

Malibu Boats, Inc.
Form 10-K
September 25, 2014
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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, 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 (Address of principal executive offices, including zip code) (865) 458-5478 (Registrant's telephone number, including area code)	46-4024640 (I.R.S. Employer Identification No.)
(State or other jurisdiction of incorporation or organization)		

Securities Registered Pursuant to Section 12(b) of the Act:

Title of each class Class A Common Stock (\$0.01 par value per share)	Name of each exchange on which registered NASDAQ Global Select Market
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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, 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 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

As of December 31, 2013, the last business day of the registrant's most recently completed second fiscal quarter, there was no established public market for the registrant's common stock. The registrant's Class A common stock began

trading on the NASDAQ Global Select Market on January 31, 2014. As of June 30, 2014, the aggregate value of the registrant's common stock held by non-affiliates was approximately \$114.8 million, based on the number of shares of Class A common stock held by non-affiliates as of June 30, 2014 and the closing price of the registrant's Class A common stock on the NASDAQ Global Select Market on June 30, 2014. 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 24, 2014 was 15,436,094 and 43, respectively.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's Proxy Statement for the 2014 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, 2014.

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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 our future financial position, sources of revenue, demand for our products, our strengths, business strategy and plans, prospective products or products under development, costs, timing and likelihood of success, gross margins, non-GAAP financial measures 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 general economic conditions; significant fluctuations in our annual and quarterly financial results; 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; 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 dependence on key personnel; our ability to grow our business through acquisitions or strategic alliances and new partnerships; our ability to protect our intellectual property; our exposure to claims for product liability and warranty claims; risks inherent in operating in foreign jurisdictions; an increase in energy 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; our status as an "emerging growth company"; and increased costs as a result of being a new public company. 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 the initial public offering, or IPO, to Malibu Boats Holdings, LLC, or the LLC, and its consolidated subsidiaries and (2) after the IPO, to Malibu Boats, Inc. and its consolidated subsidiaries;

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 years 2012 and 2013 for the LLC ended on June 30, 2012 and 2013, respectively. Fiscal year 2014 ended on June 30, 2014;

we use the term “performance sport boat category” to refer to our industry category, primarily consisting 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; 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 June 30, 2014, and excludes such data for Australia and New Zealand.

This Annual Report on Form 10-K includes our trademarks, such as “Surf Gate” and “Wakesetter,” 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 performance sport boats, having the #1 market share position in the United States since 2010. Our boats are used for water sports, including water skiing, wakeboarding and wake surfing, as well as general recreational boating. Since inception in 1982, we believe we have been a consistent innovator in the 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 proprietary Surf Gate technology launched in 2012, expand the market for our products by introducing consumers to new and exciting recreational activities. We believe that our boats are increasingly versatile, allowing consumers to use them for a wide range of activities that enhance the experience of a day on the water with family and friends. While there is no guarantee that we will achieve market share growth in the future, 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 market.

We sell our high performance boats under two brands—Malibu and Axis Wake Research, or Axis. Our flagship Malibu brand boats offer our latest innovations in performance, comfort and convenience, and are designed for consumers seeking a premium boating experience. Retail prices of our Malibu boats typically range from \$55,000 to \$125,000. We launched our Axis brand of boats in 2009 to appeal to consumers who desire a more affordable product but still demand high performance, functional simplicity and the option to upgrade key features. Retail prices of our Axis boats typically range from \$45,000 to \$85,000.

All of our boats are built and tested at our corporate headquarters near Knoxville, Tennessee. Our boats are constructed of fiberglass, equipped with inboard propulsion systems and available in a range of sizes and hull designs. 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 Watersports Industry Association's Innovation of the Year in 2010 and 2013.

We sell our boats through a dealer network that we believe is the strongest in the performance sport boat category. As of June 30, 2014, our distribution channel consisted of 118 independent dealers in North America operating in 143 locations in North America and 52 independent dealer locations across 36 countries outside of North America. Our boats are the exclusive performance sport boats offered by the majority of our dealers. Additionally, we have an exclusive licensee in Australia that we believe is the largest performance sport boat manufacturer in that country. 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.

Our Market Opportunity

During calendar year 2013, retail sales of new powerboats in the United States totaled \$6.5 billion. Of the 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 believe our addressable market also includes similar and adjacent powerboat categories identified by the NMMA, which totaled over \$4.4 billion of sales in 2013. The following table illustrates the size of our addressable market in units and retail sales for calendar year 2013:

Powerboat Category	Unit Sales	Retail Sales (Dollars in millions)
Outboard	134,800	\$2,961
Sterndrive	15,100	895
Performance sport boat	6,100	470
Jet boat	3,000	113
Total addressable market	159,000	\$4,439

We believe we are well-positioned to benefit from several trends underway in our addressable market, including: **Improving Macroeconomic Environment Driving Increased Consumer Demand for Boats.** Following the economic downturn, the recreational boating industry has grown and is projected to continue to recover. While domestic sales of new performance sport boats in 2013 grew to approximately 6,100 units, they remained 53% below the category's 2006 sales volume of 13,100. IBIS World projects that total U.S. powerboat manufacturer sales will grow at a compound annual growth rate, or CAGR, of 6.5% from 2012 to 2017. While there is no guarantee that these projected growth rates will be achieved in the future, we believe the recreational boating industry has significant opportunity for growth from increased consumer demand and will continue to benefit from improved economic conditions.

Improved Dealer Inventory Positions. Boat manufacturers in our addressable market and industry-wide have been focused on clearing aged inventory from the retail channel over the past few years, driving the current inventory of new boats that are over a year old at dealerships to normalized and healthy levels. If retail sales levels continue to improve, we expect our dealers to place more wholesale orders from us in order to meet this demand. Lower dealer inventory positions also mitigate the potential effects of a decline in retail sales on wholesale volumes.

Increasing Ages of Used Boats Driving New Boat Sales. In 2013, new powerboats accounted for approximately one out of six 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 powerboats in use to increase from 15 years in 1997 to over 20 years today. As the 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. We held the number one market share position, based on unit volume, in the United States among manufacturers of performance sport boats for calendar years 2010, 2011, 2012 and 2013. We have grown our U.S. market share from 23.1% in 2008, the year prior to the arrival of our current

Chief Executive

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Officer and Chief Financial Officer, to 32.8% in 2013. 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											
	2008	2009	2010	2011	2012	2013						
Malibu Boats/Malibu and Axis	23.1	%	23.4	%	24.2	%	28.7	%	30.6	%	32.8	%
MasterCraft Boat Company, LLC/MasterCraft	23.8		24.7		23.4		24.3		21.9		20.0	
Correct Craft, Inc./Nautique	15.2		13.9		16.0		14.8		14.7		15.8	
Skier's Choice, Inc./Supra and Moomba	16.6		15.6		16.5		15.5		14.6		12.6	
All others	21.3		22.4		19.9		16.7		18.2		18.8	
Total	100	%	100	%	100	%	100	%	100	%	100	%

In addition, our 33% market share of performance sport boat exports to international markets for the 12 months ended June 30, 2014 was the second highest among U.S. manufacturers.

Performance Sport Boat Category Taking Share. As the recovery in the general economy and overall powerboat industry has continued, the performance sport boat category in which we participate has experienced one of the highest growth rates. New unit sales of performance sport boats in the United States increased by 13% from 2011 to 2012, while new unit sales of all other powerboats in the United States increased 10% over the same period. This trend continued in 2013, as new unit sales of performance sport boats and all other powerboats in the United States increased by 11% and 2%, respectively, for the year ended December 31, 2013. We believe this is largely attributable to increased innovation in the features, designs and layouts of performance sport boats, which has improved the performance, functionality and versatility of these boats versus other recreational powerboats, particularly the larger category of sterndrive boats. We believe that we have been at the forefront of product innovation and will continue to appeal to a broader consumer base that values our boats not only for water sports, but also for general recreational boating and leisure activities. We believe that our market-leading position within our expanding category will create continued growth opportunities for us.

