

Malibu Boats, Inc.
Form 10-K
September 08, 2017
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K
ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended June 30, 2017
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)	(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	Name of each exchange on which registered
Class A Common Stock (\$0.01 par value per share)	NASDAQ Global Select Market

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes ☐ No ☒

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ☐ 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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in the definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☒

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company or 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 ☐ Accelerated filer ☒

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

Emerging growth company ☒

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

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

As of December 31, 2016, the last business day of the registrant's most recently completed second fiscal quarter, the aggregate value of the registrant's common stock held by non-affiliates was approximately \$303.0 million, based on the number of shares of Class A common stock held by non-affiliates as of December 31, 2016 and the closing price of the registrant's Class A common stock on the NASDAQ Global Select Market on December 31, 2016. Shares held by each executive officer, director and by each person who owns 10% or more of the outstanding Class A common stock have been excluded in that such persons may be deemed to be affiliates. This determination of affiliate status is not necessarily a conclusive determination for other purposes. The number of outstanding shares of the registrant's Class A common stock, par value \$0.01 per share, and Class B common stock, par value \$0.01, as of September 6, 2017 was 20,287,030 and 18, respectively.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's Proxy Statement for the 2017 Annual Meeting of Stockholders are incorporated into Part III of this Annual Report on Form 10-K where indicated. Such proxy statement will be filed with the Securities and Exchange Commission within 120 days of the registrant's fiscal year ended June 30, 2017.

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SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Annual Report on Form 10-K contains forward-looking statements. All statements other than statements of historical facts contained in this Form 10-K are forward-looking statements, including statements regarding expected benefits of our acquisition of Cobalt Boats, LLC, demand for our products and expected industry trends, our business strategy and plans, our prospective products or products under development, our vertical integration initiatives, our acquisition strategy and management's objectives for future operations. In particular, many of the statements under the headings "Item 1A. Risk Factors," "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations" and "Item 1. Business" constitute forward-looking statements. In some cases, you can identify forward-looking statements by terminology such as "may," "will," "should," "expects," "plans," "anticipates," "believes," "estimates," "predicts," "potential," "continue," the negative of these terms, or by other similar expressions that convey uncertainty of future events or outcomes to identify these forward-looking statements. These statements are only predictions, involving known and unknown risks, uncertainties and other factors that may cause our or our industry's actual results, levels of activity, performance or achievements to be materially different from any future results, levels of activity, performance or achievements expressed or implied by these forward-looking statements. Such factors include, but are not limited to: the successful integration of Cobalt Boats, LLC into our business; general economic conditions; significant fluctuations in our annual and quarterly financial results; unfavorable weather conditions; our reliance on our network of independent dealers and increasing competition for dealers; the financial health of our dealers and their continued access to financing; our obligation to repurchase inventory of certain dealers; our failure to manage our manufacturing levels while addressing the seasonal retail pattern for our products; 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; the success of our engines integration strategy; competition with other activities for consumers' scarce leisure time; the continued strength of our brands; our ability to execute our manufacturing strategy successfully; our ability to meet our manufacturing workforce needs; our reliance on third-party suppliers and ability to obtain adequate raw materials and components; our exposure to claims for product liability and warranty claims; our dependence on key personnel; our ability to grow our business through acquisitions or strategic alliances and new partnerships; our growth strategy which may require us to secure significant additional capital; our ability to protect our intellectual property; disruptions to our network and information systems; exposure to workers' compensation claims and other workplace liabilities; risks inherent in operating in foreign jurisdictions; changes in currency exchange rates; an increase in energy and fuel costs; any failure to comply with laws and regulations including environmental and other regulatory requirements; a natural disaster or other disruption at our manufacturing facilities; increases in income tax rates or changes in income tax laws; covenants in our credit facilities which may limit our operating flexibility; our variable rate indebtedness which subjects us to interest rate risk; our status as an "emerging growth company"; and any failure to maintain effective internal control over financial reporting or disclosure controls or procedures.

We discuss many of these factors, risks and uncertainties in greater detail under the heading "Item 1A. Risk Factors" and elsewhere in this Form 10-K. These factors expressly qualify as forward-looking statements attributable to us or persons acting on our behalf.

You should not rely on forward-looking statements as predictions of future events. Although we believe that the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee future results, levels of activity, performance or achievements. Actual results may differ materially from those suggested by the forward-looking statements for various reasons, including those discussed under "Item 1A. Risk Factors" in this Form 10-K. Except as required by law, we assume no obligation to update forward-looking statements for any reason after the date of this Form 10-K to conform these statements to actual results or to changes in our expectations.

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PART I.

