condensed consolidated balance sheet. If the Company were obligated to repurchase a significant number of units under any repurchase agreement, its business, operating results and financial condition could be adversely affected. The total amount financed under the floor financing programs with repurchase obligations was \$290,904 and \$239,315 as of December 31, 2019 and June 30, 2019, respectively.

Repurchases and subsequent sales are recorded as a revenue transaction. The net difference between the repurchase price and the resale price is recorded against the loss reserve and presented in cost of sales in the accompanying unaudited interim condensed consolidated statements of operations and comprehensive income. The Company did not carry a reserve for repurchases as of December 31, 2019 and June 30, 2019.

The Company has collateralized receivables financing arrangements with a third-party floor plan financing provider for European dealers. Under terms of these arrangements, the Company transfers the right to collect a trade receivable to



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the financing provider in exchange for cash but agrees to repurchase the receivable if the dealer defaults. Since the transfer of the receivable to the financing provider does not meet the conditions for a sale under ASC Topic 860, *Transfers and Servicing*, the Company continues to report the transferred trade receivable in other current assets with an offsetting balance recorded as a secured obligation in accrued expenses in the Company's unaudited condensed consolidated balance sheet. As of December 31, 2019 and June 30, 2019, the Company had financing receivables of \$569 and \$768, respectively, recorded in other current assets and accrued expenses related to these arrangements.

### *Contingencies*

Certain conditions may exist which could result in a loss, but which will only be resolved when future events occur. The Company, in consultation with its legal counsel, assesses such contingent liabilities, and such assessments inherently involve an exercise of judgment. If the assessment of a contingency indicates that it is probable that a loss has been incurred, the Company accrues for such contingent loss when it can be reasonably estimated. If the assessment indicates that a potentially material loss contingency is not probable but reasonably estimable, or is probable but cannot be estimated, the nature of the contingent liability, together with an estimate of the range of possible loss if determinable and material, is disclosed. If the assessment of a contingency deemed to be both probable and reasonably estimable involves a range of possible losses, the amount within the range that appears at the time to be a better estimate than any other amount within the range would be accrued. When no amount within the range is a better estimate than any other amount, the minimum amount in the range is accrued even though the minimum amount in the range is not necessarily the amount of loss that will be ultimately determined.

Estimates of potential legal fees and other directly related costs associated with contingencies are not accrued but rather are expensed as incurred. Except as disclosed below under "Legal Proceedings," management does not believe there are any pending claims (asserted or unasserted) at December 31, 2019 that may have a material adverse impact on the Company's financial condition, results of operations or cash flows.

### *Legal Proceedings*

On January 12, 2018, the Company filed suit against Skier's Choice, Inc., or "Skier's Choice," in the U.S. District Court for the Eastern District of Tennessee, seeking monetary and injunctive relief. The Company's complaint alleges Skier's Choice's infringement of three utility patents - U.S. Patent Nos. 9,260,161, 8,578,873, and 9,199,695 - related to wake surfing technology. Skier's Choice denied liability arising from the causes of action alleged in the Company's complaint and filed counterclaims alleging invalidity of the asserted patents. On June 19, 2019, the Company filed a second action against Skier's Choice in the U.S. District Court for the Eastern District of Tennessee, seeking monetary and injunctive relief. The Company's complaint alleges Skier's Choice's surf systems on its Moomba and Supra lines of boats infringe U.S. Patent No. 10,322,777, a patent related to wake surfing technology. Skier's Choice denied liability arising from the causes of action alleged in the Company's complaint and filed counterclaims alleging invalidity of the asserted patents. On June 27, 2019, Skier's Choice filed a motion to consolidate these two actions, and to continue deadlines in the earlier case for six months, which the Company opposed. On August 22, 2019, the motion for consolidation was referred by Judge Thomas Varlan to Magistrate Judge Bruce Guyton, and the two cases were stayed pending resolution of that motion. On November 27, 2019, Judge Guyton ordered the two cases to be consolidated. On January 7, 2020, the consolidated cases were reassigned to Judge Jon McCalla. On January 23, 2020, Judge McCalla issued a Scheduling Order, scheduling trial on the consolidated cases to begin on September 29, 2020. The Company intends to vigorously pursue this litigation to enforce its rights in its patented technology and believes that Skier's Choice's counterclaims are without merit.

## **18. Segment Information**

Effective July 1, 2019, the Company revised its segment reporting to conform to changes in its internal management reporting based on the Company's boat manufacturing operations. Segment information has been revised for comparison purposes for all periods presented in the condensed consolidated financial statements. The Company previously had four reportable segments, Malibu U.S., Malibu Australia, Cobalt and Pursuit. The Company now aggregates Malibu U.S. and Malibu Australia into one reportable segment as they have similar economic characteristics and qualitative factors. As a result the Company now has three reportable segments, Malibu, Cobalt and Pursuit. The Malibu segment participates in the manufacturing, distribution, marketing and sale of Malibu and Axis performance sports boats throughout the world. The Cobalt and Pursuit segments participate in the manufacturing, distribution, marketing and sale of Cobalt and Pursuit boats, respectively, throughout the world.

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The following tables present financial information for the Company's reportable segments for the three and six months ended December 31, 2019 and 2018, respectively, and the Company's financial position at December 31, 2019 and June 30, 2019, respectively:

|  | Three Months Ended December 31, 2019 |           |           |            | Six Months Ended December 31, 2019 |           |           |            |
|--|--------------------------------------|-----------|-----------|------------|------------------------------------|-----------|-----------|------------|
|  | Malibu                               | Cobalt    | Pursuit   | Total      | Malibu                             | Cobalt    | Pursuit   | Total      |
| Net sales                                | \$ 97,327                            | \$ 48,994 | \$ 33,791 | \$ 180,112 | \$ 183,207                         | \$ 99,145 | \$ 69,840 | \$ 352,192 |
| Income before provision for income taxes | \$ 15,200                            | \$ 4,853  | \$ 2,586  | \$ 22,639  | \$ 26,661                          | \$ 10,760 | \$ 6,744  | \$ 44,165  |

  

|  | Three months ended December 31, 2018 |           |           |            | Six Months Ended December 31, 2018 |           |           |            |
|--|--------------------------------------|-----------|-----------|------------|------------------------------------|-----------|-----------|------------|
|  | Malibu                               | Cobalt    | Pursuit   | Total      | Malibu                             | Cobalt    | Pursuit   | Total      |
| Net sales                                | \$ 90,020                            | \$ 45,846 | \$ 29,927 | \$ 165,793 | \$ 165,243                         | \$ 94,106 | \$ 29,927 | \$ 289,276 |
| Income before provision for income taxes | \$ 11,179                            | \$ 5,417  | \$ 2,521  | \$ 19,117  | \$ 19,930                          | \$ 12,264 | \$ 2,521  | \$ 34,715  |

  

|              | As of December 31, 2019 |         | As of June 30, 2019 |         |
|--------------|-------------------------|---------|---------------------|---------|
|              |                         |         |                     |         |
| Assets       |                         |         |                     |         |
| Malibu       | \$                      | 198,885 | \$                  | 185,154 |
| Cobalt       |                         | 153,555 |                     | 151,481 |
| Pursuit      |                         | 122,265 |                     | 114,679 |
| Total assets | \$                      | 474,705 | \$                  | 451,314 |

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

### MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

*Some of the information in this Quarterly Report on Form 10-Q includes "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended (the "Securities Act") and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). All statements other than statements of historical facts included in this Form 10-Q, including, without limitation, certain statements under "Management's Discussion and Analysis of Financial Condition and Results of Operations", may constitute forward-looking statements. In some cases you can identify these "forward-looking statements" by words like "may," "will," "should," "expects," "plans," "anticipates," "believes," "estimates," "predicts," "potential" or "continue" or the negative of those words and other comparable words. Any such forward-looking statements are not guarantees of future performance and involve risks, uncertainties and other factors that may cause our actual results, performance or achievements, or industry results to vary materially from our future results, performance or achievements, or those of our industry, expressed or implied in such forward-looking statements. Such factors include, among others: general industry, economic and business conditions; our ability to grow our business through acquisitions and integrate such acquisitions to fully realize their expected benefits; our reliance on our network of independent dealers and increasing competition for dealers; our large fixed cost base; intense competition within our industry; increased consumer preference for used boats or the supply of new boats by competitors in excess of demand; the successful introduction of new products; our ability to execute our manufacturing strategy successfully; the success of our engines integration strategy; and other factors affecting us discussed under the heading "Item 1A-Risk Factors" appearing in the Company's Annual Report on Form 10-K for the year ended June 30, 2019, filed with the Securities and Exchange Commission ("SEC") on August 29, 2019 ("Form 10-K"). Many of these risks and uncertainties are outside our control, and there may be other risks and uncertainties which we do not currently anticipate because they relate to events and depend on circumstances that may or may not occur in the future. We do not intend and undertake no obligation to update any forward-looking information to reflect actual results or future events or circumstances.*

*The following discussion and analysis should be read in conjunction with the unaudited interim condensed consolidated financial statements and notes thereto included herein.*

Malibu Boats, Inc. is a Delaware corporation with its principal offices in Loudon, Tennessee. We use the terms "Malibu," the "Company," "we," "us," "our" or similar references to refer to Malibu Boats, Inc., its subsidiary, Malibu Boats Holdings, LLC, or the LLC, and its subsidiary Malibu Boats, LLC and its consolidated subsidiaries, including Cobalt Boats, LLC and PB Holdco, LLC, through which we acquired the assets of Pursuit.

## Overview

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We are a leading designer, manufacturer and marketer of a diverse range of recreational powerboats, including performance sport boats, sterndrive and outboard boats. We are the market leader in the United States in the performance sport boat category through our Malibu and Axis Wake Research boat brands, the leader in the United States in the 20' - 40' segment of the sterndrive boat category through our Cobalt brand and in a leading position in the fiberglass outboard fishing boat market with our Pursuit brand. Our product portfolio of premium brands are used for a broad range of recreational boating activities including, among others, water sports, general recreational boating and fishing. Our passion for consistent innovation, which has led to propriety technology such as Surf Gate, has allowed us to expand the market for our products by introducing consumers to new and exciting recreational activities. We design products that appeal to an expanding range of recreational boaters and water sports enthusiasts whose passion for boating and water sports is a key component of their active lifestyle and provide consumers with a better customer-inspired experience. With performance, quality, value and multi-purpose features, our product portfolio has us well positioned to broaden our addressable market and achieve our goal of increasing our market share in the expanding recreational boating industry.

We currently sell our boats under four brands—Malibu; Axis; Cobalt; and Pursuit. Our flagship Malibu boats offer our latest innovations in performance, comfort and convenience, and are designed for consumers seeking a premium performance sport boat experience. Retail prices of our Malibu boats typically range from \$60,000 to \$190,000. We launched our Axis boats in 2009 to appeal to consumers who desire a more affordable performance sport boat product but still demand high performance, functional simplicity and the option to upgrade key features. Retail prices of our Axis boats typically range from \$60,000 to \$110,000. Our Cobalt boats consist of mid to large-sized luxury cruisers and bowriders that we believe offer the ultimate experience in comfort, performance and quality. Retail prices for our Cobalt boats typically range from \$60,000 to \$770,000. Our recent acquisition of Pursuit expands our product offerings into the saltwater outboard fishing market and includes center console, dual console and offshore models. Retail prices for our Pursuit boats typically range from \$80,000 to \$800,000.

We sell our boats through a dealer network that we believe is the strongest in the recreational powerboat category. As of July 1, 2019, our worldwide distribution channel consisted of over 350 dealer locations globally. Our dealer base is an important part of our consumers' experience, our marketing efforts and our brands. We devote significant time and resources to find, develop and improve the performance of our dealers and believe our dealer network gives us a distinct competitive advantage.

On a consolidated basis, we achieved second quarter fiscal 2020 net sales, gross profit, net income and adjusted EBITDA of \$180.1 million, \$39.9 million, \$17.6 million and \$30.7 million, respectively, compared to \$165.8 million, \$38.3 million, \$15.0 million and \$29.4 million, respectively, for the second quarter of fiscal 2019. For the second quarter of fiscal 2020, net sales increased 8.6%, gross profit increased 4.1%, net income increased 17.3% and adjusted EBITDA increased 4.5% as compared to the second quarter of fiscal 2019. On a consolidated basis, we achieved first half fiscal 2020 net sales, gross profit, net income and adjusted EBITDA of \$352.2 million, \$79.9 million, \$34.3 million and \$59.1 million, respectively, compared to \$289.3 million, \$68.8 million, \$27.0 million and \$52.3 million, respectively, for the first half of fiscal 2019. For the first half of fiscal 2020, net sales increased 21.7%, gross profit increased 16.1%, net income increased 26.9% and adjusted EBITDA increased 13.0% as compared to the first half of fiscal 2019. Our results for the second quarter and first half of fiscal 2020 include Pursuit, which we acquired on October 15, 2018. Our results for the second quarter and first half of fiscal 2019 include Pursuit since its acquisition on October 15, 2018. For the definition of adjusted EBITDA and a reconciliation to net income, see "GAAP Reconciliation of Non-GAAP Financial Measures."