Poised to Take Advantage of the Performance Sport Boat Market Recovery. With our leading and growing market share in our category, we believe that we are well-positioned to take advantage of the ongoing recovery in the powerboat market. While the performance sport boat category grew 11% in 2013, new unit sales remained significantly below historical peaks. As illustrated in the chart below, the 6,100 new units sold in calendar year 2013 were 48% below the average annual new unit sales volume of 11,714 observed between 2001 and 2007 and 53% below the 13,100 new units sold in 2006. While there is no guarantee that the market will continue to grow or return to historical sales levels, we believe we are in the early stages of a recovery that presents significant opportunity for growth.

Even if the performance sport boat market does not reach previous peak levels, we believe that our #1 market share position in a category that is growing faster than the overall powerboat industry, our investments in the Company during and subsequent to the economic downturn, and our innovative product offering should drive superior performance.

Industry-leading Product Design and Innovation. We believe that our innovation in the design of new boat models and new features has been a key to our success, helping us increase our market share within our category and generally broaden the appeal of our products among recreational boaters. As a result of the features we have introduced, we believe that our boats are used for an increasingly wide range of activities and are increasingly easier to use, while maintaining the high performance characteristics that consumers expect. Additionally, by introducing new boat models in a range of price points, sizes, bow and hull designs, and optional performance features, we have enhanced consumers' ability to select a boat suited to their individual preferences. Our commitment to, and consistency in, developing new boat models and introducing new features are reflected in several notable achievements, including: release of our patented Surf Gate technology in 2012, which allows users to surf on either side of the boat's wake, generates a better quality surf wave and was the Watersports Industry Association's Innovation of the Year in 2013; launch of the Axis brand of boats in 2009, designed from the ground up to be an entry-level product, which has already captured a 6.4% share of the U.S. market in our category as of December 31, 2013; introduction of the patented Power Wedge in 2006, which gives boaters the ability to customize the size and shape of the boat's wake with the push of a button; and a strong new product lineup for model year 2015 that includes the redesign of the Malibu Wakesetter VLX and the Axis A22. In addition, on our model year 2015 Malibu products, we will offer an enhanced touchscreen dash, an improved Power Wedge and an optional, all machined aluminum G4 tower.

Strong Dealer Network. We have worked diligently with our dealers to develop the strongest distribution network in the performance sport boat category. We believe that our distribution network of 143 North American dealer locations and 52 international dealer locations as of June 30, 2014 allows us to distribute our products more broadly and effectively than our

competitors. For fiscal year 2013 our dealers held the #1 market share position for the performance sport boat category in 75 of 133 U.S. markets. We have nominal dealer concentration, with our largest dealer responsible for less than 4.7% and 6.0% of our unit volume for fiscal year 2014 and fiscal year 2013 and our top ten dealers representing 34.1% and 36.1% of our unit volume for fiscal year 2014 and fiscal year 2013, respectively. We continually review our geographic coverage to identify opportunities for expansion and improvement, and have added 35 new North American dealer locations in the past six fiscal years to address previously underserved markets. In addition, we have strengthened our dealer network by replacing 37 dealer locations in the past six fiscal years, 19 of which were converted from selling one of our competitor's products.

Highly Recognized Brands. We believe our Malibu and Axis brands are widely recognized in the powerboat industry, which helps us reach a growing number of target consumers. For over 30 years, our Malibu brand has generated a loyal following of recreational boaters and water sports enthusiasts who value the brand's premium performance and features. Our Axis brand has grown rapidly as consumers have been drawn to its more affordable price point and available optional features. We believe that the appeal of our high performance and innovative products with athletes and enthusiasts contributes to our brand awareness with dealers and with consumers. We are able to build on this brand recognition and support through a series of marketing initiatives coordinated with our dealers or executed directly by us. Many of our marketing efforts are conducted on a grass-roots level domestically and internationally. Key grass-roots initiatives include: production and distribution of water sports videos; online and social marketing; on-the-water events; athlete, tournament and water sport facility sponsorships; and participation and product placement at important industry events. Additionally, our boats, their innovative features, our sponsored athletes and our dealers all frequently win industry awards, which we believe further boosts our brand recognition and reputation for excellence. We believe our marketing strategies and accomplishments enhance our profile in the industry, strengthen our credibility with consumers and dealers and increase the appeal of our brands.

Compelling Margins and Cash Flow. Our adjusted EBITDA margin, which is not a measurement under accounting principles generally accepted in the United States ("GAAP") was 19.5%, 19.0% and 14.1% for fiscal years 2014, 2013, and 2012, respectively. For the definition of adjusted EBITDA margin and a reconciliation to net (loss) income, see "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations - GAAP Reconciliation of Non-GAAP Financial Measures." In recent years, we have implemented a number of initiatives to reduce our cost base and improve the efficiency of our manufacturing process. Re-engineering the manufacturing process in our Tennessee facility has reduced labor hours per boat produced, and close collaboration between our product development and manufacturing teams has improved production throughput and product quality. Further, vertical integration of tower and tower accessory production has allowed us to increase incremental margin per boat sold. As a result of these and other initiatives, adjusted EBITDA for fiscal year 2014 grew 17.4% on net sales growth of 14.3% as compared to fiscal year 2013. Our low capital expenditure requirements and a highly efficient working capital cycle allowed us to generate significant excess cash flow, excluding one time offering related expenditures, in fiscal years 2014, 2013 and 2012. We believe our strong cash flow increases our financial stability and provides us with more flexibility to invest in growth initiatives.

Highly Experienced Management Team. Our experienced management team has demonstrated its ability to identify, create and integrate new product innovations, improve financial performance, optimize operations, enhance our distribution model and recruit top industry talent. Our Chief Executive Officer, Jack Springer, joined Malibu Boats in 2009 and has assembled an executive team with strong, complementary talents and experience. This team has led a workforce that we believe has produced superior results, including market share gains, sales growth and profitability improvement in each year since 2009.

Our Strategy

We intend to capitalize on the ongoing recovery in the powerboat market through the following strategies:
Continue to Develop New and Innovative Products in Our Core Markets. We intend to continue developing and introducing new and innovative products-both new boat models to better address a broader range of consumers and new features to deliver better performance, functionality, convenience, comfort and safety to our consumers. We believe that new products and features are important to the growth of our market share, the continued expansion of our category and our ability to maintain attractive margins.

Our product development strategy consists of a two-pronged approach. First, we seek to introduce new boat models to target unaddressed or underserved segments of the performance sport boat category, while also updating and refreshing our existing boat models regularly. For example, we introduced Axis-branded boats starting in 2009 to address the entry-level segment of our category, and we launched the Malibu Wakesetter MXZ product line in 2012 to enter the premium “picklefork” bow design segment of our market. Second, we seek to develop and integrate innovative new features into our boats, such as Surf Gate, Malibu Touch Command and Power Wedge. For the 2014 model year, which began on July 1, 2013, we redesigned the Wakesetter 23LSV model and expanded our product offerings, including the introduction of two new models under the Axis brand, doubling the number of models offered under the Axis brand. In addition, Surf Gate was added as an available feature on

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our Axis boats. We intend to continue releasing new products and features multiple times during the year, which we believe enhances our reputation as a leading-edge boat manufacturer and provides us with a competitive advantage.

Capture Additional Share from Adjacent Boating Categories. Our culture of innovation has enabled us to expand the market for our products by attracting consumers from other categories, most notably from the sterndrive category. As illustrated by the chart below, the new unit sales volume of performance sport boats steadily increased from 2001 through 2013 as a percentage of the total new unit sales volume of performance sports boats and sterndrive boats. While there is no guarantee that this trend will continue in the future, we believe our market-leading position and broad offering of boat models and features will continue to attract consumers to our performance sport boats.

We intend to continue to enhance the performance, comfort and versatility of our products in order to further target crossover consumers seeking high-performance powerboats for general recreational activity. For example, we believe that one of our newest boat models, the Wakesetter 24 MXZ, appeals to a broader range of recreational boaters by offering the performance benefits of our products, including superior drivability and water sports versatility, while also providing greater seating capacity, a roomy, plush interior and extensive storage space to allow an increased number of family and friends to spend time together on the water.