Item 1. Business

Unless otherwise expressly indicated or the context otherwise requires, in this Annual Report on Form 10-K:

we use the terms “Malibu Boats,” the “Company,” “we,” “us,” “our” or similar references to refer (1) prior to the consummation of our IPO on February 5, 2014, to Malibu Boats Holdings, LLC, or the LLC, and its consolidated subsidiaries and (2) after our IPO, to Malibu Boats, Inc. and its consolidated subsidiaries;

we refer to our initial public offering of Class A common stock on February 5, 2014, as our “IPO”;

we refer to the owners of membership interests in the LLC immediately prior to the consummation of the IPO, collectively, as our “pre-IPO owners”;

we refer to owners of membership interests in the LLC (the “LLC Units”), collectively, as our “LLC members”;

references to “fiscal year” refer to the fiscal year of Malibu Boats, which ends on June 30. Fiscal year 2013 for the LLC ended on June 30, 2013. Fiscal years 2014, 2015, 2016 and 2017 ended on June 30, 2014, 2015, 2016 and 2017 respectively;

we use the term “recreational powerboat industry” to refer to our industry group, which includes performance sport boats, sterndrive and outboard boats;

we use the term “performance sport boat category” to refer to our industry category, consisting primarily of fiberglass boats equipped with inboard propulsion and ranging from 19 feet to 26 feet in length, which we believe most closely corresponds to (1) the inboard ski/wakeboard category, as defined and tracked by the National Marine Manufacturers Association, or NMMA, and (2) the inboard skiboat category, as defined and tracked by Statistical Surveys, Inc., or SSI;

we use the terms “sterndrive” and “outboard” to refer to our newly expanded industry category, consisting primarily of sterndrive and outboard boats ranging from 20 feet to 40 feet, which most closely corresponds to (1) the sterndrive and outboard categories, as defined and tracked by NMMA, and (2) the sterndrive and outboard propulsion categories, as defined and tracked by SSI; and

references to certain market and industry data presented in this Form 10-K are determined as follows: (1) U.S. boat sales and unit volume for the overall powerboat industry and any powerboat category during any calendar year are based on retail boat market data from the NMMA; (2) U.S. market share and unit volume for the overall powerboat industry and any powerboat category during any fiscal year ended June 30 or any calendar year ended December 31 are based on comparable same-state retail boat registration data from SSI, as reported by the 50 states for which data was available as of the date of this Form 10-K; and (3) market share among U.S. manufacturers of exports to international markets of boats in any powerboat category for any period is based on data from the Port Import Export Reporting Service, available through March 31, 2017, and excludes such data for Australia and New Zealand.

This Annual Report on Form 10-K includes our trademarks, such as “Surf Gate,” “Wakesetter,” “SurfBand,” “Swim Step,” and “TrueWave” which are protected under applicable intellectual property laws and are the property of Malibu Boats. This Form 10-K also contains trademarks, service marks, trade names and copyrights of other companies, which are the property of their respective owners. Solely for convenience, trademarks and trade names referred to in this Form 10-K may appear without the ® or TM symbols, but such references are not intended to indicate, in any way, that we will not assert, to the fullest extent under applicable law, our rights or the right of the applicable licensor to these trademarks and trade names.

Our Company

We are a leading designer, manufacturer and marketer of a diverse range of recreational powerboats, including performance sport boats, sterndrive and outboard boats. We have the #1 market share position in the United States in the performance sport boat category through our Malibu and Axis Wake Research (“Axis”) brands. With our recent acquisition of Cobalt Boats, LLC (“Cobalt”) in July 2017, we also have the #1 market share position in the United States through our Cobalt brand in the 24’—29’ segment of the sterndrive category. Our boats are used for water sports, including water skiing, wakeboarding and wake surfing, as well as general recreational boating. We believe we have been a consistent innovator in the recreational powerboat industry, designing products that appeal to an expanding range of recreational boaters and water sports enthusiasts whose passion for boating and water sports is a key aspect of

their lifestyle. We believe many of our innovations, such as our

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proprietary Surf Gate technology launched in 2012, expand the market for our products by introducing consumers to new and exciting recreational activities. We also added another strong brand in Cobalt with a versatile lineup of boats, further deepening our product portfolio, expanding our addressable market, and ultimately, our ability to provide consumers with a better customer-inspired experience. We believe that the performance, quality, value and multi-purpose features of our boats position us to achieve our goal of increasing our market share in the expanding recreational boating industry.

We sell our boats under three brands—Malibu; Axis; and Cobalt. 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 \$50,000 to \$180,000. 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 \$50,000 to \$95,000. 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 \$50,000 to \$700,000.

Our boats are constructed of fiberglass, available in a range of sizes, hull designs and propulsion systems (i.e., inboard, sterndrive and outboard). We employ experienced product development and engineering teams that enable us to offer a range of models across each of our brands while consistently introducing innovative features in our product offerings. Our engineering team closely collaborates with our manufacturing personnel in order to improve product quality and process efficiencies. The results of this collaboration are reflected in our receipt of numerous industry awards, including the "WSIA Innovation of Year" for the Malibu Command Center in 2017 and the Boating Industry's "Top Product Award" for the Integrated Surf Platform ("ISP") in 2016.

