

Malibu Boats, Inc.
 Form 10-Q
 February 09, 2015
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UNITED STATES
 SECURITIES AND EXCHANGE COMMISSION
 Washington, D.C. 20549

FORM 10-Q
 QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
 SECURITIES EXCHANGE ACT OF 1934
 For the quarterly period ended December 31, 2014
 Commission file number: 001-36290

MALIBU BOATS, INC.

(Exact Name of Registrant as specified in its charter)

Delaware	5075 Kimberly Way Loudon, Tennessee 37774	46-4024640
(State or other jurisdiction of incorporation or organization)	(Address of principal executive offices, including zip code) (865) 458-5478 (Registrant's telephone number, including area code)	(I.R.S. Employer Identification No.)

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 and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted 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 and post such files). Yes No

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

Large accelerated filer Accelerated filer

Non-accelerated filer (Do not check if a smaller reporting company) Smaller reporting company

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

Class A Common Stock, par value \$0.01, outstanding as of February 5, 2015: 15,608,650 shares
 Class B Common Stock, par value \$0.01, outstanding as of February 5, 2015: 43 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 data)

	Three Months Ended December 31,		Six Months Ended December 31,	
	2014	2013	2014	2013
Net sales	\$55,484	\$43,938	\$103,143	\$87,242
Cost of sales	41,320	32,242	76,886	64,525
Gross profit	14,164	11,696	26,257	22,717
Operating expenses:				
Selling and marketing	2,031	1,510	3,669	2,942
General and administrative	4,540	3,068	10,966	5,023
Amortization	595	1,295	1,319	2,589
Operating income	6,998	5,823	10,303	12,163
Other income (expense):				
Other	—	6	—	9
Interest expense	(147	) (609	) (156	) (1,773
Other expense	(147	) (603	) (156	) (1,764
Net income before provision for income taxes	6,851	5,220	10,147	10,399
Provision for income taxes	1,275	—	2,182	—
Net income	\$5,576	\$5,220	\$7,965	\$10,399
Net income attributable to non-controlling interest	2,312	5,220	3,322	10,399
Net income attributable to Malibu Boats, Inc.	\$3,264	\$—	\$4,643	\$—
Comprehensive income:				
Net income	\$5,576	\$5,220	\$7,965	\$10,399
Other comprehensive income:				
Change in cumulative translation adjustment	(1,161	) —	(1,161) —
Other comprehensive loss	(1,161	) —	(1,161) —
Comprehensive income	4,415	5,220	6,804	10,399
Less: comprehensive income attributable to non-controlling interest	\$1,367	\$5,220	\$2,118	\$10,399
Comprehensive income attributable to Malibu Boats, Inc.	\$3,048	\$—	\$4,686	\$—
Weighted average shares outstanding used in computing net income per share:				
Basic	15,536,840		15,160,413	
Diluted	15,628,390		15,206,188	
Net income available to Class A Common Stock per share:				
Basic	\$0.21		\$0.31	
Diluted	\$0.21		\$0.31	

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

MALIBU BOATS, INC. AND SUBSIDIARIES

Condensed Consolidated Balance Sheets

(In thousands, except share data)

	December 31, 2014 (Unaudited)	June 30, 2014
Assets		
Current assets		
Cash	\$12,048	\$12,173
Trade receivables, net	7,603	6,475
Inventories, net	21,403	12,890
Deferred tax asset	715	500
Prepaid expenses	1,528	2,272
Total current assets	43,297	34,310
Property and equipment, net	13,754	10,963
Goodwill	13,201	5,718
Other intangible assets, net	15,284	12,358
Debt issuance costs, net	63	—
Deferred tax asset	57,351	21,452
Other assets	106	—
Total assets	\$143,056	\$84,801
Liabilities		
Current liabilities		
Accounts payable	16,896	7,161
Accrued expenses	14,354	32,684
Income taxes and tax distribution payable	1,068	2,121
Deferred tax liabilities	—	995
Total current liabilities	32,318	42,961
Deferred tax liabilities	1,247	—
Payable pursuant to tax receivable agreement	47,664	13,636
Long-term debt	20,000	—
Other long-term liabilities	255	134
Total liabilities	101,484	56,731
Commitments and contingencies (See Note 12)		
Equity		
Class A Common Stock, par value \$0.01 per share, 100,000,000 shares authorized; 15,608,650 shares issued and outstanding as of December 31, 2014; 100,000,000 shares authorized; 11,064,201 issued and outstanding as of June 30, 2014	155	110
Class B Common Stock, par value \$0.01 per share, 25,000,000 shares authorized; 43 shares issued and outstanding as of December 31, 2014; 25,000,000 shares authorized; 44 issued and outstanding as of June 30, 2014	—	—
Preferred Stock, par value \$0.01 per share; 25,000,000 shares authorized; no shares issued and outstanding as of December 31, 2014 and June 30, 2014	—	—
Additional paid in capital	31,175	23,835
Accumulated other comprehensive loss	(1,161)
Accumulated deficit	(33)
Total stockholders' equity attributable to Malibu Boats, Inc.	30,136	19,269
Non-controlling interest	\$11,436	\$8,801