Further Strengthen Our Dealer Network. Our goal is to achieve and maintain leading market share in each of the markets in which we operate. We continually assess our distribution network and take the actions necessary to achieve our goal. We intend to strengthen our current footprint by selectively recruiting market-leading dealers who currently sell our competitors' products. In addition, we plan to continue expanding our dealer network in certain geographic areas to increase consumer access and service in markets where it makes strategic sense. In the past six fiscal years, we have added 35 new dealer locations in the United States and Canada to provide incremental geographic coverage. We believe our targeted initiatives to enhance and grow our dealer network will increase unit sales in the future.

Accelerate International Expansion. Based on our U.S. leadership position, brand recognition, diverse, innovative product offering and distribution strengths, we believe that we are well-positioned to increase our international sales. Our 33% market

share of performance sport boat exports to international markets for the fiscal year ended June 30, 2014 was the second highest among U.S. manufacturers. Our unit sales outside of North America, however, represented less than 5.0% of our total sales volume in fiscal year 2014. We believe we will increase our international sales both by promoting our products in developed markets where we have a well-established dealer base, such as Western Europe, and by penetrating new and emerging markets where we expect rising consumer incomes to increase demand for recreational products, such as Asia and South America, although there is no guarantee that our efforts will be successful or that international sales will increase.

We have taken a number of steps to enhance our international presence and our ability to drive sales in developed and emerging markets. Over the past four fiscal years, we added 12 new international dealers, bringing our total number of dealer locations to 52 outside of North America as of June 30, 2014. Historically, the majority of our boats have been distributed to international markets through third parties. In 2013, we restructured our agreements with those parties to provide for direct sales coverage of key markets, including Central America, South America, Asia (excluding the Middle East) and most of Africa. In Australia, we work closely with a licensed manufacturer to maintain and grow what we believe is our leading market share position while also pursuing opportunities to improve our unit economics. To better manage and optimize international sales, we have added dedicated company resources and increased our sales and marketing activity, including international dealer meetings, dealer service schools, regional marketing campaigns and promotional visits by water sport athletes.

Our Products and Brands

We design, manufacture and sell performance sport boats that we believe deliver superior performance for water sports, including wakeboarding, water skiing and wake surfing, as well as general recreational boating. We market our boats under two brands:

Malibu, our flagship brand, dates to our inception in 1982, primarily targeting consumers seeking a premium boating experience and offering our latest innovations in performance, comfort and convenience; and

Axis, which we launched as a new brand in 2009, targets a younger demographic and provides them with a more affordably priced, entry-level boat that provides high performance, functional simplicity and the option to upgrade key features.

In addition, we offer various accessories and aftermarket parts.

Boat Models

We believe our boats are renowned for their performance, design, innovative technology, quality and ability to provide consumers a high-quality boating experience at varying price points. We currently offer a number of performance sport boat models across our two brands, which provide consumers with a variety of options across length, hull type, bow type, horsepower and seating capacity in addition to customizable designs and features available for upgrade across our models. The following table provides an overview of our most popular product offerings by brand:

Brand	Series	Number of Models	Lengths	Hull Types	Bow Types	Maximum Power	Maximum Capacity (persons)	Retail Price Range (In thousands)
Malibu	Wakesetter	7	20'-25'	Wake, Cut Diamond, Diamond	Traditional, Picklefork	555 hp	13-18	\$55-\$125
Malibu	Response	3	20'-21'	Cut Diamond	Traditional	450 hp	8-9	\$35-\$70
Axis	Axis	4	20'-24'	Wake	Traditional, Picklefork	450 hp	11-17	\$45-\$85

Malibu Wakesetter. Introduced in 1998, the Wakesetter series is our premium boat series and the top selling series within the performance sport boat category. The Wakesetter series is designed for consumers seeking the highest-performance water sport and boating experience. Wakesetter offers consumers a highly-customizable boat with our most innovative technologies, premium features, newest graphics, color options and interior finishes.

Demonstrating Wakesetter's industry-leading performance and market position, the Wakesetter 23 LSV model was the best-selling boat in the performance sport boat category for fiscal years 2009 through 2013 and the Wakesetter 22 MXZ model was the official performance sport boat of the 2013 Red Bull Wake Open.

Malibu Response. The Response series, created in 1995, was designed for consumers who desire a high-performance water ski boat. Primarily because of its direct drive engine setup, the Response series produces the smallest wake of any of our boats and is designed to accommodate both professional and recreational skiers by allowing for a range of speeds and line

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lengths. Demonstrating Response's reputation for high-performance and quality, the Response TXI model is the boat of choice for Regina Jaquess, the holder of the women's slalom world record.

Axis. After the continued success with our Wakesetter series, we identified a market opportunity in entry-level performance sport boats and, in 2009, launched our Axis brand. We designed Axis for consumers who desire a lower price point, but who still demand high performance, functional simplicity and the option to upgrade their boats to have key features such as Surf Gate. The Axis series currently has four available models and we plan to refine these models continually as well as add new ones as we build out the brand. We believe the Axis series successfully provides consumers with a high quality water sport and boating experience at an attractive price, as evidenced by its #6 market position in the performance sport boat category after only four years on the market.

Innovative Features

In addition to the standard features included on all of our boats, we offer consumers the ability to upgrade our base models by adding certain of our full line of innovative features designed to enhance performance, functionality and the overall boating experience. Our innovative features drive our high average selling prices. Some of these include:

- **Surf Gate.** Introduced in July 2012 and initially patented in September 2013, Surf Gate is available as an optional feature on all Malibu Wakesetter models and Axis brand boats. Surf Gate has revolutionized the increasingly popular sport of wake surfing. Prior to Surf Gate, boaters needed to empty ballast tanks on one side of the boat and shift passengers around to lean the boat to create a larger, more pronounced surf-quality wake. By employing precisely engineered and electronically controlled panels, Surf Gate alleviates this time-consuming and cumbersome process, allowing boaters to easily surf behind an evenly weighted boat without the need to wait for ballast changes. Recent enhancements to Surf Gate have improved upon the system's actuators, allowing for easier and faster transfer, as well as the installation of an indicator horn and optional light signaling, which alert riders to wave transfers. In 2013, the Watersports Industry Association named Surf Gate as Innovation of the Year.

Manual Wedge/Power Wedge. Our patented Manual Wedge and Power Wedge allow riders to customize their wakes by simulating up to 1,200 pounds of ballast weight in the transom of their boats. Used in conjunction with Surf Gate, wake surfers are able to customize the size and shape of the wave. The Manual Wedge is available on all Malibu and Axis brand boats. Unlike our Manual Wedge, the Power Wedge, available exclusively on our Malibu line, is fully automated and integrated within the Malibu Touch Command system, increasing functionality and ease-of-use for the driver. Re-engineered for model year 2015, we released the Power Wedge II. It features a larger foil and a 21% surface-area increase, which equates to an additional 300 pounds of simulated ballast, for a total of 1,500 pounds of wake-creating water displacement. In addition, a new upward angle increases lift, allowing the driver to achieve a fully loaded boat planing much faster.

G3/G4 Tower. Our G3 Towers, available on Malibu brand boats, are fully customizable with speakers, power lights and racks, enhancing the overall style, performance and functionality of our boats. Our G3 Tower can easily be folded down by one person with its weightless, gas spring-assisted design, making the G3 Tower safe and easy to store. We are the only manufacturer of performance sport boats that produces towers in-house, allowing us to control this critical design element of our boats. For model year 2015, we are offering a new G4 Tower featuring aerospace aluminum and an internal honeycomb structure to provide the optimal strength-to-weight ratio, making the G4 three times more rigid than its predecessor. The new design contains automatic visible locks, a fully integrated wiring harness, Z5 Bimini compatibility, and zero pinch points. The new G4 has an aggressive design yet preserves ease of use by taking less than 30 pounds of force to lift, lower, and latch.