Effective July 1, 2019, we revised our segment reporting to conform to changes in our internal management reporting based on our boat manufacturing operations. Segment information has been revised for comparison purposes for all periods presented in the condensed consolidated financial statements. We now have three reportable segments, Malibu, Cobalt and Pursuit. The Malibu segment participates in the manufacturing, distribution, marketing and sale of Malibu and Axis performance sports boats throughout the world. The Cobalt and Pursuit segments participate in the manufacturing, distribution, marketing and sale of Cobalt and Pursuit boats, respectively, throughout the world. Malibu is our largest segment and represented 52.0% and 57.1% of our net sales for the six months ended December 31, 2019 and December 31, 2018, respectively. Cobalt represented 28.2% and 32.5% of our net sales for the six months ended December 31, 2019 and December 31, 2018, respectively. We completed the acquisition of Pursuit on October 15, 2018 and Pursuit represented 19.8% and 10.4% of our net sales for the six months ended December 31, 2019 and December 31, 2018. See Note 18 to our unaudited interim condensed consolidated financial statements for more information about our reporting segments.

## **Outlook**

Industry-wide marine retail registrations continue to recover from the years following the global financial crisis. According to Statistical Surveys, Inc., domestic retail registration volumes of performance sport boats, fiberglass sterndrive and fiberglass outboards increased at a compound annual growth rate of approximately 6.0% between 2011 and 2018, for the 50 reporting

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states. This has been led by growth in our core market, performance sport boats, having produced a double-digit compound annual growth rate over that period. Domestic retail demand growth has continued in performance sport boats for calendar year 2019, however the growth rate has decelerated compared to prior years. Fiberglass sterndrive and outboard boats, the target markets for our Cobalt and Pursuit branded products, have seen their combined market grow at a 5.4% compound annual growth rate between 2011 and 2018. That growth has been driven by the outboard market, where Pursuit is focused and Cobalt is a newer entrant and where we plan to meaningfully expand our market share in the future. While sterndrive propulsion, Cobalt's primary market, has been challenged, Cobalt's performance continues to be helped by market share gains and they continue to see registration growth. During 2019 the fiberglass outboard market has actually begun a minor contraction, however, in foot lengths 23 feet and greater, where Pursuit competes, the market continues to grow, and Pursuit is gaining share. We believe the lower market growth rates in 2019 were largely driven by negative seasonal weather trends in key months for retail boat sales and the last six months of the year represented more robust growth. We also believe the combination of market growth deceleration and continued wholesale shipment growth across the industry elevated inventory levels at competitive dealers and has and may continue to provide near-term headwinds to wholesale shipment activity, market share and margins.

We expect the growing demand for our products to continue, albeit at a potentially lower pace than from 2011 to 2018 and there are numerous variables that have the potential to impact our volumes, both positively and negatively. We also believe the sustained environment of low oil prices, broad strength of the U.S. dollar and recently implemented tariffs have resulted in reduced demand for our boats in certain markets. To date, growth in our domestic market has offset significantly diminished demand from economies that are driven by the oil industry and international markets. Consumer confidence, expanded or eroded, is another variable that could also impact demand in both directions. Other challenges that could impact demand for recreational powerboats include higher interest rates reducing retail consumer appetite for our product, the availability of credit to our dealers and retail consumers, fuel costs, a meaningful reduction in the value of global or domestic equity markets, the continued acceptance of our new products in the recreational boating market, our ability to compete in the competitive power boating industry, and the costs of labor and certain of our raw materials and key components.

Since 2008, we have increased our market share among manufacturers of performance sport boats due to new product development, improved distribution, new models, and innovative features. As the market for our product has recovered, our competitors have become more aggressive in their product introductions, increased their distribution and begun to compete with our patented Surf Gate system. This competitive environment has continued the past few years, but we continue to maintain a strong lead over our nearest competitor in terms of market position and we believe that we are well positioned to maintain our industry leading position given our strong dealer network and new product pipeline. In addition, we continue to be the market share leader in both the premium and value-oriented product sub-categories.

We believe our track record of expanding our market share due to new product development, improved distribution, new models, and innovative features is directly transferable to our Cobalt and Pursuit acquisitions. While Cobalt and Pursuit are market leaders in certain areas, we believe our experience positions us to execute a strategy to drive enhanced share by expanding both the Cobalt and Pursuit product offerings with different foot lengths, different boat types and different propulsion technologies. Our new product development efforts at Cobalt and Pursuit will take time and our ability to influence near-term model introductions is limited, but we have already begun to execute on this strategy. We believe enhancing new product development combined with diligent management of the Cobalt and Pursuit dealer networks positions us to meaningfully improve our share of the sterndrive and outboard markets over time.

### **Factors Affecting Our Results of Operations**

We believe that our results of operations and our growth prospects are affected by a number of factors, such as the economic environment and consumer demand for our products, our ability to develop new products and innovate, our product mix, our ability to manage manufacturing costs, including through our vertical integration efforts, sales cycles and inventory levels, the strength of our dealer network and our ability to offer dealer financing and incentives. While we do not have control of all factors affecting our results from operations, we work diligently to influence and manage those factors which we can impact to enhance our results of operations.

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### **Components of Results of Operations**

#### *Net Sales*

We generate revenue from sales of boats to our dealers. The substantial majority of our net sales are derived from the sale of boats, including optional features added at the time of the initial wholesale purchase of the boat. Net sales consists of the following:

- Gross sales from:
  - *Boat and trailer sales*—consists of sales of boats and trailers to our dealer network. Nearly all of our boat sales include optional feature upgrades purchased by the consumer, which increase the average selling price of our boats; and
  - *Parts and other sales*—consists of sales of replacement and aftermarket boat parts and accessories to our dealer network; and consists of royalty income earned from license agreements with various boat manufacturers, including Nautique, Chaparral, Mastercraft, and Tige related to the use of our intellectual property.
- Net sales are net of:
  - *Sales returns*—consists primarily of contractual repurchases of boats either repossessed by the floor plan financing provider from the dealer or returned by the dealer under our warranty program; and
  - *Rebates, free flooring and discounts*—consists of incentives, rebates and free flooring, we provide to our dealers based on sales of eligible products. For our Malibu and Axis models, if a domestic dealer meets its monthly or quarterly commitment volume, as well as other terms of the dealer performance program, the dealer is entitled to a specified rebate. Cobalt dealers are entitled to volume-based discounts taken at the time of invoice. For our Pursuit models, if a dealer meets its quarterly or annual retail volume goals, the dealer is entitled to a specific rebate applied to their wholesale volume purchased from Pursuit. For Malibu and Cobalt models and select Pursuit models, our dealers that take delivery of current model year boats in the offseason, typically July through April in the U.S., are also entitled to have us pay the interest to floor the boat until the earlier of (1) the sale of the unit or (2) a date near the end of the current model year, which incentive we refer to as “free flooring.” From time to time, we may extend the flooring program to eligible models beyond the offseason period.

#### *Cost of Sales*

Our cost of sales includes all of the costs to manufacture our products, including raw materials, components, supplies, direct labor and factory overhead. For components and accessories manufactured by third-party vendors, such costs represent the amounts invoiced by the vendors. Shipping costs and depreciation expense related to manufacturing equipment and facilities are also included in cost of sales. Warranty costs associated with the repair or replacement of our boats under warranty are also included in cost of sales.

#### *Operating Expenses*

Our operating expenses include selling and marketing, and general and administrative costs. Each of these items includes personnel and related expenses, supplies, non-manufacturing overhead, third-party professional fees and various other operating expenses. Further, selling and marketing expenditures include the cost of advertising and various promotional sales incentive programs. General and administrative expenses include, among other things, salaries, benefits and other personnel related expenses for employees engaged in product development, engineering, finance, information technology, human resources and executive management. Other costs include outside legal and accounting fees, investor relations, risk management (insurance) and other administrative costs. General and administrative expenses also include product development expenses associated with our engines vertical integration initiative and acquisition or integration related expenses.

#### *Other (Income) Expense, Net*

Other (income) expense, net consists of interest expense and other income or expense, net. Interest expense consists of interest charged under our outstanding debt, interest on our interest rate swap arrangement and change in the fair value of our interest rate swap we entered into on July 1, 2015, and amortization of deferred financing costs on our credit facilities. Other income expense, net consists mostly of adjustments to our tax receivable agreement liability.

#### *Income Taxes*

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Malibu Boats, Inc. is subject to U.S. federal and state income tax in multiple jurisdictions with respect to our allocable share of any net taxable income of the LLC. The LLC is a pass-through entity for federal purposes but incurs income tax in certain state jurisdictions. The provision for income taxes reflects an estimated effective income tax rate attributable to Malibu Boats, Inc.'s share of income. The estimated effective income tax rate used to determine the provision for income taxes typically differs from the statutory federal income tax rate due to the impact of state taxes, our ability to utilize certain tax credits and the impact of the non-controlling interests in the LLC. Our effective tax rate also reflects the impact of our share of the LLC's permanent items such as stock compensation expense attributable to profits interests.

### *Net Income Attributable to Non-controlling Interest*

As of December 31, 2019 and 2018, we had a 96.1% and 96.1% controlling economic interest, respectively, and 100% voting interest in the LLC and, therefore, we consolidate the LLC's operating results for financial statement purposes. Net income attributable to non-controlling interest represents the portion of net income attributable to the non-controlling LLC members.

## Results of Operations

The table below sets forth our unaudited interim consolidated results of operations, expressed in thousands (except unit volume and net sales per unit) and as a percentage of net sales, for the periods presented. Our unaudited interim consolidated financial results for these periods are not necessarily indicative of the consolidated financial results that we will achieve in future periods. Certain totals for the table below will not sum to exactly 100% due to rounding.

|   | Three Months Ended December 31, |           |         |           | Six Months Ended December 31, |           |         |           |
|---|---------------------------------|-----------|---------|-----------|-------------------------------|-----------|---------|-----------|
|   | 2019                            |           | 2018    |           | 2019                          |           | 2018    |           |
|   | \$                              | % Revenue | \$      | % Revenue | \$                            | % Revenue | \$      | % Revenue |
| Net sales   | 180,112                         | 100.0%    | 165,793 | 100.0%    | 352,192                       | 100.0%    | 289,276 | 100.0%    |
| Cost of sales                                       | 140,244                         | 77.9%     | 127,478 | 76.9%     | 272,323                       | 77.3%     | 220,460 | 76.2%     |
| Gross profit  | 39,868                          | 22.1%     | 38,315  | 23.1%     | 79,869                        | 22.7%     | 68,816  | 23.8%     |
| Operating expenses:                                 |                                 |           |         |           |                               |           |         |           |
| Selling and marketing                               | 4,666                           | 2.6%      | 4,601   | 2.8%      | 9,732                         | 2.8%      | 8,099   | 2.8%      |
| General and administrative                          | 10,078                          | 5.6%      | 11,232  | 6.8%      | 20,746                        | 5.9%      | 20,203  | 7.0%      |
| Amortization  | 1,537                           | 0.9%      | 1,538   | 0.9%      | 3,121                         | 0.9%      | 2,818   | 1.0%      |
| Operating income                                    | 23,587                          | 13.0%     | 20,944  | 12.6%     | 46,270                        | 13.1%     | 37,696  | 13.0%     |
| Other (income) expense, net:                        |                                 |           |         |           |                               |           |         |           |
| Other income, net                                   | (9)                             | —%        | (17)    | —%        | (19)                          | —%        | (34)    | —%        |
| Interest expense                                    | 957                             | 0.5%      | 1,844   | 1.1%      | 2,124                         | 0.6%      | 3,015   | 1.0%      |
| Other expense, net                                  | 948                             | 0.5%      | 1,827   | 1.1%      | 2,105                         | 0.6%      | 2,981   | 1.0%      |
| Income before provision for income taxes            | 22,639                          | 12.5%     | 19,117  | 11.5%     | 44,165                        | 12.5%     | 34,715  | 12.0%     |
| Provision for income taxes                          | 5,041                           | 2.8%      | 4,119   | 2.5%      | 9,885                         | 2.8%      | 7,702   | 2.7%      |
| Net income  | 17,598                          | 9.7%      | 14,998  | 9.0%      | 34,280                        | 9.7%      | 27,013  | 9.3%      |
| Net income attributable to non-controlling interest | 876                             | 0.5%      | 741     | 0.4%      | 1,699                         | 0.5%      | 1,458   | 0.5%      |
| Net income attributable to Malibu Boats, Inc.       | 16,722                          | 9.2%      | 14,257  | 8.6%      | 32,581                        | 9.2%      | 25,555  | 8.8%      |

|                          | Three Months Ended December 31, |         |              |         | Six Months Ended December 31, |         |              |         |
|--------------------------|---------------------------------|---------|--------------|---------|-------------------------------|---------|--------------|---------|
|                          | 2019                            |         | 2018         |         | 2019                          |         | 2018         |         |
|                          | Unit Volumes                    | % Total | Unit Volumes | % Total | Unit Volumes                  | % Total | Unit Volumes | % Total |
| <i>Volume by Segment</i> |                                 |         |              |         |                               |         |              |         |
| Malibu                   | 1,101                           | 61.0%   | 1,104        | 62.7%   | 2,115                         | 59.9%   | 2,037        | 62.2%   |
| Cobalt                   | 561                             | 31.1%   | 545          | 31.0%   | 1,131                         | 32.0%   | 1,128        | 34.4%   |
| Pursuit <sup>1</sup>     | 142                             | 7.9%    | 111          | 6.3%    | 285                           | 8.1%    | 111          | 3.4%    |
| Total units              | 1,804                           |         | 1,760        |         | 3,531                         |         | 3,276        |         |
| Net sales per unit       | \$ 99,840                       |         | \$ 94,200    |         | \$ 99,743                     |         | \$ 88,302    |         |

(1) We acquired substantially all of the assets of Pursuit on October 15, 2018.