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Total stockholders' equity	\$41,572	\$28,070
Total liabilities and equity	\$143,056	\$84,801

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

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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	Non-controlling Interest in LLC	Accumulated (Deficit) Earnings	Accumulated Other Comprehensive Loss	Total Stockholders' Equity
	Shares	Amount	Shares	Amount					
Balance at June 30, 2014	11,064	\$110	44	\$—	\$23,835	\$8,801	\$ (4,676)	\$ —	\$28,070
Net income						3,322	4,643		7,965
Issuance of Class A Common Stock for public offering, net of underwriting discounts	4,371	43			76,793				76,836
Purchase of units from existing LLC Unit holders					(76,836)				(76,836)
Stock based compensation					817				817
Issuances of equity for services	2				127				127
Cancellation of Class B Common Stock			(1)						—
Capitalized offering costs					(899)				(899)
Increase in payable pursuant to the tax receivable agreement					(34,028)				(34,028)
Increase in deferred tax asset from step-up in tax basis					38,499				38,499
Distributions to LLC Unit holders					(55)	(687)			(742)
Issuance of Class A Common Stock for acquisition	171	2			2,922				2,924
Foreign currency translation adjustment							(1,161)		(1,161)
Balance at December 31, 2014	15,608	\$155	43	\$—	\$31,175	\$11,436	\$ (33)	\$ (1,161)	\$41,572

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

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MALIBU BOATS, INC. AND SUBSIDIARIES
Condensed Consolidated Statements of Cash Flows (Unaudited)
(In thousands)

	Six Months Ended December	
	31,	
	2014	2013
Operating activities:		
Net income	\$7,965	\$10,399
Adjustments to reconcile net income to net cash (used in) provided by operating activities:		
Non-cash compensation expense	817	64
Depreciation	1,169	682
Amortization of intangible assets	1,319	2,589
Gain on sale-leaseback transaction	(8	) (5
Amortization of deferred financing costs	6	633
Change in fair value of derivative	—	(7
Deferred income taxes	2,378	—
Litigation settlement	(20,000) —
Change in operating assets and liabilities:		
Trade receivable	(258	) 4,959
Inventories	(3,675	) (4,353
Prepaid expenses and other assets	843	(1,027
Accounts payable	7,411	(1,656
Accrued expenses and other liabilities	(2,364	) 1,008
Net cash (used in) provided by operating activities	(4,397	) 13,286
Investing activities:		
Purchases of property and equipment	(2,852	) (2,280
Payment for acquisition, net of cash acquired	(11,663) —
Net cash used in investing activities	(14,515	) (2,280
Financing activities:		
Principal payments on long-term borrowings	—	(25,179
Proceeds from long-term borrowings	20,000	65,000
Payment of deferred financing costs	(64	) (1,017
Proceeds from issuance of Class A Common Stock in public offering, net of underwriting discounts	76,836	—
Purchase of units from existing LLC Unit holders	(76,836) —
Payments of costs directly associated with public offering	(899) —
Distributions to LLC Unit holders	(308	) (61,236
Net cash provided by (used in) financing activities	18,729	(22,432
Effect of exchange rate changes on cash	58	—
Changes in cash	(125	) (11,426
Cash—Beginning of period	12,173	15,957
Cash—End of period	\$12,048	\$4,531
Supplemental cash flow information:		
Cash paid for interest	\$33	\$1,142
Cash paid for income taxes	314	—
Non-cash investing and financing activities:		