Electronic Dashboard Controls. Every boat in our Wakesetter series is equipped with our MaliView and Malibu Touch Command ("MTC") systems, which function as an electronic command center that enhances the driver's experience by providing simple and quick control of all systems on board, including the Power Wedge and Surf Gate systems, rider presets, music, lighting and navigation. For the model year 2015, we are first to market with a 12-inch touchscreen. It joins our seven-inch MTC to form the display for our new Command Center, giving the driver endless data in an easy-to-navigate interface. Every major feature is on the home screen, menu paths have been streamlined and each component meets IP60 water-intrusion standards. Built with more processing power, higher levels of integration, a feature-packed new operating system and powerful wireless connectivity, the new Command Center represents the most advanced screen technology available on performance sport boats.

We also offer an array of less technological, but nonetheless value-added boat features such as gelcoat upgrades, upholstery upgrades, engine drivetrain enhancements (such as silent exhaust tips, propeller upgrades and closed cooling engine configuration), sound system upgrades, Bimini tops, boat covers and trailers which further increase the level of customization afforded to consumers.

Our Dealer Network

We rely on independent dealers to sell our products. We establish performance criteria that our dealers must meet as part of their dealer agreements to ensure our dealer network remains the strongest in the industry. As a member of our network, dealers in North America may qualify for floor plan financing programs, rebates, seasonal discounts, promotional co-op payments and other allowances. We believe our dealer network is the most extensive in the performance sport boat category. The majority of our dealers, including eight in our top ten markets, are exclusive to Malibu and Axis brand boats within the performance sport boat category, highlighting the commitment of our key dealers to our boats.

North America

In North America, we had a total of 143 dealer locations as of June 30, 2014. Of these locations, 15% sell our products exclusively, 61% are multi-line locations that only carry non-competitive brands and products and 24% sell our brands as well as other performance sport boat brands. Approximately 34% of our dealer locations have been with us for over ten years. For fiscal year 2013, our dealers held the #1 market share position for the performance sport boat category in 75 of 133 U.S. markets.

We consistently review our distribution network to identify opportunities to expand our geographic footprint and improve our coverage of the market. During the past six fiscal years, we have added 35 new dealer locations to serve previously underserved markets in North America, and these new dealers have sold over 725 additional units over the last six fiscal years. In addition, we have strengthened our dealer network by replacing 37 dealer locations in the past six fiscal years, 19 of which were converted from selling one of our competitor's products. We believe our outstanding dealer network allows us to distribute our products more efficiently than our competitors.

We do not have a significant concentration of sales among our dealers. For fiscal year 2014, our top ten dealers accounted for 34.1% of our units sold and none of our dealers accounted for more than 4.7% of our total sales volume. We believe that our strong market position in each region of the United States will help us capitalize on growth opportunities as our industry continues to recover from the economic downturn. In particular, we expect to generate continued growth in the southwestern United States (which includes California), a region that experienced the most pronounced decline in sales of new performance sport boats and where we have our highest regional market share. The following graph provides a comparison of the number of units sold by U.S. geographic region during fiscal year 2006, when the market was generally at its pre-recession peak, and calendar year 2013, as well as our U.S. market share in the performance sport boat category for calendar year 2013:

Market Size and Our Market Share by Region

Market Share	34%	31%	32%	29%	36%	39%
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International

Less than 5.0% of our unit volume for fiscal years 2014 and 2013 was generated outside of North America. For these international sales, we rely in part on our relationship with an independent representative with whom we have had a relationship for over 17 years. The independent representative services international dealer arrangements in Europe, the Middle East and South Africa on our behalf and is responsible for certain international dealer relationships, dealer sourcing and account management, which includes order management and customer service support. Under the terms of the agreement with the independent representative, the independent representative purchases boats directly from us at a predetermined percentage discount. These sales are made under the same terms and conditions offered to all dealers, which include, among other things, no right of return except in limited circumstances under our warranty policy. Like sales to our dealers, there are no continuing performance obligations in connection with our sales to the independent representative. Revenue from these sales is recognized in accordance with our customary shipping terms, free on board shipping point. A fixed percentage discount is earned by the independent representative at the time a boat is shipped as a reduction in the price of the boat and is recorded in our consolidated statement of operations as a reduction in sales. In 2013, we restructured our agreement with this representative and our Australian licensee to allow for direct coverage by us of Central America, South America and most of Asia and Africa. In Europe, we had a total of 32 independent dealer locations in 20 countries as of June 30, 2014. In Asia, 12 independent dealer locations marketed our boats in 10 countries as of June 30, 2014. In the rest of the world (other than Australia), we engaged 8 independent dealer locations in 6 countries as of June 30, 2014. In Australia, as discussed below, we have a direct relationship with a licensee.

Australia License

Our Malibu and Axis lines have been manufactured and sold in Australia by an exclusive licensee, Malibu Boats Pty Ltd, since 1995. This licensing arrangement has contributed significantly to our large market share in the Australian market, where we believe our brands outsold our most significant competitors at a three-to-one ratio during the year ended December 31, 2013.

We entered into an Exclusive Manufacture and Distribution Agreement with Malibu Boats Pty Ltd. in 2006, as subsequently amended. The agreement has a term of 15 years, with a 15-year automatic renewal period, and is generally terminable for cause with 30 days' prior notice. Pursuant to the agreement, Malibu Boats Pty Ltd has the exclusive right to manufacture and distribute Malibu and Axis products and spare parts in Australia and New Zealand. We sell to Malibu Boats Pty Ltd certain materials that it requires to manufacture Malibu and Axis products and we also sell complete boats for resale in the covered territory. Further, we have granted a license to Malibu Boats Pty Ltd to display our trademarks and brand names on the products it manufactures under the agreement. We also provide Malibu Boats Pty Ltd with certain marketing assistance. On a quarterly basis, we receive royalties on the gross revenue from the sale of Malibu and Axis products sold by Malibu Boats Pty Ltd. Pursuant to the agreement, Malibu Boats Pty Ltd agrees to, among other things:

- refrain from selling or distributing any of our competitors' products;
- maintain design and quality control standards prescribed by us;
- promote and demonstrate Malibu and Axis products to consumers; and
- indemnify us for certain claims.

On June 2, 2014, we entered into a non-binding letter of intent to acquire all of the equity interest of the Malibu Boats licensee in Australia. The Australian license business is operated by Malibu Boats Pty Ltd. and includes distribution rights in the Australia and New Zealand markets as well as a manufacturing facility in Albury, Australia. The proposed acquisition is expected to close in the first half of fiscal year 2015 subject to negotiation and execution of definitive documentation.

Dealer Management

Our relationship with our dealers is governed through dealer agreements. Each dealer agreement has a finite term lasting between one and three years. Our dealer agreements also are typically terminable without cause by the dealer at any time and by us with 90 days' prior notice. We may also generally terminate these agreements immediately for cause upon certain events. Pursuant to our dealer agreements, the dealers typically agree to, among other things:

- represent our products at specified boat shows;
- market our products only to retail end users in a specific geographic territory;
- promote and demonstrate our products to consumers;
- place a specified minimum number of orders of our products during the term of the agreement in exchange for rebate eligibility that varies according to the level of volume they commit to purchase;
- provide us with regular updates regarding the number and type of our products in their inventory;
- maintain a service department to service our products, and perform all appropriate warranty service and repairs; and
- indemnify us for certain claims.

Our dealer network, including all additions, renewals, non-renewals or terminations, is managed by our sales personnel. Our sales team operates using a semi-annual dealer review process involving our senior management team. Each individual dealer is reviewed semi-annually with a broad assessment across multiple key elements, including the dealer's geographic region, market share and customer service ratings, to identify underperforming dealers for remediation and to manage the transition process when non-renewal or termination is a necessary step.

We have developed a system of financial incentives for our dealers based on customer satisfaction and achievement of best practices. Our dealer incentive program has been refined through nearly 30 years of experience and provides the following key elements:

Rebates. Our dealers agree to an annual commitment volume that places each dealer into a certain rebate tier and determines its prospective rebate percentage. If a dealer meets its annual commitment volume as well as other terms of the rebate program, the dealer is entitled to the specified rebate. Failure to meet the commitment volume may result in partial or complete forfeiture of the dealer's rebate.