### Comparison of the Three Months Ended December 31, 2019 to the Three Months Ended December 31, 2018

#### Net Sales

Net sales for the three months ended December 31, 2019 increased \$14.3 million, or 8.6%, to \$180.1 million as compared to the three months ended December 31, 2018. Unit volume for the three months ended December 31, 2019, increased 44 units, or 2.5%, to 1,804 units as compared to the three months ended December 31, 2018. The increase in net sales and unit volumes

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were driven primarily by increased demand for our Cobalt and Pursuit brands coupled with year-over-year price increases across all brands, partially offset by the lower average selling price of Pursuit models due to the mix of models sold.

Net sales attributable to our Malibu segment increased \$7.3 million, or 8.1%, to \$97.3 million for the three months ended December 31, 2019, compared to the three months ended December 31, 2018. Unit volumes attributable to our Malibu segment decreased three units for the three months ended December 31, 2019, compared to the three months ended December 31, 2018. The increase in net sales for Malibu was driven primarily by higher sales of new, more expensive models and optional features, which led to a higher net sales per unit for Malibu and Axis models partially offset by the slight decrease in overall units sold. Net sales was also impacted by year-over-year price increases on all of our Malibu and Axis models.

Net sales from our Cobalt segment increased \$3.1 million, or 6.9%, to \$49.0 million for the three months ended December 31, 2019, compared to the three months ended December 31, 2018. Unit volumes attributable to Cobalt increased 16 units for the three months ended December 31, 2019 compared to the three months ended December 31, 2018. The increase in Cobalt net sales was driven by an increase in units sold and year-over-year price increases on our Cobalt models.

Net sales from our Pursuit segment increased \$3.9 million, or 12.9%, to \$33.8 million, for the three months ended December 31, 2019, compared to the three months ended December 31, 2018. Unit volumes attributable to Pursuit increased 31 units for the three months ended December 31, 2019 compared to the three months ended December 31, 2018. The increase in Pursuit net sales was driven by an increase in units sold and year-over-year price increases, offset by the lower average selling price due to the mix of models sold. We acquired the assets of Pursuit on October 15, 2018.

Overall consolidated net sales per unit increased 6.0% to \$99,840 per unit for the three months ended December 31, 2019, compared to the three months ended December 31, 2018. Net sales per unit for our Malibu segment increased 8.4% to \$88,399 per unit for the three months ended December 31, 2019, compared to the three months ended December 31, 2018, driven by higher sales of new, more expensive models and optional features and year-over-year price increases. Net sales per unit for our Cobalt segment increased 3.8% to \$87,333 per unit for the three months ended December 31, 2019, compared to the three months ended December 31, 2018, driven by year-over-year price increases. Net sales per unit for Pursuit segment decreased 11.7% to \$237,965 for the three months ended December 31, 2019, compared to the three months ended December 31, 2018, driven by a lower average selling price due to the mix of models sold offset slightly by year-over-year price increases.

### *Cost of Sales*

Cost of sales for the three months ended December 31, 2019 increased \$12.8 million, or 10.0%, to \$140.2 million as compared to the three months ended December 31, 2018. The increase in cost of sales was driven primarily by a higher cost of sales per unit that corresponded with an increase in higher average selling price. Cost of sales also increased due to higher volumes and costs related to the United Auto Workers' ("UAW") strike against General Motors.

### *Gross Profit*

Gross profit for the three months ended December 31, 2019 increased \$1.6 million, or 4.1%, to \$39.9 million compared to the three months ended December 31, 2018. The increase in gross profit was due mainly to contribution from higher net sales, offset by expenses related to the UAW strike. Gross margin for the three months ended December 31, 2019 decreased 100 basis points from 23.1% to 22.1% over the same period in the prior fiscal year primarily due to \$1.7 million in costs related to the UAW strike.

### *Operating Expenses*

Selling and marketing expenses for the three months ended December 31, 2019, increased \$0.1 million or 1.4% compared to the three months ended December 31, 2018. As a percentage of sales, selling and marketing expenses decreased 20 basis points compared to the same period in the prior fiscal year. General and administrative expenses for the three months ended December 31, 2019, decreased \$1.2 million, or 10.3%, to \$10.1 million as compared to the three months ended December 31, 2018, due primarily to acquisition related expenses for Pursuit in the three months ended December 31, 2018 offset by higher general and administrative expenses attributable to Pursuit in the three months ended December 31, 2019. As a percentage of sales, general and administrative expenses decreased 120 basis points to 5.6% for the three months ended December 31, 2019 compared to the three months ended December 31, 2018. Amortization expense for the three months ended December 31, 2019 remained flat at \$1.5 million compared to the three months ended December 31, 2018.

### *Other (Income) Expense, Net*

Other (income) expense, net for the three months ended December 31, 2019 decreased \$0.9 million, or 48.1%, to \$0.9 million compared to the three months ended December 31, 2018 primarily due to lower interest expense on our outstanding



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debt. Interest expense decreased due to a lower interest rate and lower outstanding debt during the quarter ended December 31, 2019 compared to the quarter ended December 31, 2018.

### *Provision for Income Taxes*

Our provision for income taxes for the three months ended December 31, 2019, increased \$0.9 million, or 22.4%, to \$5.0 million compared to the three months ended December 31, 2018. This increase was primarily due to increased consolidated earnings, driven by the Malibu segment. For the three months ended December 31, 2019, our effective tax rate of 22.3% exceeded the statutory federal income tax rate of 21% primarily due to the impact of U.S. state taxes. This increase was partially offset by the benefits of the foreign derived intangible income deduction, the research and development tax credit, a windfall benefit generated by certain stock based compensation, and the impact of non-controlling interests in the LLC. For the three months ended December 31, 2018, our effective tax rate of 21.5% exceeded the statutory federal income tax rate of 21% due to the impact of U.S. state taxes. This effect was partially offset by a windfall benefit generated by certain stock based compensation during the quarter and the impact of non-controlling interests in the LLC, a passthrough entity for U.S. federal tax purposes.

### *Non-controlling Interest*

Non-controlling interest represents the ownership interests of the members of the LLC other than us and the amount recorded as non-controlling interest in our unaudited interim condensed consolidated statements of operations and comprehensive income is computed by multiplying pre-tax income for the applicable period, by the percentage ownership in the LLC not directly attributable to us. For the three months ended December 31, 2019 and 2018, the weighted average non-controlling interest attributable to ownership interests in the LLC not directly attributable to us was 3.9% and 3.9%, respectively.

### *Comparison of the Six Months Ended December 31, 2019 to the Six Months Ended December 31, 2018*

#### *Net Sales*

Net sales for the six months ended December 31, 2019 increased \$62.9 million, or 21.7%, to \$352.2 million as compared to the six months ended December 31, 2018. Unit volume for the six months ended December 31, 2019, increased 255 units, or 7.8%, to 3,531 units as compared to the six months ended December 31, 2018. The increase in net sales and unit volumes were driven primarily by our acquisition of Pursuit on October 15, 2018, as well as increased demand for our Malibu and Axis brands coupled with year-over-year price increases across all brands.

Net sales attributable to our Malibu segment increased \$18.0 million, or 10.9%, to \$183.2 million for the six months ended December 31, 2019, compared to the six months ended December 31, 2018. Unit volumes attributable to our Malibu segment increased 78 units for the six months ended December 31, 2019, compared to the six months ended December 31, 2018. The increase in net sales and unit volume for Malibu was driven primarily by higher sales for new, more expensive models and optional features, which led to a higher net sales per unit for Malibu and Axis models. Net sales was also impacted by year-over-year price increases on all of our Malibu and Axis models.

Net sales from our Cobalt segment increased \$5.0 million, or 5.4%, to \$99.2 million for the six months ended December 31, 2019, compared to the six months ended December 31, 2018. Unit volumes attributable to Cobalt increased three units for the six months ended December 31, 2019 compared to the six months ended December 31, 2018. The increase in Cobalt net sales was driven by year-over-year price increases on our Cobalt models.

Net sales from our Pursuit segment increased \$39.9 million, or 133.4% to \$69.8 million for the six months ended December 31, 2019 compared to the six months ended December 31, 2018. Unit volumes attributable to Pursuit increased 174 units for the six months ended December 31, 2019 compared to the six months ended December 31, 2018. The increase in Pursuit net sales resulted from a full six months of sales from Pursuit in the first half of fiscal 2020 compared to the first half of fiscal 2019 and year-over-year price increases, offset by the lower average selling price due to the mix of models sold. We acquired the assets of Pursuit on October 15, 2018.

Overall consolidated net sales per unit increased 13.0% to \$99,743 per unit for the six months ended December 31, 2019, compared to the six months ended December 31, 2018 driven by a higher mix of Pursuit models which have a higher average selling price per unit than our other brands, sold in the first half of fiscal 2020 compared to the first half of fiscal 2019. Net sales per unit for our Malibu segment increased 6.8% to \$86,623 per unit for the six months ended December 31, 2019, compared to the six months ended December 31, 2018, driven by higher sales for new, more expensive models and optional features and year-over-year price increases. Net sales per unit for our Cobalt segment increased 5.1% to \$87,661 per unit for the six months ended December 31, 2019, compared to the six months ended December 31, 2018, driven by year-over-year price

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increases. Net sales per unit for Pursuit segment decreased 9.1% to \$245,053 for the six months ended December 31, 2019, compared to the six months ended December 31, 2018, driven by lower average selling price due to the mix of models sold offset slightly by year-over-year price increases.

### *Cost of Sales*

Cost of sales for the six months ended December 31, 2019 increased \$51.9 million, or 23.5%, to \$272.3 million as compared to the six months ended December 31, 2018. The increase in cost of sales was driven primarily by incremental costs associated with the inclusion of Pursuit for the first 15 weeks of the period, as opposed to the 2018 period. Other drivers of the increased costs of sales include higher volumes, as well as, a higher cost of sales per unit that corresponded with an increase in average selling price.

### *Gross Profit*

Gross profit for the six months ended December 31, 2019 increased \$11.1 million, or 16.1%, to \$79.9 million compared to the six months ended December 31, 2018. The increase in gross profit was due to a combination of higher unit volumes and higher gross profit per unit. Gross margin for the six months ended December 31, 2019 decreased 110 basis points from 23.8% to 22.7% over the same period in the prior fiscal year primarily due to the integration of Pursuit and \$1.7 million in costs related to the UAW strike.

### *Operating Expenses*

Selling and marketing expenses for the six months ended December 31, 2019, increased \$1.6 million, or 20.2%, to \$9.7 million compared to the six months ended December 31, 2018 due primarily to the incremental expenses attributable to Pursuit. As a percentage of sales, selling and marketing expenses remained flat compared to the same period in the prior fiscal year. General and administrative expenses for the six months ended December 31, 2019, increased \$0.5 million, or 2.7%, to \$20.7 million as compared to the six months ended December 31, 2018, largely due to incremental general and administrative expenses attributable to Pursuit in the six months ended December 31, 2019 offset by expenses related to the acquisition of Pursuit in the six months ended December 31, 2018. As a percentage of sales, general and administrative expenses decreased 110 basis points from 7.0% to 5.9% for the six months ended December 31, 2019 compared to the six months ended December 31, 2018. Amortization expense for the six months ended December 31, 2019, increased \$0.3 million, or 10.8% to \$3.1 million compared to the six months ended December 31, 2018 due to additional amortization expense related to intangibles acquired as part of the Pursuit acquisition.