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Establishment of deferred tax assets from step-up in tax basis	38,499	—
Establishment of amounts payable under tax receivable agreements	34,028	—
Equity issued as consideration for acquisition	2,924	—
Tax distributions payable to non-controlling LLC Unit holders	434	—
Equity issued to directors for services	127	—

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

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MALIBU BOATS, INC. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements (Unaudited)

(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") was formed as a Delaware corporation on November 1, 2013, as a holding company for the purposes of facilitating an initial public offering (the "IPO") of shares of its Class A common stock par value \$0.01 per share ("Class A Common Stock"). The Company was not engaged in any business or other activities except in connection with its formation and registration of its IPO of Class A Common Stock with the Securities and Exchange Commission ("SEC"). Following the recapitalization transactions completed immediately prior to the closing of the IPO (the "Recapitalization") and IPO transactions completed on February 5, 2014, the Company became the sole managing member of and acquired a controlling interest in, Malibu Boats Holdings, LLC (the "LLC"). As sole managing member of the LLC, the Company operates and controls all of the LLC's business and affairs and, therefore, pursuant to Accounting Standards Codification ("ASC") Topic 810, "Consolidation", consolidates the financial results of the LLC and its subsidiaries, and recorded a non-controlling interest for the economic interest in the Company held by the holders of units in the LLC ("LLC Units"). Malibu Boats Holdings, LLC was formed in 2006 with the acquisition by an investor group, including affiliates of Black Canyon Capital LLC, Horizon Holdings, LLC and then-current management. The LLC is engaged in the design, engineering, manufacturing and marketing of innovative, high-quality, performance sports boats that are sold through a world-wide network of independent dealers.

On October 23, 2014, Malibu Australian Acquisition Corp., an indirect subsidiary of the Company, completed the acquisition of all outstanding shares of Malibu Boats Pty. Ltd. (the "Licensee"), Malibu's Australian licensee manufacturer with exclusive distributions rights in Australia and New Zealand markets. As a result, the Company consolidates the financial position and results of operations of the Licensee from the closing date of the transaction and such consolidation has been reflected in the accompanying unaudited interim condensed consolidated financial statements and notes thereto for the period ended December 31, 2014. Refer to Note 3 related to the Company's acquisition of the Licensee.

Basis of Presentation

The accompanying unaudited condensed consolidated financial statements of the Company have been prepared in accordance with accounting principles generally accepted in the United States ("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, 2014 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, 2014 and the results of its operations and the cash flows for the three and six month periods ended December 31, 2014 and December 31, 2013. Operating results for the three and six months ended December 31, 2014 are not necessarily indicative of the results that may be expected for the full year ending June 30, 2015. 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.

Principles of Consolidation

The accompanying 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.

Significant Accounting Policies and Estimates

Foreign Currency Translation

The functional currency for the Company's consolidated foreign subsidiary is the applicable local currency. The assets and liabilities are translated at the foreign exchange rate in effect at the applicable reporting date, and the condensed

consolidated statements of operations and comprehensive income and cash flows are translated at the average exchange rate in effect during the applicable period. Exchange rate fluctuations on translating the foreign currency financial statements into U.S. dollars that result in unrealized gains or losses are referred to as translation adjustments. Cumulative translation adjustments are reflected

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as a component of "Accumulated other comprehensive loss," in the stockholders' equity section of the accompanying condensed consolidated balance sheets and periodic changes are included in comprehensive income.

Comprehensive Income

Components of comprehensive income include net income and foreign currency translation adjustments, net of tax. The Company has chosen to disclose comprehensive income in a single continuous statement of operations and comprehensive income.

Segment Reporting

The Company reports its operations under two reportable segments called the U.S. and Australia based on their respective manufacturing footprints. Each segment participates in the manufacturing, distribution, marketing and sale of performance sport boats. The U.S. operating segment primarily serves markets in North America, South America, Europe, and Asia while the Australia operating segment principally serves the Australian and New Zealand markets. There have been no material changes to the Company's significant accounting policies and estimates from those that are disclosed above relating to the acquisition of its foreign subsidiary or those which were included in the Company's Annual Report on Form 10-K for the year ended June 30, 2014. The Company believes that the disclosures herein are adequate so that the information presented is not misleading; however, it is suggested that these condensed consolidated financial statements be read in conjunction with the consolidated financial statements and the notes thereto in the Company's Annual Report on Form 10-K for the year ended June 30, 2014.