Co-op. Dealers of the Malibu product line may earn certain co-op reimbursements upon reaching a specified level of qualifying expenditures.

Free flooring. Our dealers that take delivery of current model year boats in the offseason, typically July through April, are 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. This program is an additional incentive to encourage dealers to order in the offseason and helps us balance our seasonal production.

Our dealer incentive programs are also structured to promote more evenly distributed ordering throughout the fiscal year, which allows us to achieve better level-loading of our production and thereby generate plant operating efficiencies. In addition, these programs offer further rewards for dealers who are exclusive to Malibu and Axis in our performance sport boat category.

Floor Plan Financing

Our North American dealers often purchase boats through floor plan financing programs with third-party floor plan financing providers. During fiscal year 2014, approximately 80% of our domestic shipments were made pursuant to floor plan financing programs through which our dealers participate. These programs allow dealers to establish lines of credit with third-party lenders to purchase inventory. Under these programs, a dealer draws on the floor plan facility upon the purchase of our boats and the lender pays the invoice price of the boats. As is typical in our industry, we have entered into repurchase agreements with certain floor plan financing providers to our dealers. Under the terms of these arrangements, in the event a lender repossesses a boat from a dealer that has defaulted on its floor financing arrangement and is able to deliver the repossessed boat to us, we are obligated to repurchase the boat from the lender. Our obligation to repurchase such repossessed products for the unpaid balance of our original invoice price for the boat is subject to reduction or limitation based on the age and condition of the boat at the time of repurchase, and in certain cases by an aggregate cap on repurchase obligations associated with a particular floor financing program. Our exposure under repurchase agreements with third-party lenders is mitigated by our ability to reposition inventory with a new dealer in the event that a repurchase event occurs. The primary cost to us of a repurchase event is any loss on the resale of a repurchased unit, which is often less than 10% of the repurchase amount. Since July 1, 2010, we have not repurchased any boats under our repurchase agreements.

Marketing and Sales

As of June 30, 2014, we employed seven specialized and dedicated sales professionals. We believe that providing a high level of service to our dealers and end consumers is essential to maintaining our excellent reputation. Our sales personnel receive training on the latest Malibu Boats products and technologies, as well as training on our competitors' products and technologies, and attend trade shows to increase their market knowledge. This training is then passed along to our dealers to ensure a consistent marketing message and leverage our marketing expenditures. We enjoy strong brand awareness, as evidenced by our substantial market share.

Our marketing strategy focuses on strengthening and promoting the Malibu and Axis brands in the recreational boating marketplace. An important element of our marketing strategy involves specialized promotions at competitive water sports events, and individual and team sponsorships. Our leading position in the performance sport boat category is supported by our sponsorship of some of the most prestigious water sports competitions, including the Red Bull Wake Open, Malibu Open and World Wakeboard Association Riders Experience, which we believe positively influences the purchasing habits of enthusiasts and other consumers seeking high-performance products. These events feature the most popular figures in water sports, drawing large audiences of enthusiasts to a variety of sites around the country. Further, we sponsor a team of elite male and female athletes from the professional water sports tours. Team Malibu includes legendary wakeboarders such as Phil Soven, named "King of Wake" at the 2013 Surf Expo, Dallas Friday, winner of the 2004 ESPY for "Best Female Action Sports Athlete," Ralph Derome, winner of WakeWorld.com's "Rail Rider of the Year" for 2013, and Amber Wing, winner of TransWorld's "Best Women's Rider" for 2013. We believe that the performance of our products has been demonstrated by, and our brands benefit from, the success of professional athletes who use our products.

In addition to our website and traditional marketing channels, such as print advertising and tradeshow, we maintain an active digital advertising and social media platform, including use of Facebook and Twitter to increase brand awareness, foster loyalty and build a community of users. In addition, we benefit from the various Malibu and Axis user-generated videos and photos that are uploaded to websites including YouTube, Vimeo and Instagram. As strategies and marketing plans are developed for our products, our internal marketing and communications group works to ensure brand cohesion and consistency. We believe that our marketing initiatives, as well as our strategic

focus on product innovation, performance and quality attracts aspiring and enthusiast consumers to our brands and products.

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Product Development and Engineering

We are strategically and financially committed to innovation, as reflected in our dedicated product development and engineering group and evidenced by our track record of new product introduction. Our product development and engineering group spans both our Tennessee headquarters and our California facility and comprises nine professionals. These individuals bring to our product development efforts significant expertise across core disciplines, including boat design, computer-aided design, electrical engineering and mechanical engineering. They are responsible for execution of all facets of our new product strategy, including designing new and refreshed boat models and new features, engineering these designs for manufacturing and integrating new features into our boats. In addition, our Chief Executive Officer and Chief Operating Officer are actively involved in the product development process and integration into manufacturing.

We take a disciplined approach to the management of our product development strategy. We use a formalized phase gate process, overseen by a dedicated project manager, to develop, evaluate and implement new product ideas for both boat models and innovative features. Application of the phase gate process requires management to establish an overall timeline that is sub-divided into milestones, or “gates,” for product development. Setting milestones at certain intervals in the product development process ensures that each phase of development occurs in an organized manner and enables management to become aware of and address any issues in timely fashion, which facilitates on-time, on-target release of new products with expected return on investment. Extensive testing and coordination with our manufacturing group are important elements of our product development process, which we believe enable us to minimize the risk associated with the release of new products. Our phase gate process also facilitates our introduction of new boat models and features throughout the year, which we believe provides us with a competitive advantage in the marketplace. Finally, in addition to our process for managing new product introductions in a given fiscal year, we also engage in longer-term product lifecycle and product portfolio planning.

Manufacturing

Our manufacturing efforts are led by our Chief Operating Officer, who brings 30 years of experience in the manufacture of performance sport boats, supported by a workforce of 372 employees as of June 30, 2014. We manufacture all of our boats at our Tennessee facility, and we manufacture towers, tower accessories and stainless steel and aluminum billet at our California facility.

Our boats are built through a continuous flow manufacturing process that encompasses fabrication, assembly, quality management and testing. Each boat is produced over a seven-day cycle that includes the fabrication of the hull and deck through gelcoat application and fiberglass lamination, grinding and hole cutting, installation of components, rigging, finishing, detailing and on-the-water testing. We manufacture certain components and subassemblies for our boats, such as upholstery, stainless steel and aluminum billet and towers. We procure other components, such as engines and electronic controls, from third-party vendors and install them on the boat.

We acquired our tower and tower accessory manufacturing capability in 2009 through the acquisition of certain assets of Titan Wake Accessories, which had been one of our suppliers. Tower-related manufacturing occurs in our Merced-based machine shop, where we use multiple computer-controlled machines to cut all of the aluminum parts required for tower assembly. We are the only performance sport boat company that manufactures towers in-house. We believe that the vertical integration of these components is a distinct competitive advantage that allows us to control key design elements of our boats and generate higher margins.

We are committed to continuous improvement in our operations, and our efforts in this regard have resulted in higher gross margins. Specifically, we have increased labor efficiency, reduced cost of materials and reduced warranty claims. Our production engineers evaluate and seek to optimize the configuration of our production line given our production volumes and model mix. We use disciplined mold maintenance procedures to maintain the usable life of our molds and to reduce surface defects that would require rework. We have instituted scrap material reduction and recovery processes, both internally and with our supplier base, helping to manage our material costs. Finally, we have implemented a quality management system to ensure that proper procedures and control measures are in place to deliver consistent, high-quality product, especially as our production volumes have increased.

We focus on worker safety in our operations. From July 1, 2012 through June 30, 2014, we recorded 1,268,634 consecutive man-hours without a lost-time accident in our Tennessee facility, an accomplishment that has reduced workers' compensation claims and warranty costs, as our most experienced employees continue to remain on the job.