### *Other (Income) Expense, Net*

Other (income) expense, net for the six months ended December 31, 2019 decreased \$0.9 million, or 29.4%, to \$2.1 million compared to the six months ended December 31, 2018 due to lower interest expense on our outstanding debt. Interest expense decreased due to a lower interest rate and lower outstanding debt during the six months ended December 31, 2019 compared to the six months ended December 31, 2018.

### *Provision for Income Taxes*

Our provision for income taxes for the six months ended December 31, 2019, increased \$2.2 million, or 28.3%, to \$9.9 million compared to the six months ended December 31, 2018. This increase was primarily due to increased consolidated earnings, including Pursuit. For the six months ended December 31, 2019, our effective tax rate of 22.4% exceeded the statutory federal income tax rate of 21% primarily due to the impact of U.S. state taxes. This increase was partially offset by the benefits of the foreign derived intangible income deduction, the research and development tax credit, a windfall benefit generated by certain stock based compensation, and the impact of non-controlling interests in the LLC. For the six months ended December 31, 2018, our effective tax rate of 22.2% exceeded the statutory federal income tax rate of 21% due to the impact of U.S. state taxes. This effect was partially offset by a windfall benefit generated by certain stock based compensation during the period and the impact of non-controlling interests in the LLC, a passthrough entity for U.S. federal tax purposes.

### *Non-controlling Interest*

Non-controlling interest represents the ownership interests of the members of the LLC other than us and the amount recorded as non-controlling interest in our unaudited interim condensed consolidated statements of operations and comprehensive income is computed by multiplying pre-tax income for the applicable period, by the percentage ownership in the LLC not directly attributable to us. For the six months ended December 31, 2019 and 2018, the weighted average non-controlling interest attributable to ownership interests in the LLC not directly attributable to us was 3.9% and 4.3%, respectively.

**GAAP Reconciliation of Non-GAAP Financial Measures**
*Adjusted EBITDA*

Adjusted EBITDA and adjusted EBITDA margin are non-GAAP financial measures that are used by management as well as by investors, commercial bankers, industry analysts and other users of our financial statements.

We define adjusted EBITDA as net income before interest expense, income taxes, depreciation, amortization and non-cash, non-recurring or non-operating expenses, including certain professional fees, acquisition and integration related expenses, non-cash compensation expense, expenses related to our engine development initiative and expenses related to interruption to our engine supply during the labor strike by UAW against General Motors. We define adjusted EBITDA margin as adjusted EBITDA divided by net sales. Adjusted EBITDA and adjusted EBITDA margin are not measures of net income as determined by GAAP. Management believes adjusted EBITDA and adjusted EBITDA margin allow investors to evaluate the company's operating performance and compare our results of operations from period to period on a consistent basis by excluding items that management does not believe are indicative of our core operating performance. Management uses Adjusted EBITDA to assist in highlighting trends in our operating results without regard to our financing methods, capital structure and non-recurring or non-operating expenses. We exclude the items listed above from net income in arriving at adjusted EBITDA because these amounts can vary substantially from company to company within our industry depending upon accounting methods and book values of assets, capital structures, the methods by which assets were acquired and other factors. Adjusted EBITDA has limitations as an analytical tool and should not be considered as an alternative to, or more meaningful than, net income as determined in accordance with GAAP or as an indicator of our liquidity. Certain items excluded from adjusted EBITDA are significant components in understanding and assessing a company's financial performance, such as a company's cost of capital and tax structure, as well as the historical costs of depreciable assets. Our presentation of adjusted EBITDA and adjusted EBITDA margin should not be construed as an inference that our results will be unaffected by unusual or non-recurring items. Our computations of adjusted EBITDA and adjusted EBITDA margin may not be comparable to other similarly titled measures of other companies.

The following table sets forth a reconciliation of net income as determined in accordance with GAAP to adjusted EBITDA and adjusted EBITDA margin for the periods indicated (dollars in thousands):

|   | Three Months Ended December 31, |           | Six Months Ended December 31, |           |
|---|---------------------------------|-----------|-------------------------------|-----------|
|   | 2019                            | 2018      | 2019                          | 2018      |
| Net income  | \$ 17,598                       | \$ 14,998 | \$ 34,280                     | \$ 27,013 |
| Provision for income taxes <sup>1</sup>                   | 5,041                           | 4,119     | 9,885                         | 7,702     |
| Interest expense  | 957                             | 1,844     | 2,124                         | 3,015     |
| Depreciation  | 3,005                           | 2,495     | 6,102                         | 4,358     |
| Amortization  | 1,537                           | 1,538     | 3,121                         | 2,818     |
| Professional fees <sup>2</sup>                            | 41                              | 383       | 376                           | 383       |
| Acquisition and integration related expenses <sup>3</sup> | —                               | 2,552     | —                             | 3,909     |
| Stock-based compensation expense <sup>4</sup>             | 813                             | 655       | 1,490                         | 1,131     |
| Engine development <sup>5</sup>                           | —                               | 787       | —                             | 1,939     |
| UAW strike impact <sup>6</sup>                            | 1,687                           | —         | 1,687                         | —         |
| Adjusted EBITDA   | \$ 30,679                       | \$ 29,371 | \$ 59,065                     | \$ 52,268 |
| Adjusted EBITDA Margin                                    | 17.0%                           | 17.7%     | 16.8%                         | 18.1%     |

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- (1) Provision for income taxes for the three months and six months ended December 31, 2019 reflects an increase to income tax expense of \$0.9 million and \$2.2 million, respectively, primarily due to increased consolidated earnings, driven by the Malibu segment. See Note 14 to our unaudited condensed consolidated financial statements included elsewhere in this Quarterly Report.
- (2) Represents legal and advisory fees related to our litigation with Skier's Choice, Inc. See Note 17 to our unaudited interim condensed consolidated financial statements included elsewhere in this Quarterly Report.
- (3) For the three months and six months ended December 31, 2018, represents legal and advisory fees incurred in connection with our acquisition of Pursuit on October 15, 2018 and integration costs related to our acquisitions of Pursuit and Cobalt. Integration related expenses for the three and six months ended December 31, 2018 include post-acquisition adjustments to cost of goods sold of \$0.9 million for the fair value step up of Pursuit inventory acquired, most of which was sold during the second quarter of fiscal 2019.
- (4) Represents equity-based incentives awarded to key employees under the Malibu Boats, Inc. Long-Term Incentive Plan and profit interests issued under the previously existing limited liability company agreement of the LLC. For more information, see Note 15 to our unaudited interim condensed consolidated financial statements included elsewhere in this Quarterly Report.
- (5) Represents costs incurred in connection with our vertical integration of engines including product development costs and supplier transition performance incentives.
- (6) For the three and six months ended December 31, 2019, represents costs incurred in connection with interruption to our engine supply during the UAW strike against General Motors. We purchase engines from General Motors LLC that we then prepare for marine use for our Malibu and Axis boats. During the UAW strike, General Motors suspended delivery of engine blocks to us and we incurred costs by entering into purchase agreements with two suppliers for additional engines to supplement our inventory of engine blocks for Malibu and Axis boats.

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### *Adjusted Fully Distributed Net Income*

We define Adjusted Fully Distributed Net Income as net income attributable to Malibu Boats, Inc. (i) excluding income tax expense, (ii) excluding the effect of non-recurring or non-cash items, (iii) assuming the exchange of all LLC units into shares of Class A Common Stock, which results in the elimination of non-controlling interest in the LLC, and (iv) reflecting an adjustment for income tax expense on fully distributed net income before income taxes at our estimated effective income tax rate. Adjusted Fully Distributed Net Income is a non-GAAP financial measure because it represents net income attributable to Malibu Boats, Inc., before non-recurring or non-cash items and the effects of non-controlling interests in the LLC.

We use Adjusted Fully Distributed Net Income to facilitate a comparison of our operating performance on a consistent basis from period to period that, when viewed in combination with our results prepared in accordance with GAAP, provides a more complete understanding of factors and trends affecting our business than GAAP measures alone.

We believe Adjusted Fully Distributed Net Income assists our board of directors, management and investors in comparing our net income on a consistent basis from period to period because it removes non-cash or non-recurring items, and eliminates the variability of non-controlling interest as a result of member owner exchanges of LLC Units into shares of Class A Common Stock.

In addition, because Adjusted Fully Distributed Net Income is susceptible to varying calculations, the Adjusted Fully Distributed Net Income measures, as presented in this Quarterly Report, may differ from and may, therefore, not be comparable to similarly titled measures used by other companies.

The following table shows the reconciliation of the numerator and denominator for net income available to Class A Common Stock per share to Adjusted Fully Distributed Net Income per Share of Class A Common Stock for the periods presented (in thousands except share and per share data):

|   | Three Months Ended December 31, |           | Six Months Ended December 31, |           |
|---|---------------------------------|-----------|-------------------------------|-----------|
|   | 2019                            | 2018      | 2019                          | 2018      |
| <b>Reconciliation of numerator for net income available to Class A Common Stock per share to Adjusted Fully Distributed Net Income per Share of Class A Common Stock:</b> |                                 |           |                               |           |
| Net income attributable to Malibu Boats, Inc.   | \$ 16,722                       | \$ 14,257 | \$ 32,581                     | \$ 25,555 |
| Provision for income taxes <sup>1</sup>   | 5,041                           | 4,119     | 9,885                         | 7,702     |
| Professional fees <sup>2</sup>  | 41                              | 383       | 376                           | 383       |
| Acquisition and integration related expenses <sup>3</sup>   | 1,074                           | 3,688     | 2,147                         | 5,798     |
| Fair market value adjustment for interest rate swap <sup>4</sup>  | 20                              | 129       | 58                            | 132       |
| Stock-based compensation expense <sup>5</sup>   | 813                             | 655       | 1,490                         | 1,131     |
| Engine development <sup>6</sup>   | —                               | 787       | —                             | 1,939     |
| UAW strike impact <sup>7</sup>  | 1,687                           | —         | 1,687                         | —         |
| Net income attributable to non-controlling interest <sup>8</sup>  | 876                             | 741       | 1,699                         | 1,458     |
| Fully distributed net income before income taxes  | 26,274                          | 24,759    | 49,923                        | 44,098    |
| Income tax expense on fully distributed income before income taxes <sup>9</sup>   | 6,174                           | 5,967     | 11,732                        | 10,628    |
| Adjusted fully distributed net income   | \$ 20,100                       | \$ 18,792 | \$ 38,191                     | \$ 33,470 |

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|   | Three Months Ended December 31, |            | Six Months Ended December 31, |            |
|---|---------------------------------|------------|-------------------------------|------------|
|   | 2019                            | 2018       | 2019                          | 2018       |
| <b>Reconciliation of denominator for net income available to Class A Common Stock per share to Adjusted Fully Distributed Net Income per Share of Class A Common Stock:</b> |                                 |            |                               |            |
| Weighted average shares outstanding of Class A Common Stock used for basic net income per share:  | 20,591,241                      | 20,875,243 | 20,710,681                    | 20,758,095 |
| Adjustments to weighted average shares of Class A Common Stock:   |                                 |            |                               |            |
| Weighted-average LLC units held by non-controlling unit holders <sup>10</sup>   | 830,152                         | 844,652    | 830,152                       | 925,963    |
| Weighted-average unvested restricted stock awards issued to management <sup>11</sup>  | 133,185                         | 125,378    | 129,850                       | 128,491    |
| Adjusted weighted average shares of Class A Common Stock outstanding used in computing Adjusted Fully Distributed Net Income per Share of Class A Common Stock:             | 21,554,578                      | 21,845,273 | 21,670,683                    | 21,812,549 |

The following table shows the reconciliation of net income available to Class A Common Stock per share to Adjusted Fully Distributed Net Income per Share of Class A Common Stock for the periods presented:

|   | Three Months Ended December 31, |         | Six Months Ended December 31, |         |
|---|---------------------------------|---------|-------------------------------|---------|
|   | 2019                            | 2018    | 2019                          | 2018    |
| Net income available to Class A Common Stock per share                                    | \$ 0.81                         | \$ 0.68 | \$ 1.57                       | \$ 1.23 |
| Impact of adjustments:  |                                 |         |                               |         |
| Provision for income taxes <sup>1</sup>   | 0.25                            | 0.20    | 0.48                          | 0.37    |
| Professional fees <sup>2</sup>  | —                               | 0.02    | 0.02                          | 0.02    |
| Acquisition and integration related expenses <sup>3</sup>                                 | 0.05                            | 0.18    | 0.10                          | 0.28    |
| Fair market value adjustment for interest rate swap <sup>4</sup>                          | —                               | 0.01    | —                             | 0.01    |
| Stock-based compensation expense <sup>5</sup>   | 0.04                            | 0.03    | 0.07                          | 0.05    |
| Engine development <sup>6</sup>   | —                               | 0.04    | —                             | 0.09    |
| UAW strike impact <sup>7</sup>  | 0.08                            | —       | 0.08                          | —       |
| Net income attributable to non-controlling interest <sup>8</sup>                          | 0.04                            | 0.04    | 0.08                          | 0.07    |
| Fully distributed net income per share before income taxes                                | 1.27                            | 1.20    | 2.40                          | 2.12    |
| Impact of income tax expense on fully distributed income before income taxes <sup>9</sup> | (0.30)                          | (0.29)  | (0.57)                        | (0.51)  |
| Impact of increased share count <sup>12</sup>   | (0.04)                          | (0.05)  | (0.07)                        | (0.08)  |
| Adjusted Fully Distributed Net Income per Share of Class A Common Stock                   | \$ 0.93                         | \$ 0.86 | \$ 1.76                       | \$ 1.53 |