We sell our boats through a dealer network that we believe is the strongest in the recreational powerboat industry. As of July 1, 2017, our Malibu and Axis brand distribution channel consisted of 126 independent dealers operating in 146 locations in North America and we had 59 independent dealer locations across 40 countries outside of North America, including Australia. Our Malibu and Axis brand boats are the exclusive performance sport boats offered by the majority of our dealers. Our acquisition of Cobalt has allowed us to expand into Cobalt's strong network which consists of 111 independent dealers operating 142 locations worldwide with a large percentage of those dealers having the #1 or #2 market share in their respective markets. The acquisition of Cobalt has increased our total independent dealer network to over 300 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.

Financial Information About Segments

We currently report our results of operations under two reportable segments called U.S. and Australia segments based on their respective geographic manufacturing footprints. Each segment participates in the manufacturing, distribution, marketing and sale of Malibu and Axis 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. The segment and geographic information required herein is contained in Note 17 - Segment Reporting, in the notes to our consolidated financial statements.

We acquired Cobalt in July 2017, and as of the date of this report, we have not made a final assessment as to the number of reportable segments the Company will have in accordance with Accounting Standards Codification ("ASC") 280, Segment Reporting, going forward.

Our Market Opportunity

During calendar year 2016, retail sales of new recreational powerboats in the United States totaled \$8.2 billion. Of the recreational powerboat categories defined and tracked by the NMMA, our core market corresponds most directly to the inboard ski/wakeboard category, which we refer to as the performance sport boat category. We serve this category through our Malibu, Axis and Cobalt brands. Through our Cobalt brand, we also now directly access the larger outboard and sterndrive categories, which together accounted for \$5.5 billion in retail sales in calendar year 2016.

Combined, our product portfolio allows us to meaningfully access an addressable market that represented nearly \$6.6 billion of sales in 2016. The following table illustrates the size of our addressable market in units and retail sales for calendar year 2016:

Powerboat Category	Unit Sales	Retail Sales (Dollars in millions)
Outboard	160,900	\$ 4,659
Sterndrive	12,200	878
Performance sport boat	8,700	818
Jet boat	5,000	205
Total addressable market	186,800	\$ 6,560

We believe we are well-positioned to benefit from trends in our addressable market, including:

Improving Macroeconomic Environment Driving Increased Consumer Demand for Boats. Following the economic downturn, the recreational powerboat industry has grown and is projected to continue to recover by the NMMA.

While domestic sales of recreational powerboats in 2016 grew to approximately 186,800 units, they remained 37% below the historical peak 2006 sales volume of approximately 298,000 units. Within our primary category, performance sport boats, units grew to approximately 8,700 in 2016, 34% below the category's historical peak 2006 sales volume of 13,100. We believe there remains significant opportunity for growth from increased consumer demand in the recreational powerboat industry as the economy improves, but there are numerous variables that have potential to impact future growth.

Size and Strong Growth of Outboard Category. The outboard category of the recreational powerboat industry is the largest category, measured both by unit sales and retail sales. In 2016, outboard boats represented approximately 86% of total units sold and approximately 71% of total retail sales in the United States. Additionally, the outboard category has been one of the strongest performers of the recreational powerboat industry over the past several years. The chart below illustrates the performance of the outboard category based on retail sales since 2010, growing, on average, 7.7% in each of the past six years:

With our recent Cobalt acquisition, we now have a product line designed specifically to target the outboard category of the recreational powerboat industry. We believe the outboard category will continue to be the largest and one of the strongest categories of the recreational powerboat industry, and that significant opportunity remains for us to enhance our outboard product portfolio and dealer distribution network to capitalize on the outboard category's performance.

Increasing Ages of Used Boats Driving New Boat Sales. In 2016, according to NMMA retail sales data, new recreational powerboats accounted for approximately one out of five recreational powerboat sales in the United States compared to an average of approximately one out of four between 2002 and 2008. We believe the shift toward purchasing more used boats during the economic downturn helped cause the average age of recreational powerboats in use to increase from 15 years in 1997 to over 21 years today. We believe that as the recreational powerboat industry continues its ongoing recovery and older boats reach the end of their usable lives, we expect consumer purchases of new boats to shift back toward historic levels benefiting new boat manufacturers.

Our Strengths

#1 Market Share Position in Performance Sport Boat Category. According to SSI, we have held the number one market share position, based on unit volume, in the United States among manufacturers of performance sport boats for calendar years since 2010 including 2016. We have grown our U.S. market share from 24.4% in 2010 to 33.0% in 2016. The following table reflects our U.S. market share in the performance sport boat category compared to the market share of our competitors for the periods shown:

Manufacturer/Brand(s)	U.S. Market Share in Performance Sport Boat Category						
	2010	2011	2012	2013	2014	2015	2016
Malibu Boats/Malibu and Axis	24.4%	29.0%	30.8%	33.0%	32.0%	32.0%	33.0%
Correct Craft, Inc./Nautique ¹	23.1	19.9	19.6	20.6	23.0	21.6	21.9
MasterCraft Boat Company, LLC/MasterCraft	23.3	23.9	21.8	20.0			