Recent Accounting Pronouncements

In November 2014, the Financial Accounting Standards Board issued Accounting Standards Update ("ASU") No. 2014-17, Business Combinations, which provides an acquired entity with an option to apply pushdown accounting in its separate financial statements upon occurrence of an event in which an acquirer obtains control of the acquired entity. An entity that elects the option to pushdown accounting shall apply the applicable disclosure requirements in ASC 805, Business Combinations. The new standard is effective November 18, 2014. After the effective date, an acquired entity can make an election to apply the guidance to future change-in-control events or its most recent change-in-control event. The Company adopted this standard in accounting for the recent acquisition of its Australian subsidiary. See Note 3 for more information.

2. Non-controlling Interest

The non-controlling interest on the condensed consolidated statement of operations and comprehensive income represents the portion of earnings or loss 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 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, 2014		As of June 30, 2014			
	Shares	Ownership %	Shares	Ownership %		
Non-controlling LLC unit holders ownership in Malibu Boats Holdings, LLC	7,001,844	31.0	%	11,373,737	50.7	%
Malibu Boats, Inc. ownership in Malibu Boats Holdings, LLC	15,608,650	69.0	%	11,064,201	49.3	%
	22,610,494	100.0	%	22,437,938	100.0	%

The changes in the balance of the Company's non-controlling interest are as follows:

Balance of non-controlling interest as of June 30, 2014	\$8,801
Allocation of income to non-controlling LLC Unit holders for period	3,322
Distributions paid and payable to non-controlling LLC Unit holders for period	(687)
Balance of non-controlling interest as of December 31, 2014	\$11,436

Issuance of Additional LLC Units

Under the first amended and restated limited liability company 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

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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 shall 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 month period ended December 31, 2014, the LLC issued a total of 172,556 LLC Units to the Company in connection with the Company's issuance of Class A Common Stock to a non-employee director for his services and to the former owner of Malibu Boats Pty. Ltd. as equity consideration for the acquisition of the Australian licensee.

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 exceed the tax distributions made in a calendar year, the LLC may make true-up distributions to its members, if cash or borrowings is available for such purposes. Tax distributions paid and payable to non-controlling LLC Unit holders for the six months ending December 31, 2014 were \$253 and \$434, 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.

3. Acquisition

On October 23, 2014, the Company acquired all of the outstanding shares of Malibu Boats Pty Ltd., the Company's exclusive licensee in Australia since 1995. The Licensee had the exclusive right to manufacture and distribute Malibu and Axis products and spare parts in Australia and New Zealand. The acquisition provides direct control of the Company's brand worldwide and provides it with a strong footprint for future growth internationally in Asia. The aggregate purchase price for the transaction was \$16.2 million, consisting of \$13.3 million in cash and \$2.9 million in equity equal to 170,889 shares of the Company's Class A Common Stock. Under the share sale agreement, the number of shares issued was based on the average closing price of shares of the Class A Common Stock for the 20 days immediately prior to, but not including, the closing date of the acquisition. Of the consideration paid in stock, 71.43% is restricted from sale for a period of 2 years from the acquisition date. The Company funded a portion of the purchase price payable in cash with additional borrowings under its revolving credit facility. The Company accounted for the transaction in accordance with ASC 805, Business Combinations.

The total consideration given to the former owner of the Licensee has been allocated to the assets acquired and liabilities assumed based on preliminary estimates of their estimated fair values as of the date of the acquisition. Because of the complexities involved with performing the valuation, the Company has recorded the tangible and intangible assets acquired and liabilities assumed based upon their preliminary fair values as of October 23, 2014. The preliminary measurements of fair value were based upon estimates utilizing the assistance of third party valuation specialists, and are subject to change within the measurement period (up to one year from the acquisition date). The Company expects to continue to obtain information to assist it in determining the fair values of the assets acquired and liabilities assumed at the acquisition date during the third quarter of fiscal 2015. Accordingly, the following table summarizes the preliminary purchase price allocation for the acquisition of the Licensee:

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Consideration:

Cash consideration paid	\$ 13,305
Equity consideration paid	2,924
Fair value of total consideration transferred	\$ 16,229

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

Cash	\$ 1,642
Accounts receivable	878
Inventories	