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- (1) Provision for income taxes for the three months and six months ended December 31, 2019 reflects an increase to income tax expense of \$0.9 million and \$2.2 million, respectively, primarily due to increased consolidated earnings, driven by the Malibu segment. See Note 14 to our unaudited condensed consolidated financial statements included elsewhere in this Quarterly Report.
- (2) Represents legal and advisory fees related to our litigation with Skier's Choice, Inc. See Note 17 to our unaudited interim condensed consolidated financial statements included elsewhere in this Quarterly Report.
- (3) For the three months and six months ended December 31, 2019, represents amortization of intangibles acquired in connection with the acquisition of Pursuit and Cobalt. For the three and six months ended December 31, 2018, represents legal and advisory fees incurred in connection with our acquisition of Pursuit on October 15, 2018 and integration costs related to our acquisitions of Pursuit and Cobalt. Integration related expenses for the three and six months ended December 31, 2018 include post-acquisition adjustments to cost of goods sold of \$0.9 million for the fair value step up of inventory acquired at Pursuit, most of which was sold during the second quarter of fiscal 2019. In addition, for the three and six months ended December 31, 2018, integration related expenses includes \$0.4 million in depreciation and amortization associated with our fair value step up of property, plant and equipment and intangibles acquired in connection with the acquisition of Pursuit. Also, for the three and six months ended December 31, 2018, integration related expenses includes \$0.7 million and \$1.5 million, respectively, in amortization associated with our fair value step up of intangibles acquired in connection with the acquisition of Cobalt.
- (4) Represents the change in the fair value of our interest rate swap entered into on July 1, 2015.
- (5) Represents equity-based incentives awarded to certain of our employees under the Malibu Boats, Inc. Long-Term Incentive Plan and profit interests issued under the previously existing limited liability company agreement of the LLC. See Note 15 to our unaudited interim condensed consolidated financial statements included elsewhere in this Quarterly Report.
- (6) Represents costs incurred in connection with our vertical integration of engines including product development costs and supplier transition performance incentives.
- (7) For the three and six months ended December 31, 2019, represents costs incurred in connection with interruption to our engine supply during the UAW strike against General Motors. We purchase engines from General Motors LLC that we then prepare for marine use for our Malibu and Axis boats. During the UAW strike, General Motors suspended delivery of engine blocks to us and we incurred costs by entering into purchase agreements with two suppliers for additional engines to supplement our inventory of engine blocks for Malibu and Axis boats.
- (8) Reflects the elimination of the non-controlling interest in the LLC as if all LLC members had fully exchanged their LLC Units for shares of Class A Common Stock.
- (9) Reflects income tax expense at an estimated normalized annual effective income tax rate of 23.5% and 24.1% of income before income taxes for the three months and six months ended December 31, 2019 and 2018, respectively, assuming the conversion of all LLC Units into shares of Class A Common Stock. The estimated normalized annual effective income tax rate for fiscal year 2020 is based on the federal statutory rate plus a blended state rate adjusted for the research and development tax credit, the foreign derived intangible income deduction, and foreign income taxes attributable to our Australian subsidiary.
- (10) Represents the weighted average shares outstanding of LLC Units held by non-controlling interests assuming they were exchanged into Class A Common Stock on a one-for-one basis.
- (11) Represents the weighted average unvested restricted stock awards included in outstanding shares during the applicable period that were convertible into Class A Common Stock and granted to members of management.
- (12) Reflects impact of increased share counts assuming the exchange of all weighted average shares outstanding of LLC Units into shares of Class A Common Stock and the conversion of all weighted average unvested restricted stock awards included in outstanding shares granted to members of management.

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### Liquidity and Capital Resources

Our primary sources of funds are cash provided by operating activities and borrowings under our credit agreement. Our primary use of funds has been for acquisitions, repayments under our debt arrangements, capital investments, cash distributions to members of the LLC and cash payments under our tax receivable agreement. The following table summarizes the cash flows from operating, investing and financing activities (dollars in thousands):

|  | Six Months Ended December 31, |             |
|--|-------------------------------|-------------|
|  | 2019                          | 2018        |
| Total cash provided by (used in):                  |                               |             |
| Operating activities                               | \$ 52,509                     | \$ 35,612   |
| Investing activities                               | (19,313)                      | (106,910)   |
| Financing activities                               | (32,903)                      | 33,654      |
| Impact of currency exchange rates on cash balances | 22                            | (76)        |
| Increase (decrease) in cash                        | \$ 315                        | \$ (37,720) |

*Comparison of the Six Months Ended December 31, 2019 to the Six Months Ended December 31, 2018*

#### *Operating Activities*

Net cash provided by operating activities was \$52.5 million for the six months ended December 31, 2019, compared to \$35.6 million for the six months ended December 31, 2018, an increase of \$16.9 million. The increase in cash provided by operating activities primarily resulted from a net increase in operating assets and liabilities of \$6.2 million related to the timing of collections of accounts receivables, payments for accruals and payables, and purchases of inventory and an increase of \$10.7 million due to increases in net income (after consideration of non-cash items included in net income, primarily related to depreciation, amortization, deferred tax assets and non-cash compensation).

#### *Investing Activities*

Net cash used for investing activities was \$19.3 million for the six months ended December 31, 2019, compared to \$106.9 million for the six months ended December 31, 2018, a decrease of \$87.6 million. The decrease in cash used for investing activities was primarily related to our acquisition of Pursuit in the six months ended December 31, 2018 offset by the increase in capital outlays for our expansion activities at our Pursuit and Cobalt plants and normal purchases for manufacturing infrastructure, molds and equipment for the six months ended December 31, 2019.

#### *Financing Activities*

Net cash used by financing activities was \$32.9 million for the six months ended December 31, 2019, compared to net cash provided by financing activities of \$33.7 million for the six months ended December 31, 2018, a change of \$66.6 million. For the six months ended December 31, 2019, we repurchased \$11.1 million of our Class A Common Stock under our previously announced stock repurchase program. We repaid \$20.0 million of revolving debt and we paid \$1.0 million in distributions to LLC unit holders and \$0.8 million on taxes for shares withheld on restricted stock vestings during the six months ended December 31, 2019. During the six months ended December 31, 2018, we received \$50.0 million in proceeds from our credit facility to fund the acquisition of Pursuit, we repaid \$15.0 million of revolving debt borrowed for the Pursuit acquisition, we paid \$0.9 million in distributions to LLC unit holders and \$1.2 million on taxes for shares withheld on restricted stock vestings and we received \$0.7 million proceeds from the exercise of stock options.

#### *Loans and Commitments*

We currently have a revolving credit facility with borrowing capacity of up to \$120.0 million and a \$75.0 million term loan outstanding. As of December 31, 2019, we had \$20.0 million outstanding under our revolving credit facility and \$1.2 million in outstanding letters of credit. The revolving credit facility matures on July 1, 2024 and the term loan matures on July 1, 2022. The revolving credit facility and term loan are governed by a credit agreement with Malibu Boats, LLC ("Boats LLC") as the borrower and Truist Financial Corp. (formerly known as SunTrust Bank), as the administrative agent, swingline lender and issuing bank. The obligations of Boats LLC under the credit agreement are guaranteed by Malibu Boats Holdings, LLC, and, subject to certain exceptions, the present and future domestic subsidiaries of Boats LLC, and all such obligations are secured by substantially all of the assets of the Malibu Boats Holdings LLC, Boats LLC and such subsidiary guarantors. Malibu Boats, Inc. is not a party to the credit agreement.



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Borrowings under our credit agreement bear interest at a rate equal to either, at our option, (i) the highest of the prime rate, the Federal Funds Rate plus 0.5%, or one-month LIBOR plus 1% (the “Base Rate”) or (ii) LIBOR, in each case plus an applicable margin ranging from 1.25% to 2.25% with respect to LIBOR borrowings and 0.25% to 1.25% with respect to Base Rate borrowings. The applicable margin will be based upon the consolidated leverage ratio of Malibu Boats Holdings, LLC and its subsidiaries calculated on a consolidated basis. As of December 31, 2019, the interest rate on our term loan and revolving credit facility was 3.01%. We are required to pay a commitment fee for the unused portion of the revolving credit facility, which will range from 0.20% to 0.40% per annum, depending on Malibu Boats Holdings, LLC’s and its subsidiaries’ consolidated leverage ratio.

The credit agreement permits prepayment of the term loan without any penalties. On August 17, 2017 we made a voluntary principal payment on the term loan in the amount of \$50.0 million with a portion of the net proceeds from our equity offering completed on August 14, 2017. We exercised our option to apply the prepayment in forward order to principal installments on our term loan through December 31, 2021 and a portion of the principal installments due on March 31, 2022. As a result, the term loan is subject to a quarterly installment of approximately \$3.0 million on March 31, 2022 and the balance of the term loan is due on the scheduled maturity date of July 1, 2022. The credit agreement is also subject to prepayments from the net cash proceeds received by Boats LLC or any guarantors from certain asset sales and recovery events, subject to certain reinvestment rights, and from excess cash flow, subject to the terms and conditions of the credit agreement. As of December 31, 2019, the outstanding principal amount of our term loan and revolving credit facility was \$95.0 million.

The credit agreement contains certain customary representations and warranties, and notice requirements for the occurrence of specific events such as the occurrence of any event of default, or pending or threatened litigation. The credit agreement also requires compliance with certain customary financial covenants, including a minimum ratio of EBITDA to fixed charges and a maximum ratio of total debt to EBITDA. The credit agreement contains certain restrictive covenants, which, among other things, place limits on certain activities of the loan parties under the credit agreement, such as the incurrence of additional indebtedness and additional liens on property and limit the future payment of dividends or distributions. For example, the credit agreement generally prohibits Malibu Boats Holdings, LLC, Boats LLC and the subsidiary guarantors from paying dividends or making distributions, including to the Company. The credit facility permits, however, (i) distributions based on a member’s allocated taxable income, (ii) distributions to fund payments that are required under the LLC’s tax receivable agreement, (iii) purchase of stock or stock options of the LLC from former officers, directors or employees of loan parties or payments pursuant to stock option and other benefit plans up to \$2.0 million in any fiscal year, and (iv) share repurchase payments up to \$35.0 million in any fiscal year subject to one-year carry forward and compliance with other financial covenants. In addition, the LLC may make dividends and distributions of up to \$10.0 million in any fiscal year, subject to compliance with other financial covenants.

### *Potential Impact of LIBOR Transition*

The Chief Executive of the U.K. Financial Conduct Authority (the “FCA”), which regulates the London Interbank Offered Rate, or LIBOR, has announced that the FCA will no longer persuade or compel banks to submit rates for the calculation of LIBOR after 2021. That announcement indicates that the continuation of LIBOR on the current basis cannot and will not be guaranteed after 2021. Moreover, it is possible that LIBOR will be discontinued or modified prior to 2021.

All of our \$95.0 million of debt outstanding under our credit agreement as of December 31, 2019 bears interest at a floating rate that uses LIBOR as the applicable reference rate to calculate the interest. Our credit agreement provides that, if the administrative agent has determined that adequate means do not exist for ascertaining LIBOR or that LIBOR does not adequately and fairly reflect the cost to lenders for making, funding or maintaining their loans, then all of our outstanding loans under the credit agreement will be converted into loans that accrue interest at the alternative Base Rate described above under “Loans and Commitments” on the last day of such interest period that determination is made. Further, the lenders under our credit agreement will no longer be obligated to make loans using LIBOR as the applicable reference rate.

In addition, our tax receivable agreement provides that, if for any reason the LLC is not able to make a tax distribution in an amount that is sufficient to make any required payment under the tax receivable agreement or we otherwise lack sufficient funds, interest would accrue on any unpaid amounts at LIBOR plus 500 basis points until they are paid. Our tax receivable agreement, however, does not provide for an alternative reference rate to LIBOR and, while we do not currently anticipate failing to pay any amounts owed under our tax receivable agreement, it is unclear how we would determine interest on any such amounts should we fail to pay as required under our tax receivable agreement.