Suppliers

We purchase a wide variety of raw materials from our supplier base, including resins, fiberglass, hydrocarbon feedstocks and steel, as well as product parts and components, such as engines and electronic controls, through a sales order process.

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We belong to Independent Boat Buildings, Inc., or IBBI, a 20-member marine purchasing cooperative and sit on its board of directors. Membership in IBBI is limited to top-tier manufacturers and is not only helpful for procuring materials, but also helps us stay abreast of technological developments and industry best practices. Although we purchase certain supplies, such as fiberglass and resins, through the IBBI cooperative agreement, we maintain informal arrangements with third-party suppliers outside of the IBBI agreement for other raw materials and components, which we believe ensures that our boats are constructed using the best available components and raw materials.

We have not experienced any material shortages in any of our raw materials, product parts or components. Temporary shortages, when they do occur, usually involve manufacturers of these products adjusting model mixes, introducing new product lines or limiting production in response to an industry-wide reduction in boat demand.

The most significant component used in manufacturing our boats, based on cost, are engines. We maintain a strong and long-standing relationship with our primary supplier of engines, and we have also developed a relationship with a second supplier from whom we expect to source approximately 30% of our engines for fiscal year 2015. As is typical in our industry, our engine suppliers are marinizers of engines that they procure from larger engine block manufacturers, such as General Motors Corporation.

Insurance and Product Warranties

We carry various insurance policies, including policies to cover general products liability, workers' compensation and other casualty and property risks, to protect against certain risks of loss consistent with the exposures associated with the nature and scope of our operations. Our policies are generally based on our safety record as well as market trends in the insurance industry and are subject to certain deductibles, limits and policy terms and conditions.

We provide limited product warranties, generally covering periods from 12 to 36 months for Malibu brand boats and 12 to 24 months for Axis brand boats. During the warranty period, we reimburse dealers and Malibu Boats authorized service facilities for all or a portion of the cost of repair or replacement performed on the products (mainly composed of parts or accessories provided by us and labor costs incurred by dealers or Malibu Boats authorized service facilities). Some materials, components or parts of the boat that are not covered by our limited product warranties are separately warranted by their manufacturers or suppliers. These other warranties include warranties covering engines and trailers, among other components.

Intellectual Property

We rely on a combination of patent, trademark and copyright protection, trade secret laws, confidentiality procedures and contractual provisions to protect our rights in our brand, products and proprietary technology. This is an important part of our business and we intend to continue protecting our intellectual property. We currently hold twelve U.S. patents, nine pending U.S. patent applications, three pending Australian patent applications and two international (PCT) patents. On June 27, 2014, Nautique Boat Company, Inc. filed a petition with the U.S. Patent and Trademark Office requesting institution of an Inter Partes Review of our U.S. Pat. No. 8,539,897. We intend to vigorously defend the patented technology of the '897 patent. For more information, see Note 14 to our audited consolidated financial statements included elsewhere in this Annual Report.

We own 26 registered trademarks in various countries around the world, and we have made applications for four additional registrations. Such trademarks may endure in perpetuity on a country-by-country basis, provided that we comply with all statutory maintenance requirements, including continued use of each trademark in each such country. We currently do not own any registered copyrights.

Competition

The powerboat industry, including the performance sport boat category, is highly competitive for consumers and dealers. Competition affects our ability to succeed in the markets we currently serve and new markets that we may enter in the future. We compete with several large manufacturers that may have greater financial, marketing and other resources than we do. We compete with large manufacturers who are represented by dealers in the markets in which we now operate and into which we plan to expand. We also compete with a wide variety of small, independent manufacturers. Competition in our industry is based primarily on brand name, price and product performance. For more information, see Item 1A. "Risk Factors-Risks Related to Our Business-Our industry is characterized by intense competition, which affects our sales and profits."

Environmental, Safety and Regulatory Matters

Certain materials used in our manufacturing, including the resins used in production of our boats, are toxic, flammable, corrosive or reactive and are classified by the federal and state governments as “hazardous materials.” Control of these substances is regulated by the Environmental Protection Agency, or EPA, and state pollution control agencies. The Occupational Safety and Health Administration, or OSHA, standards limit the amount of emissions to which an employee may

be exposed without the need for respiratory protection or upgraded plant ventilation. Our facilities are regularly inspected by OSHA and by state and local inspection agencies and departments. We believe that our facilities comply in all material aspects with these regulations. Although capital expenditures related to compliance with environmental laws are expected to increase, we do not currently anticipate any material expenditure will be required to continue to comply with existing environmental or safety regulations in connection with our existing manufacturing facilities. Powerboats sold in the United States must be manufactured to meet the standards of certification required by the United States Coast Guard. In addition, boats manufactured for sale in the European Community must be certified to meet the European Community's imported manufactured products standards. These certifications specify standards for the design and construction of powerboats. We believe that all of our boats meet these standards. In addition, safety of recreational boats is subject to federal regulation under the Boat Safety Act of 1971, which requires boat manufacturers to recall products for replacement of parts or components that have demonstrated defects affecting safety. We have instituted recalls for defective component parts produced by certain of our third-party suppliers. None of the recalls has had a material adverse effect on our Company.

The EPA has adopted regulations stipulating that many marine propulsion engines meet an air emission standard that requires fitting a catalytic converter to the engine. These regulations also require, among other things, that engine manufacturers provide a warranty that their engines meet EPA emission standards. The engines used in our products are subject to these regulations. This regulation has increased the cost to manufacture our products.

Employees

We believe we maintain excellent relations with our employees, treating them as business partners and focusing on building careers. As of June 30, 2014, more than 17.0% of our employees had been with us for ten or more years. As of June 30, 2014, we employed 411 people, 346 of whom work at our facilities in Tennessee, 57 of whom work at our California site and eight who work remotely. As of June 30, 2014, approximately 16.0% of our employees were salaried and 84.0% were hourly workers. None of our employees are represented by a labor union and, since our founding in 1982, we have never experienced a labor-related work stoppage. Since 2012, we have engaged an outside consultant to assist with employee training, in order to provide our employees a path for upward mobility and develop leadership skills applicable to their day-to-day responsibilities.

History and Formation Transactions

Company History

In 1982, a group of six friends who shared a common passion for waterskiing decided to start building custom ski boats in a small shop in Merced, California. Robert Alkema founded the company and chose the Malibu Boats brand name. During our first year of operation, Malibu Boats built two boats per week using a single-hull design and each boat, with its blended gel coat design, had a distinct California flair. Only two years later, we were building over 400 boats per year. By 1988, the California plant was manufacturing at full capacity. To satisfy increased demand, we opened a second plant in Tennessee and by the end of 1988 were building almost 1,000 boats annually. That year also marked the year we received our first Product Excellence award from Powerboat magazine.

Growth continued throughout the early 1990s and, in 1992, we built a new production facility near Knoxville, Tennessee to accommodate increased demand east of the Mississippi. During that time, we became the first boat manufacturer to use computers in our initial boat designs and introduced a new, patented, fiberglass engine chassis system that eliminated vibration and noise associated with the drivetrain.

Water sports evolved in the late 1990s and wakeboarding quickly gained in popularity. To capitalize on this growing trend, we introduced the WakeSetter model and the wakeboarding-focused Manual Wedge feature, which created an enhanced, "rampy" wake without the need for ballast tanks.

In 1999, we sponsored The Malibu Open water ski championships, which quickly became a premier event for slalom, trick and jump waterskiing. Shortly thereafter, the Malibu Just Ride wakeboard series, the first wakeboard-specific event that did not include water skiing, kicked off in the United States in 2001.

By 2003, we had captured the leading market share position in the performance sport boat category.

In 2006, we were acquired by an investor group, including affiliates of Black Canyon Capital LLC, Horizon Holdings, LLC and then-current management. In 2008 and 2009, we, like almost every manufacturer in the marine industry, experienced significant volume declines as a result of the global recession. In the midst of the recession, in May 2009, Jack Springer took over as our interim Chief Executive Officer and became Chief Executive Officer in February 2010.