If the rate used to calculate interest on our outstanding floating rate debt under our credit agreement that currently uses LIBOR were to increase by 1.0% either as a result of an increase in LIBOR or the result of the use of the alternative Base Rate, we would expect to incur additional interest expense on such indebtedness as of December 31, 2019 of approximately \$0.9 million on an annualized basis. While we do not expect the potential impact of any LIBOR transition to have a material effect

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on our financial results based on our currently outstanding debt, uncertainty as to the nature of potential changes to LIBOR, fallback provisions, alternative reference rates or other reforms could adversely impact our interest expense on our floating rate debt that currently uses LIBOR as the applicable reference rate. In addition, any alternative reference rates to LIBOR may result in interest that does not correlate over time with the payments that would have been made on our indebtedness if LIBOR was available in its current form. Further, the discontinuance or modification of LIBOR and uncertainty of an alternative reference rate may result in the increase in the cost of future indebtedness, which could have a material adverse effect on our financial condition, cash flow and results of operations. We intend to closely monitor the financial markets and the use of fallback provisions and alternative reference rates in 2020 in anticipation of the discontinuance or modification of LIBOR by the end of 2021.

### *Future Liquidity Needs and Capital Expenditures*

Management believes that our existing cash, borrowing capacity under our revolving credit facility and cash flows from operations will be sufficient to fund our operations for the next 12 months. Our future capital requirements will depend on many factors, including the general economic environment in which we operate and our ability to generate cash flow from operations. Factors impacting our cash flow from operations include, but are not limited to, our growth rate and the timing and extent of operating expenses.

We estimate that approximately \$3.6 million will be due under the tax receivable agreement within the next 12 months. In accordance with the tax receivable agreement, the next payment is anticipated to occur approximately 75 days after filing the federal tax return which is due on April 15, 2020. Management expects minimal effect on our future liquidity and capital resources.

Management expects our capital expenditures for fiscal year 2020 to be higher than our 2019 capital expenditures primarily driven by facility expansion projects at Cobalt and Pursuit. Capital expenditures for fiscal year 2020 are expected to consist primarily of the completion of ongoing projects, new tooling, and expenditures to increase production capacity to accommodate future growth.

### *Stock Repurchase Program*

On June 18, 2019, our Board of Directors authorized a stock repurchase program to allow for repurchase of up to \$35.0 million of our Class A Common Stock and the LLC's LLC Units (the "Repurchase Program") for the period from July 1, 2019 to July 1, 2020. We intend to fund repurchases under the Repurchase Program from cash on hand. During the six months ended December 31, 2019, we repurchased 383,404 shares of Class A Common Stock for \$11.1 million in cash including related fees and expenses. As of December 31, 2019, we may repurchase up to an additional \$23.9 million in shares of Class A Common Stock and LLC Units under the program.

### **Contractual Obligations and Commitments**

All changes to our contractual obligations during the six months ended December 31, 2019 were completed in the normal course of business and are not considered material. During the quarter ended December 31, 2019, we entered into purchase agreements with two suppliers for additional engines to supplement our engine inventory during the recent labor strikes at General Motors who supplies our engine blocks for our Malibu and Axis boats.

### **Off Balance Sheet Arrangements**

In connection with our dealers' wholesale floor plan financing of boats, we have entered into repurchase arrangements with various lending institutions. The repurchase commitment is on an individual unit basis with a term from the date it is financed by the lending institution through payment date by the dealer, generally not exceeding two and a half years. Such arrangements are customary in the industry and our exposure to loss under such arrangements is limited by the resale value of the inventory which is required to be repurchased. Refer to Note 17 of our unaudited interim condensed consolidated financial statements included elsewhere in this Quarterly Report for further information on repurchase commitments.

### **Seasonality**

Our dealers experience seasonality in their business. Retail demand for boats is seasonal, with a significant majority of sales occurring during peak boating season, which coincides with our first and fourth fiscal quarters. In order to minimize the impact of this seasonality on our business, we manage our manufacturing processes and structure dealer incentives to tie our annual volume rebates program to consistent ordering patterns, encouraging dealers to purchase our products throughout the year. In this regard, we may offer free flooring incentives to dealers. Further, in the event that a dealer does not consistently order units throughout the year, such dealer's rebate is materially reduced. We may offer off-season retail promotions to our dealers in seasonally slow months, during and ahead of boat shows, to encourage retail demand.

### **Critical Accounting Policies**

As of December 31, 2019, there were no other significant changes in the application of our critical accounting policies or estimation procedures from those presented in our Annual Report on Form 10-K for the fiscal year ended June 30, 2019.

### **Item 3. Quantitative and Qualitative Disclosures About Market Risk**

Refer to our Annual Report on Form 10-K for the year ended June 30, 2019, for a complete discussion on the Company's market risk. There have been no material changes in market risk from those disclosed in the Company's Form 10-K for the year ended June 30, 2019.

### **Item 4. Controls and Procedures**

#### *Evaluation of Disclosure Controls and Procedures*

We maintain disclosure controls and procedures (as defined in Rule 13a-15(e) of the Exchange Act) that are designed to ensure that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to our management, including our chief executive officer and chief financial officer, as appropriate, to allow timely decisions regarding required disclosures. Any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives.

As of the end of the period covered by this Quarterly Report, we carried out an evaluation under the supervision and with the participation of our management, including our chief executive officer and chief financial officer, of the effectiveness of our disclosure controls and procedures. Based upon this evaluation, our chief executive officer and chief financial officer have concluded that our disclosure controls and procedures were effective at a reasonable assurance level as of December 31, 2019.

#### *Changes in Internal Control Over Financial Reporting*

There have been no changes in our internal control over financial reporting during the quarter ended December 31, 2019 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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**Part II - Other Information**

**Item 1. Legal Proceedings**

The discussion of legal matters under the section entitled "Legal Proceedings" is incorporated by reference from Note 17 of our unaudited interim condensed consolidated financial statements included elsewhere in this Quarterly Report.

**Item 1A. Risk Factors**

During the quarter ended December 31, 2019, there were no material changes to the risk factors discussed in Part I, Item 1A. "Risk Factors" of our Annual Report on Form 10-K for the year ended June 30, 2019.

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

*Repurchase of Class A Common Stock*

In November 2019, the Company repurchased 2,724 and 5,890 shares of Class A Common Stock at \$32.30 and \$33.99 per share, respectively, from employees to satisfy tax withholding obligations incurred in connections with the vesting of restricted stock.

We did not purchase any shares of Class A Common Stock under our Repurchase Program during the quarter ended December 31, 2019. As of December 31, 2019, we may repurchase up to an additional \$23.9 million in shares of Class A Common Stock and LLC Units under the program.

**Item 3. Defaults Upon Senior Securities**

None.

**Item 4. Mine Safety Disclosures**

Not Applicable.

**Item 5. Other Information**

None.

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### Item 6. Exhibits

| <u>Exhibit No.</u>    | <u>Description</u>   |
|-----------------------|--|
| <a href="#">3.1</a>   | Certificate of Incorporation of Malibu Boats, Inc. <sup>1</sup>  |
| <a href="#">3.2</a>   | Bylaws of Malibu Boats, Inc. <sup>1</sup>  |
| <a href="#">3.3</a>   | Certificate of Formation of Malibu Boats Holdings, LLC <sup>1</sup>  |
| <a href="#">3.4</a>   | First Amended and Restated Limited Liability Company Agreement of Malibu Boats Holdings, LLC, dated as of February 5, 2014 <sup>2</sup>  |
| <a href="#">3.4.1</a> | First Amendment, dated as of February 5, 2014, to First Amended and Restated Limited Liability Company Agreement of Malibu Boats Holdings, LLC <sup>3</sup>  |
| <a href="#">3.4.2</a> | Second Amendment, dated as of June 27, 2014, to First Amended and Restated Limited Liability Company Agreement of Malibu Boats Holdings, LLC <sup>4</sup>  |
| <a href="#">4.1</a>   | Description of Class A Common Stock <sup>5</sup>   |
| <a href="#">4.2</a>   | Form of Class A Common Stock Certificate <sup>1</sup>  |
| <a href="#">4.3</a>   | Form of Class B Common Stock Certificate <sup>1</sup>  |
| <a href="#">4.4</a>   | Exchange Agreement, dated as of February 5, 2014, by and among Malibu Boats, Inc. and Affiliates of Black Canyon Capital LLC and Horizon Holdings, LLC <sup>2</sup>  |
| <a href="#">4.5</a>   | Exchange Agreement, dated as of February 5, 2014, by and among Malibu Boats, Inc. and the Members of Malibu Boats Holdings, LLC <sup>2</sup>   |
| <a href="#">4.6</a>   | Tax Receivable Agreement, dated as of February 5, 2014, by and among Malibu Boats, Inc., Malibu Boats Holdings, LLC and the Other Members of Malibu Boats Holdings, LLC <sup>2</sup>   |
| <a href="#">10.1</a>  | Form of Time and Performance Based Restricted Stock Award Agreement (executive)  |
| <a href="#">31.1</a>  | Certificate of the Chief Executive Officer of Malibu Boats, Inc. pursuant to Rule 13a-14 or 15d-14 of the Securities Exchange Act of 1934, as amended, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002  |
| <a href="#">31.2</a>  | Certificate of the Chief Financial Officer of Malibu Boats, Inc. pursuant to Rule 13a-14 or 15d-14 of the Securities Exchange Act of 1934, as amended, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002  |
| <a href="#">32</a>    | Certification of the Chief Executive Officer and Chief Financial Officer of Malibu Boats, Inc. pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002  |
| 101                   | The following financial statements from the Company's Quarterly Report on Form 10-Q for the quarter ended December 31, 2019 were formatted in Inline XBRL: (i) Condensed Consolidated Statements of Operations and Comprehensive Income (Loss), (ii) Condensed Consolidated Balance Sheets, (iii) Condensed Consolidated Statements of Stockholders' Equity, (iv) Condensed Consolidated Statements of Cash Flows, and (v) the Notes to Condensed Consolidated Financial Statements, tagged as blocks of text and including detailed tags. |
| 104                   | The cover page from the Company's Quarterly Report on Form 10-Q for the quarter ended December 31, 2019, formatted in Inline XBRL (Included as Exhibit 101).   |
| (1)                   | Filed as an exhibit to Amendment No. 1 to the Company's registration statement on Form S-1 (Registration No. 333-192862) filed on January 8, 2014.   |
| (2)                   | Filed as an exhibit to the Company's Current Report on Form 8-K (File No. 001-36290) filed on February 6, 2014.  |
| (3)                   | Filed as an exhibit to the Company's Quarterly Report on Form 10-Q/A (File No. 001-36290) filed on May 13, 2014.   |
| (4)                   | Filed as an exhibit to the Company's Current Report on Form 8-K (File No. 001-36290) filed on June 27, 2014.   |
| (5)                   | Filed as an exhibit to the Company's Annual Report on Form 10-K (File No. 001-36290) filed on August 29, 2019.   |

**SIGNATURE**

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

February 6, 2020

**MALIBU BOATS,  
INC.**

By: /s/ Jack Springer  
Jack Springer,  
Chief Executive Officer  
(Principal Executive Officer)

By: /s/ Wayne Wilson  
Wayne Wilson,  
Chief Financial Officer  
(Principal Financial Officer and  
Principal Accounting Officer)

**MALIBU BOATS, INC.**  
**RESTRICTED STOCK AWARD AGREEMENT**

**THIS RESTRICTED STOCK AWARD AGREEMENT** (this “Agreement”) is made and entered into as of November 22, 2019 (the “Grant Date”), by and between Malibu Boats, Inc., a Delaware corporation (the “Company”), and [Name] (the “Participant”), in connection with a Restricted Stock Award (the “Award”) under the Malibu Boats, Inc. Long-Term Incentive Plan (the “Plan”).

The Company has established the Plan by action of its Board. The Participant has been granted a Restricted Stock Award that is described herein.

In consideration of the foregoing, the parties have entered into this Agreement to govern the terms of this Award:

1. **Award of Restricted Stock.** Subject to the terms and conditions set forth in the Plan and herein, the Company grants to the Participant an Award of a target number of [Number] restricted shares of Common Stock of the Company (the “Restricted Stock”), subject to adjustment as provided in Section 3.3 of the Plan. These shares are subject to forfeiture in the event of the termination of the Participant’s employment with the Company or a Subsidiary prior to the vesting of such shares or if the applicable performance vesting requirements are not achieved, as specified herein.

2. **Transfer of Award.** Except for transfers pursuant to a will or the laws of descent and distribution, this Award is not transferable and the Participant may not make any disposition of the shares of Restricted Stock described herein, or any interest herein, prior to the dates that such shares become vested in accordance with Paragraph 3. As used herein, “disposition” means any sale, transfer, encumbrance, gift, donation, assignment, pledge, hypothecation, or other disposition, whether similar or dissimilar to those previously enumerated, whether voluntary or involuntary, and whether during the Participant’s lifetime or upon or after the Participant’s death, including, but not limited to, any disposition by operation of law, by court order, by judicial process, or by foreclosure, levy, or attachment, except a transfer by will or by the laws of descent or distribution. Any attempted disposition in violation of this Paragraph is void.

3. **Vesting of Award.** Subject to Paragraph 4 below, the Award will vest as follows:

(a) **Time-Based Restricted Stock.** [Number] of the total number of shares of Restricted Stock subject to the Award (the “Time-Based Shares”) (subject to adjustment as provided in Section 3.3 of the Plan) shall vest ratably in substantially equal annual installments on each of the first four annual anniversaries of November 6, 2019. This means that (subject to adjustment as provided in Section 3.3 of the Plan), [Number] shares of Restricted Stock shall vest on November 6, 2020, [Number] shares of Restricted Stock shall vest on November 6, 2021, [Number] shares of Restricted Stock shall vest on November 6, 2022, and [Number] shares of Restricted Stock shall vest on November 6, 2023.

(b) **EBITDA Performance-Based Restricted Stock.** A target number of [Number] shares of Restricted Stock subject to the Award (subject to adjustment as provided in Section 3.3 of the Plan) is subject to the vesting terms described below (the “EBITDA Performance Shares”). The Committee shall determine whether each of the applicable performance hurdles has been achieved, and the vesting of any portion of the EBITDA Performance Shares is subject to the Committee’s determination.

(1) **Vesting.** A certain number of EBITDA Performance Shares shall be eligible to vest following the EBITDA Performance Period based on the achievement of EBITDA targets at the end of the EBITDA Performance Period as set forth in the table below.

| <b>EBITDA Target at the End of the EBITDA Performance Period</b> | <b>% of Target Number of EBITDA Performance Shares to Become Vested</b> |
|--|---|
| <\$[ ]   | 0%  |
| \$[ ]  | 100%  |
| \$[ ]  | 110%  |
| \$[ ]  | 120%  |

|        |      |
|--------|------|
| \$[ ]  | 130% |
| \$[ ]  | 140% |
| \$[ ]  | 150% |
| >\$[ ] | 150% |

Except as described below, all of the EBITDA Performance Shares will terminate for no consideration at the end of the EBITDA Performance Period if the EBITDA at the end of the EBITDA Performance Period is less than \$[ ]. If the EBITDA at the end of the EBITDA Performance Period is between the targets listed in the table above, the percentage of the target number of EBITDA Performance Shares that will become vested will be interpolated on a straight-line basis between the closest two targets listed in the table above. The maximum percentage of the target number of EBITDA Performance Shares that may become vested is the maximum percentage listed in the table above. The number of EBITDA Performance Shares that are eligible to become vested in accordance with above will become vested as of the day the Committee determines the level of EBITDA achieved at the end of the EBITDA Performance Period.

(c) ***TSR Performance-Based Restricted Stock***. A target number of [Number] shares of Restricted Stock subject to the Award (subject to adjustment as provided in Section 3.3 of the Plan) is subject to the vesting terms described below (the “TSR Performance Shares,” and together with the EBITDA Performance Shares, the “Performance Shares”). The Committee shall determine whether each of the applicable performance hurdles has been achieved, and the vesting of any portion of the TSR Performance Shares is subject to the Committee’s determination.

(1) ***Vesting***. A certain number TSR Performance Shares shall be eligible to vest following the end of the TSR Performance Period based on the Company’s TSR achieved relative to the TSR for the Index as set forth in the table below.

| <b>Company TSR Relative to TSR for the Index for the TSR Performance Period</b> | <b>% of Target Number of TSR Performance Shares to Become Vested</b> |
|---|--|
| <80%  | 0%   |
| 80%   | 50%  |
| 100%  | 100%   |
| 120%  | 150%   |
| 140%  | 200%   |
| >140%   | 200%   |

Except as described below, all of the TSR Performance Shares will automatically terminate for no consideration at the end of the TSR Performance Period if the Company’s TSR relative to the TSR for the Index for the TSR Performance Period is less than eighty percent (80%). If the Company’s TSR relative to the TSR for the Index for the TSR Performance Period is between the percentages listed in the table above, the percentage of the target number of TSR Performance Shares that will become vested will be interpolated on a straight-line basis between the closest two percentages listed in the table above. The maximum percentage of the target number of TSR Performance Shares that may become vested is the maximum percentage listed in the table above. Any of the target number of TSR Performance Shares that do not become eligible to become vested at the end of the TSR Performance Period based on the Company’s TSR relative to the TSR for the Index for the TSR Performance Period will automatically be terminated for no consideration at the end of the TSR Performance Period. The number of TSR Performance Shares that are eligible to become vested in accordance with above will become vested as of the day the Committee determines the level of TSR for both the Company and the Index.

(2) ***TSR Calculation***. For purposes of calculating TSR, TSR will be expressed as a factor, which will be (i) increased by 1 if the resulting TSR is zero or a positive number, or (ii) subtracted from 1 if the resulting TSR is a negative number, provided



that the absolute value of the resulting negative TSR number will be subtracted from 1. See Example 1 below which illustrate the methodology for calculating TSR.

(3) Examples.

(1) *Example 1:* This example is intended to illustrate the methodology for calculating TSR:

For purposes of example 1, assume the following: (1) the Company's average stock price for the Starting Trading Period is \$40/share, (2) the Company's average stock price for the Ending Trading Period is \$50/share, (3) the Index's average stock price for the Starting Trading Period is \$1,000, and (4) the Index's average stock price for the Ending Trading Period is \$900.

The Company's TSR is equal to 1.25 (which is calculated as follows:  $1 + ((\$50 - \$40) / \$40)$ )

The Index's TSR is equal to 0.90 (which is calculated as follows:  $1 - |(\$900 - \$1,000) / \$1,000|$ )

(2) *Example 2:* This example is intended to illustrate of the number of TSR Performance Shares eligible to vest using the table above. Assume same assumptions as in Example 1:

The Company's TSR relative to the Index's TSR is approximately 1.39 ( $1.25 / 0.90$ ) or 139%. Therefore, using the table above and interpolating between 120% and 140%, the number of TSR Performance Shares that will become vested following the TSR Performance Period is equal to approximately 197.5% of the target number of TSR Performance Shares.

(d) **Change in Control.** If a Change in Control occurs during the EBITDA Performance Period or TSR Performance Period, as applicable, the following provisions will apply. For purposes of clarity, any unvested Time-Based Shares shall be treated in accordance with the terms of the Plan in connection with a Change in Control.

(1) If the Change in Control occurs during the EBITDA Performance Period or TSR Performance Period, as applicable, such Performance Period will be deemed to end on the third day immediately preceding the Change in Control (the "Adjusted Performance Period") and performance to determine the number of Performance Shares eligible to vest will be measured based on the EBITDA or the Company's TSR relative to the TSR of the Index, as applicable, through the third date immediately preceding the Change in Control. The Performance Shares that become eligible to become vested based on performance for the Adjusted Performance Period shall be referred to as the "Adjusted Performance Period Shares". The levels of performance and the number of Adjusted Performance Period Shares eligible to become vested under this Section 3(d)(1) shall be determined by the Committee in its sole discretion.

(2) Any target number of Performance Shares for the Adjustment Performance Period that do not become Adjusted Performance Period Shares shall terminate at the end of the Adjusted Performance Period for no consideration.

(3) If the Award is assumed or substituted in connection with the Change in Control as set forth in Section 13 of the Plan, the Adjusted Performance Period Shares will no longer be subject to any performance vesting and will become vested on the last day of the original EBITDA Performance Period or TSR Performance Period, as applicable, subject to the Participant's continued employment with the Company or a Subsidiary through such date (the "Time-Based Adjusted Shares"). The Time-Based Adjusted Share shall continue to be subject to the terms of Section 13 of the Plan following the Change in Control.

(4) If the Award is not assumed or substituted in connection with the Change in Control as set forth in Section 13 of the Plan, the Adjusted Performance Period Shares shall become vested as of the last day of the Adjusted Performance Period and shall be treated as Common Stock in connection with such Change in Control.

(e) **Definitions.** For purposes of this Agreement, the following definitions shall apply:

"EBITDA" means the Company's "Adjusted EBITDA" or any similar performance metric publicly reported by the Company in its press release announcing its financial results at the end of the Performance Period, but with such additional appropriate adjustments as may be approved by the Committee in accordance with the Performance Goal definition in the Plan (including, without limitation, to take into account the impact of any corporate transactions occurring during the EBITDA Performance Period).

"EBITDA Performance Period" means the period commencing on the first day of the Company's 2020 fiscal year and ending on the last day of the Company's 2022 fiscal year.

"Ending Trading Period" means the close of regular trading on the principal exchange on which the Common Stock is listed or traded or the Index, as applicable, for the 20-trading-day period ending with the last trading day of the TSR

Performance Period or Adjusted Performance Period, as applicable.

“Index” means the Russell 2000 Index.

“Starting Trading Period” means the close of regular trading on the principal exchange on which the Common Stock is listed or traded or the Index, as applicable, for the 20-trading-day period ending with the last day on which the applicable exchange or Index is open for trading preceding the first day of the TSR Performance Period.

“TSR” means the total shareholder return (expressed as a factor) over the TSR Performance Period for either the Company or the Index assuming that any dividends are reinvested in a company’s stock on the payment date. For purposes of this Agreement, (1) total shareholder return for the Company shall be calculated using (i) the average Company stock price for the Starting Trading Period, and (ii) the average Company stock price for the Ending Trading Period, and (2) total shareholder return for the Index will be measured over the same trading periods as for the Company.

“TSR Performance Period” means the three-year period following the Grant Date.

4. **Termination.** On the date that a Participant’s provision of services to the Company or a Subsidiary in his or her capacity as an employee, non-employee member of the Board, consultant or independent advisor ceases for any reason, and the Participant does not thereupon provide services to the Company or any Subsidiary, the Participant will forfeit all shares of Restricted Stock subject to the Award which have not yet become vested in accordance with the vesting schedule set forth in Paragraph 3.

5. **Status of Participant.** Except for the restrictions described in this Agreement and the Plan, the Participant shall be deemed a stockholder of the Company with respect to the Restricted Stock covered by this Agreement, including the right to exercise voting rights with respect thereto, subject to the restrictions in Paragraph 2 and the following restrictions: (i) the Participant shall not be entitled to delivery of the appropriate number of shares of stock subject to this Award until such shares become vested and transferable, all applicable requirements of law have been complied with and such shares shall have been duly listed on any securities exchange on which the stock of the Company may then be listed; (ii) no dividends or other distributions payable with respect to a share of stock subject to this Award shall be paid until and unless such share becomes vested and transferable, with such dividends or other distributions to be accumulated, without interest, by the Company (the “Accumulated Dividends”); and (iii) shares of stock subject to this Award and any Accumulated Dividends with respect to such shares shall be forfeited and all rights of the Participant to such shares and Accumulated Dividends shall terminate, without further obligation on the part of the Company, unless such shares of Restricted Stock become vested pursuant to Paragraph 3 hereof. Any certificates representing the shares of Restricted Stock awarded pursuant to this Agreement shall be issued in the Participant’s name; however, until vested, the certificates for such shares of Restricted Stock shall be held by the Company and shall not be transferred except in accordance with the provisions hereof. In the event the Company effects a recapitalization, stock split, stock dividend or other event described in Section 3.3 of the Plan, the shares of stock received by the Participant with respect to this Award (or any shares of stock issued in substitution thereof) shall be subject to identical restrictions and shall be subject to the terms of this Agreement and the Plan.

6. **Tax Withholding.** To the extent permitted by applicable law, upon any vesting of the Restricted Stock subject to the Award, the Company shall automatically withhold and reacquire the appropriate number of whole shares of Restricted Stock, valued at their then Fair Market Value, to satisfy any withholding obligations of the Company or its Subsidiaries with respect to such vesting at any applicable withholding rates. In the event that the Company cannot satisfy such withholding obligations by withholding and reacquiring shares of Restricted Stock, or in the event that the Participant makes or has made an election pursuant to Section 83(b) of the Code or the occurrence of any other withholding event with respect to the Award, the Company (or a Subsidiary) shall be entitled to require a cash payment by or on behalf of the Participant and/or to deduct from other compensation payable to the Participant any sums required by federal, state or local tax law to be withheld with respect to such vesting of any Restricted Stock or such Section 83(b) election or other withholding event.

7. **No Effect on Capital Structure.** This Award shall not affect the right of the Company or any affiliate to reclassify, recapitalize or otherwise change its capital or debt structure or to merge, consolidate, convey any or all of its assets, dissolve, liquidate, windup, or otherwise reorganize.