Wayne Wilson became our Chief Financial Officer in November 2009. In 2011, Ritchie Anderson joined our senior management team as Vice President of

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Operations and was later named Chief Operating Officer. This highly talented team with complementary skill sets has been instrumental in leading our company out of the recession, achieving #1 market share and developing our strategies for continued growth. In February 2014, we completed our initial public offering of Class A Common Stock on the NASDAQ Global Select Market, as discussed in more detail below.

Our Organizational Structure

Malibu Boats, Inc. was incorporated as a Delaware corporation on November 1, 2013 in anticipation of the IPO to serve as a holding company that owns only an interest in Malibu Boats Holdings, LLC. Immediately after the completion of the Recapitalization (as defined below) and IPO, Malibu Boats Inc. held approximately 49.3% of the economic interest in the LLC, which increased after the follow-on offering described below to approximately 68.8% of the economic interest in the LLC.

The certificate of incorporation of Malibu Boats, Inc. authorizes two classes of common stock, Class A Common Stock and Class B Common Stock. Holders of our Class A Common Stock and our Class B Common Stock have voting power over Malibu Boats, Inc., the sole managing member of the LLC, at a level that is consistent with their overall equity ownership of our business. In connection with the Recapitalization and IPO, Malibu Boats, Inc. issued to each pre-IPO owner, for nominal consideration, one share of Class B Common Stock of Malibu Boats, Inc., each of which provides its owner with no economic rights but entitles the holder to one vote on matters presented to stockholders of Malibu Boats, Inc. for each LLC Unit held by such holder. Pursuant to our certificate of incorporation and bylaws, each share of Class A Common Stock entitles the holder to one vote with respect to each matter presented to our stockholders on which the holders of Class A Common Stock are entitled to vote. Each holder of Class B Common Stock is entitled to the number of votes equal to the total number of LLC units held by such holder multiplied by the exchange rate specified in the exchange agreement with respect to each matter presented to our stockholders on which the holders of Class B Common Stock are entitled to vote. Accordingly, the holders of LLC Units collectively have a number of votes that is equal to the aggregate number of LLC Units that they hold. As the LLC members sell LLC Units to us or subsequently exchange LLC Units for shares of Class A Common Stock of Malibu Boats, Inc. pursuant to the exchange agreement described below, the voting power afforded to them by their shares of Class B Common Stock is automatically and correspondingly reduced. Subject to any rights that may be applicable to any then outstanding preferred stock, our Class A and Class B Common Stock vote as a single class on all matters presented to our stockholders for their vote or approval, except as otherwise provided in our certificate of incorporation or bylaws or required by applicable law. In addition, subject to preferences that may apply to any shares of preferred stock outstanding at the time, the holders of our Class A Common Stock are entitled to share equally, identically and ratably in any dividends or distributions (including in the event of any voluntary or involuntary liquidation, dissolution or winding up of our affairs) that our board of directors may determine to issue from time to time, while holders of our Class B Common Stock do not have any right to receive dividends or other distributions. As noted above, Malibu Boats, Inc. is a holding company with a controlling equity interest in the LLC. Malibu Boats, Inc., as sole managing member of the LLC, operates and controls all of the business and affairs and consolidates the financial results of the LLC. The limited liability company agreement of the LLC provides that it may be amended, supplemented, waived or modified by the written consent of Malibu Boats, Inc., as managing member of the LLC, in its sole discretion without the approval of any other holder of LLC Units, except that no amendment may materially and adversely affect the rights of a holder of LLC Units, other than on a pro rata basis with other holders of LLC Units, without the consent of such holder (unless more than one holder is so affected, then the consent of a majority of such affected holders is required). Pursuant to the limited liability company agreement of the LLC, Malibu Boats, Inc. has the right to determine when distributions (other than tax distributions) will be made to the members of the LLC and the amount of any such distributions. If Malibu Boats, Inc. authorizes a distribution, such distribution will be made to the members of the LLC (including Malibu Boats, Inc.) pro rata in accordance with the percentages of their respective LLC Units.

Recapitalization

Immediately prior to the closing of the IPO of Malibu Boats, Inc. on February 5, 2014, a new single class of LLC Units of Malibu Boats Holdings, LLC, was allocated among the pre-IPO owners in exchange for their prior membership interests of the LLC pursuant to the distribution provisions of the former limited liability company agreement of the LLC based upon the liquidation value of the LLC, assuming it was liquidated at the time of the IPO

with a value implied by the initial public offering price of the shares of Class A Common Stock sold in the IPO. Immediately prior to the closing of the IPO, there were 17,071,424 LLC Units issued and outstanding. Further, on February 4, 2014 (prior to the closing of the IPO), two holders of membership interests in the LLC merged with and into two newly formed subsidiaries of Malibu Boats, Inc. As a result of these mergers, the sole stockholders of each of the two merging entities received shares of Class A Common Stock in exchange for shares of capital stock of the merging entities.

Also, we redeemed for nominal consideration, the initial 100 shares of Class A Common Stock issued to our initial stockholder in connection with our formation.

We refer to the foregoing transactions as the “Recapitalization.”

IPO and Follow-On Offering

On February 5, 2014, we completed our IPO of 8,214,285 shares of Class A Common Stock at a price to the public of \$14.00 per share, of which 7,642,996 shares were issued and sold by us and 571,289 shares were sold by selling stockholders. This included 899,252 shares issued and sold by us and 172,175 shares sold by selling stockholders pursuant to the over-allotment option granted to the underwriters, which was exercised concurrently with the closing of the IPO. The aggregate gross proceeds from the IPO were \$115.0 million. Of these proceeds, we received \$99.5 million and the selling stockholders received \$7.4 million, after deducting \$8.1 million in underwriting discounts and commissions. With the proceeds we received, approximately \$29.8 million was used to purchase units in the LLC, or the LLC Units, directly from the pre-IPO owners and \$69.8 million was used to purchase newly issued LLC Units from the LLC, which the LLC then used (i) to pay down all of the amounts owed under the LLC’s credit facilities and term loans in the amount of \$63.4 million, (ii) to pay Malibu Boats Investor, LLC, an affiliate of the LLC, a fee of \$3.8 million in connection with the termination of the LLC’s management agreement upon consummation of the IPO, and (iii) for general corporate purposes with the remaining approximately \$2.7 million. In connection with the repayment of the LLC’s credit facilities and term loans, debt issuance costs associated with the term loans were written off to interest expense.

On July 15, 2014, we completed a follow-on public offering of 5,520,000 shares of our Class A Common Stock at a price to the public of \$18.50 per share, of which 4,371,893 shares were issued and sold by us and 1,148,107 shares were sold by selling stockholders. This included 538,252 shares issued and sold by us and 181,748 shares sold by selling stockholders pursuant to the over-allotment option granted to the underwriters, which was exercised concurrently with the closing of the follow-on offering. The aggregate gross proceeds from the follow-on offering were \$102.1 million. Of these proceeds, we received \$76.8 million and the selling stockholders received \$20.2 million, after deducting \$5.1 million in underwriting discounts and commissions. We used all of the proceeds we received to purchase LLC Units directly from the holders of LLC Units.