8. **Committee Authority.** Any question concerning the interpretation of this Agreement, any adjustments required to be made under the Plan, and any controversy that may arise under the Plan or this Agreement shall be determined by the Committee in its sole discretion. Such decision by the Committee shall be final and binding.

9. **Plan Controls.** The Award and all rights of the Participant under this Agreement are subject to the terms and conditions of the provisions of the Plan, incorporated herein by reference. The Participant agrees to be bound by the terms of the Plan and this Agreement. The Participant acknowledges having read and understanding the Plan, the Prospectus for the Plan, and this Agreement.

Unless otherwise expressly provided in other sections of this Agreement, provisions of the Plan that confer discretionary authority on the Board or the Committee do not (and shall not be deemed to) create any rights in the Participant unless such rights are expressly set forth herein or are otherwise in the sole discretion of the Board or the Committee so conferred by appropriate action of the Board or the Committee under the Plan after the date hereof. In the event of any conflict between the provisions of this Agreement and the provisions of the Plan, the terms of the Plan shall control, except as expressly stated otherwise. For purposes of this Agreement, the defined terms in the Plan shall have the same meaning in this Agreement, except where the context otherwise requires. The terms “Article” or “Section” generally refer to provisions within the Plan. The term “Paragraph” generally refers to a provision of this Agreement.

10. **Notice.** Whenever any notice is required or permitted hereunder, such notice must be in writing and personally delivered or sent by mail or a delivery service that is approved by the Company. Any notice required or permitted to be delivered hereunder shall be deemed to be delivered on the date which it is personally delivered, or, whether actually received or not, on the third business day after it is deposited in the United States mail, certified or registered, postage prepaid, addressed to the person who is to receive it at the address identified in this Paragraph. The Company or the Participant may change, by written notice to the other, the address specified for receiving notices. Notices delivered to the Company shall be addressed as follows:

Malibu Boats, Inc.  
Attn: Chief Financial Officer  
5075 Kimberly Way  
Loudon, Tennessee 37774

Notices to the Participant shall be hand-delivered to the Participant on the premises of the Company or its affiliates, or mailed to the Participant’s last address shown on the records of the Company.

#### 11. **Information Confidential.**

(a) As partial consideration for the grant of this Award, the Participant agrees that he or she will keep confidential all information and knowledge that the Participant has relating to the manner and amount of his or her participation in the Plan; provided, however, that such information may be disclosed as required by law and may be given in confidence to the Participant’s spouse, tax and financial advisors, or to a financial institution to the extent that such information is necessary to secure a loan.

(b) The Company shall own all right, title, and interest to all ideas, concepts, know-how, techniques, processes, methods, inventions, discoveries, developments, innovations, and improvements developed or created by the Participant, either solely or jointly with others, during the term of the Participant’s employment that: (i) are reasonably related to the Company’s business; (ii) involve the Company’s actual or demonstrably anticipated research or development; (iii) result from any work performed by the Participant for the Company; or (iv) incorporate any of the Confidential Information (as defined below) (collectively, “Inventions”). The Participant shall immediately and confidentially communicate a description of any Inventions to the Company and to no other party at any time, and if the Company so desires, the Participant shall execute all documents and instruments and do all things as may be requested by the Company in order to forever vest all right, title and interest in such Inventions solely in the Company and to obtain such letters of patent, copyrights, registrations or other protections as the Company may, from time to time, desire. In addition, the Participant hereby assigns to the Company all right, title and interest of the Participant in and to any present Inventions made, devised, created, invented or discovered, in whole or in part, by the Participant.

(c) On the Grant Date and at all times thereafter, the Participant shall hold inviolate and keep secret all non-public documents, materials, knowledge or other confidential business or technical information of any nature whatsoever that the Company has maintained as confidential and that has been disclosed to or developed by him or to which he had access as a result of his association with the Company and its affiliates (“Confidential Information”). Such Confidential Information shall include non-public technical and business information, including, but not limited to, inventions, research and development, engineering, products, designs, manufacture, methods, systems, improvements, trade secrets, formulas, processes, marketing, merchandising, selling, licensing, servicing, pricing, investors, personnel information (including skills, compensation, experience and performance), customer lists and preferences, records, financial information, manuals and/or business plans and strategies. The Participant agrees that all Confidential Information shall remain the sole and absolute property of the Company, unless such information is or becomes publicly available or disclosed by lawful means. On the Grant Date and at all times thereafter, the Participant shall not use, disclose, disseminate, publish, reproduce or otherwise make available such Confidential Information to any person, firm, corporation or other entity, except for the purpose of performing services on behalf of the Company. Upon the termination of the Participant’s employment with the Company for any reason, the Participant shall (i) not use, disclose, disseminate, publish, reproduce or otherwise make available such Confidential Information to any person, firm, corporation or other entity, unless such information is or becomes publicly available or disclosed by lawful means; (ii) return to the Company all property that belongs to or is owned by the Company (including any computer, cell phone, personal digital assistant, keys, security cards, etc.); and (iii) return to the

Company all documents, records, compositions, articles, devices, equipment, electronic storage devices and other items that disclose or embody Confidential Information, including all copies or specimens thereof (including electronic copies), whether prepared by him or by others, unless such information is or becomes publicly available or disclosed by lawful means. Nothing in this Agreement prohibits the Participant from reporting possible violations of federal law or regulation to any governmental agency or entity, or making other disclosures that are protected under the whistleblower provisions of federal law or regulation. The Participant does not need the prior authorization to make any such reports or disclosures and is not required to notify the Company of such reports or disclosures. The protections provided by the foregoing two sentences are referred to as the “Whistleblower Protections.”

12. **Noncompetition.** As partial consideration for the grant of an Award, a Participant (other than an Outside Director) shall agree that for a period of time beginning with the date of an Award Agreement and ending on the later of (i) one (1) year following the date of grant or (ii) one (1) year following termination of employment with the Company or any of its affiliates for any reason (the “Termination Date”), the Participant shall not directly or indirectly, for himself or another person, firm, corporation, association or other entity, as an owner, partner, participant of a joint venture, trustee, proprietor, stockholder, member, manager, director, officer, employee, independent contractor, capital investor, lender, consultant, advisor or otherwise, or by lending or allowing his name or reputation to be used in connection with, or otherwise participating in or allowing his skill, knowledge or experience to be used in connection with, or operate, develop or own any interest in (other than the ownership of less than five percent (5%) of the equity securities of a publicly-traded company), or be employed by or consult with, any business or entity that competes with the business of the Company (the “Covered Business”), without prior approval of the Company. For purposes of this Agreement, a Covered Business shall include, but not be limited to, any business or entity that designs, manufactures, or markets any type of boat or watercraft, or components thereof, regardless of physical location of such business activity.

13. **Nonsolicitation.** As partial consideration for the grant of this Award, the Participant agrees that for a period of time beginning with the date hereof and ending on the later of (i) three (3) years following the Grant Date or (ii) three years following the Termination Date, the Participant shall not, directly or indirectly:

(a) solicit, induce or encourage any employee of the Company or any of its affiliates or Subsidiaries to terminate their employment with the Company or any of its affiliates or Subsidiaries;

(b) make any defamatory public statement concerning the financial performance, products, services, the Board or management personnel of the Company or any of its affiliates or Subsidiaries, or the Participant’s employment. Nothing in this Paragraph 13(b) shall limit the Whistleblower Protections in any way or prohibit the Participant from providing truthful testimony in any legal, administrative or regulatory proceeding and the Participant may at all times respond truthfully to a lawfully-issued subpoena, court order or governmental inquiry or as otherwise may be required by law, provided, however, that upon receiving such lawfully-issued subpoena or court order, the Participant shall promptly provide, if allowed by applicable law or regulation, reasonable written notice to Company and cooperate with the Company to the extent reasonably necessary to protect the confidentiality of any proprietary or trade secret information of the Company or any of its Affiliates or Subsidiaries, and the privacy rights of any employee or director; or

(c) use or disclose the Company’s confidential or proprietary information to induce, attempt to induce or knowingly encourage any Customer of the Company or any of its affiliates or Subsidiaries to divert any business or income from the Company or any of its affiliates or Subsidiaries, or to stop or alter the manner in which they are then doing business with the Company or any of its affiliates or Subsidiaries. The term “Customer” shall mean any individual or business firm that is, or within the prior eighteen (18) months was, a customer or client of the Company or any of its affiliates, whether or not such business was actively solicited by the Participant on behalf of the Company or any of its affiliates or Subsidiaries during the Participant’s employment.

14. **Amendment.** The Company, acting through the Committee or through the Board, may amend this Agreement at any time for any purpose determined by the Company in its sole discretion that is consistent with the Plan, including but not limited to an amendment to accelerate the vesting schedule set forth in Paragraph 3, or to permit transfers of Restricted Stock to certain individuals specified by the Participant. All amendments must be in writing. The Company may not amend this Agreement, however, without the Participant’s express agreement to any amendment that could adversely affect the material rights of the Participant.

15. **Governing Law.** Except as is otherwise provided in the Plan, where applicable, the provisions of this Agreement shall be governed by the internal laws of the State of Delaware, without regard to the principles of conflicts of laws thereof.

16. **Entire Agreement.** This Agreement and the Plan together constitute the entire agreement and supersede all prior understandings and agreements, written or oral, of the parties hereto with respect to the subject matter hereof.

17. **Counterparts.** This Agreement may be executed simultaneously in any number of counterparts, each of which shall be deemed an original but all of which together shall constitute one and the same instrument. Photographic or other electronic copies of

such signed counterparts may be used in lieu of the originals for any purpose.

18. **Section Headings.** The section headings of this Agreement are for convenience of reference only and shall not be deemed to alter or affect any provision hereof.

19. **Clawback Policy.** The Award is subject to the terms of the Company's recoupment, clawback or similar policy, if any, as it may be in effect from time to time, as well as any similar provisions of applicable law, any of which could in certain circumstances require repayment or forfeiture of the Restricted Stock or other cash or property received with respect to the Award (including any value received from a disposition of the Restricted Stock).

20. **No Advice Regarding Grant.** The Participant is hereby advised to consult with his or her own tax, legal and/or investment advisors with respect to any advice the Participant may determine is needed or appropriate with respect to the Restricted Stock (including, without limitation, to determine the foreign, state, local, estate and/or gift tax consequences with respect to the Award, the advantages and disadvantages of making an election under Section 83(b) of the Code with respect to the Award, and the process and requirements for such an election). Neither the Company nor any of its officers, directors, affiliates or advisors makes any representation (except for the terms and conditions expressly set forth in this Agreement) or recommendation with respect to the Award or the making of an election under Section 83(b) of the Code with respect to the Award. In the event the Participant desires to make an election under Section 83(b) of the Code with respect to the Award, it is the Participant's sole responsibility to do so timely. Except for the withholding rights set forth in Paragraph 6 above, the Participant is solely responsible for any and all tax liability that may arise with respect to the Award.

*[Remainder of page intentionally left blank.]*

**IN WITNESS WHEREOF**, the Company has caused this Agreement to be executed and the Participant has set his hand hereto on the day and year first written above.

**MALIBU BOATS, INC.**

By:\_\_\_

Print Name:\_\_\_

Title:\_\_\_

**PARTICIPANT**

\_\_\_\_\_  
[Name]

CERTIFICATION PURSUANT TO RULE 13a-14(a) OF THE SECURITIES EXCHANGE ACT OF 1934  
AS ADOPTED PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Jack Springer, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q for the fiscal quarter ended December 31, 2019 of Malibu Boats, 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(s) 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(s) 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.

Dated: February 6, 2020

/s/ Jack Springer

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Jack Springer

Chief Executive Officer

CERTIFICATION PURSUANT TO RULE 13a-14(a) OF THE SECURITIES EXCHANGE ACT OF 1934  
AS ADOPTED PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Wayne Wilson, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q for the fiscal quarter ended December 31, 2019 of Malibu Boats, 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(s) 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(s) 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.

Dated: February 6, 2020

/s/ Wayne Wilson

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Wayne Wilson

Chief Financial Officer

CERTIFICATIONS PURSUANT TO 18 U.S.C. SECTION 1350

AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002\*

In connection with the Quarterly Report of Malibu Boats, Inc. (“Malibu”) on Form 10-Q for the fiscal quarter ended December 31, 2019 (the “Report”), Jack Springer, chief executive officer, and Wayne Wilson, chief financial officer, each hereby certifies, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) the Report 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 Report fairly presents, in all material respects, the financial condition and results of operations of Malibu.

Dated: February 6, 2020

/s/ Jack Springer

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Jack Springer  
Chief Executive Officer

Dated: February 6, 2020

/s/ Wayne Wilson

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Wayne Wilson  
Chief Financial Officer

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\* A signed original of this written statement required by Section 906 has been provided to Malibu Boats, Inc. and will be retained by Malibu Boats, Inc. and furnished to the Securities and Exchange Commission or its staff upon request.