The diagram below depicts our current organizational structure, as of September 24, 2014:

Our organizational structure allows the LLC members to retain their equity ownership in the LLC, an entity that is classified as a partnership for U.S. federal income tax purposes, in the form of LLC Units. Holders of Class A Common Stock, by contrast, hold their equity ownership in Malibu Boats, Inc., a Delaware corporation that is a domestic corporation for U.S. federal income tax purposes, in the form of shares of Class A Common Stock. We believe that the LLC members generally will find it advantageous to hold their equity interests in an entity that is not taxable as a corporation for U.S. federal income tax purposes. The holders of LLC Units, including Malibu Boats, Inc., will incur U.S. federal, state and local income taxes on their proportionate share of any taxable income of the LLC. Net profits and net losses of the LLC will generally be allocated to the LLC's members (including Malibu Boats, Inc.) pro rata in accordance with the percentages of their respective limited liability company interests. The limited liability company agreement provides for cash distributions to the holders of LLC Units if Malibu Boats, Inc. determines that the taxable income of the LLC will give rise to taxable income for its members. In accordance with the limited liability company agreement, we intend to cause the LLC to make cash distributions to the holders of LLC Units for purposes of funding their tax obligations in respect of the income of the LLC that is allocated to them. Generally, these tax distributions will be computed based on our estimate of the taxable income of the LLC allocable to such holder of LLC Units multiplied by an assumed tax rate equal to the highest effective marginal combined U.S. federal, state and local income tax rate prescribed for an individual or corporate resident in Los Angeles, California (taking into account the nondeductibility of certain expenses and the character of our income). For purposes of determining the taxable income of the LLC, such determination will be made by generally disregarding any adjustment to the taxable income of any member of the LLC that arises under the tax basis adjustment rules of the Internal Revenue Code of 1986, as amended, or the Code and is attributable to the acquisition by such member of an interest in the LLC in a sale or exchange transaction.

Exchanges and Other Transactions with Holders of LLC Units

In connection with the Recapitalization and IPO, we entered into an exchange agreement with the pre-IPO owners of the LLC under which (subject to the terms of the exchange agreement) each pre-IPO owner (or its permitted transferee) has the right to exchange its LLC Units for shares of our Class A Common Stock on a one-for-one basis, subject to customary conversion rate adjustments for stock splits, stock dividends and reclassifications, or, at our option, except in the event of a change in control, for a cash payment equal to the market value of the Class A Common Stock. The exchange agreement provides, however, that such exchanges must be for a minimum of the lesser of 1,000 LLC Units, all of the LLC Units held by the holder, or such amount as we determine to be acceptable. The exchange agreement also provides that an LLC member will not have the right to exchange LLC Units if Malibu Boats, Inc. determines that such exchange would be prohibited by law or regulation or would violate other agreements with Malibu Boats, Inc. to which the LLC member may be subject or any of our written policies related to unlawful or insider trading. The exchange agreement also provides that Malibu Boats, Inc. may impose additional restrictions on exchanges that it determines to be necessary or advisable so that the LLC is not treated as a “publicly traded partnership” for U.S. federal income tax purposes. In addition, pursuant to the limited liability company agreement of the LLC, Malibu Boats, Inc., as managing member of the LLC, has the right to require all members of the LLC to exchange their LLC Units for Class A Common Stock in accordance with the terms of the exchange agreement, subject to the consent of Black Canyon Management LLC and the holders of a majority of outstanding LLC Units other than those held by Malibu Boats, Inc.

As a result of exchanges of LLC Units into Class A Common Stock and purchases by Malibu Boats, Inc. of LLC Units from holders of LLC Units, like we completed in our IPO and follow-on offering, Malibu Boats, Inc. will become entitled to a proportionate share of the existing tax basis of the assets of the LLC at the time of such exchanges or purchases. In addition, such exchanges and purchases of LLC Units are expected to result in increases in the tax basis of the assets of the LLC that otherwise would not have been available. These increases in tax basis may reduce the amount of tax that Malibu Boats, Inc. would otherwise be required to pay in the future. These increases in tax basis may also decrease gains (or increase losses) on future dispositions of certain capital assets to the extent tax basis is allocated to those capital assets. We have entered into a tax receivable agreement with the pre-IPO owners (or their permitted assignees) that provides for the payment by Malibu Boats, Inc. to the pre-IPO owners (or their permitted assignees) of 85% of the amount of the benefits, if any, that Malibu Boats, Inc. is deemed to realize as a result of (1) increases in tax basis and (2) certain other tax benefits related to our entering into the tax receivable agreement, including tax benefits attributable to payments under the tax receivable agreement. These payment obligations are obligations of Malibu Boats, Inc. and not of the LLC.

Available Information

Our Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and amendments to reports filed or furnished pursuant to Sections 13(a) and 15(d) of the Securities Exchange Act of 1934, as amended, or the Exchange Act are available on our web site at www.malibuboats.com, free of charge, as soon as reasonably practicable after the electronic filing of these reports with, or furnishing of these reports to, the Securities and Exchange Commission, or the SEC. Any materials we file with the SEC are available at the SEC’s Public Reference Room at 100 F Street, NE, Washington, DC 20549. Additional information about the operation of the Public Reference Room can also be obtained by calling the SEC at 1-800-SEC-0330. In addition, the SEC maintains a web site at www.sec.gov that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC, including us.

Item 1A. Risk Factors

The following describes the risks and uncertainties that could cause our actual results to differ materially from those presented in our forward-looking statements. The risks and uncertainties described below are not the only ones we face but do represent those risks and uncertainties that we believe are material to us. Additional risks and uncertainties not presently known to us or that we currently deem immaterial may also harm our business.

Risks Related to Our Business

General economic conditions, particularly in the United States, affect our industry, demand for our products, and our business and results of operations.

General economic conditions continue to be challenging as the economy recovers from the effects of the financial crisis that led to the last recession in the United States. Demand for new performance sport boats has been significantly influenced by weak economic conditions, low consumer confidence and high unemployment and increased market volatility worldwide, especially in the United States. In times of economic uncertainty and contraction, consumers tend to have less discretionary income and to defer or avoid expenditures for discretionary items, such as our products. Sales of our products are highly sensitive to personal discretionary spending levels, and our success depends on general economic conditions and overall

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consumer confidence and personal income levels. Any deterioration in general economic conditions that diminishes consumer confidence or discretionary income may reduce our sales and adversely affect our business, financial condition and results of operations. We cannot predict the duration or strength of an economic recovery, either in the United States or in the specific markets where we sell our products.

Consumers often finance purchases of our products. Although consumer credit markets have improved, consumer credit market conditions continue to influence demand, especially for boats, and may continue to do so. There continue to be fewer lenders, tighter underwriting and loan approval criteria and greater down payment requirements than in the past. If credit conditions worsen, and adversely affect the ability of consumers to finance potential purchases at acceptable terms and interest rates, it could result in a decrease in the sales of our products.

Our annual and quarterly financial results are subject to significant fluctuations depending on various factors, many of which are beyond our control.

Our sales and operating results can vary significantly from quarter to quarter and year to year depending on various factors, many of which are beyond our control. These factors include, but are not limited to:

- seasonal consumer demand for our products;
- discretionary spending habits;
- changes in pricing in, or the availability of supply in, the used powerboat market;
- variations in the timing and volume of our sales;
- the timing of our expenditures in anticipation of future sales;
- sales promotions by us and our competitors;
- changes in competitive and economic conditions generally;
- consumer preferences and competition for consumers' leisure time;
- impact of unfavorable weather conditions;
- changes in the cost or availability of our labor; and
- increased fuel prices.

As a result, our results of operations may decline quickly and significantly in response to changes in order patterns or rapid decreases in demand for our products. We anticipate that fluctuations in operating results will continue in the future.

We depend on our network of independent dealers, face increasing competition for dealers and have little control over their activities.

Substantially all of our sales are derived from our network of independent dealers. We have agreements with the dealers in our network that typically provide for one-year terms, although some agreements have a term of up to three years. For fiscal years 2014 and 2013, our top ten dealers accounted for 34.1% and 36.1%, respectively, of our total units sold. The loss of a significant number of these dealers could have a material adverse effect on our financial condition and results of operations. The number of dealers supporting our products and the quality of their marketing and servicing efforts are essential to our ability to generate sales. Competition for dealers among performance sport boat manufacturers continues to increase based on the quality, price, value and availability of the manufacturer's products, the manufacturer's attention to customer service and the marketing support that the manufacturer provides to the dealers. We face intense competition from other performance sport boat manufacturers in attracting and retaining dealers, and we cannot assure you that we will be able to attract or retain relationships with qualified and successful dealers. We cannot assure you that we will be able to maintain or improve our relationship with our dealers or our market share position. A substantial deterioration in the number of dealers or quality of our network of dealers would have a material adverse effect on our business, financial condition and results of operations.

Our success depends, in part, upon the financial health of our dealers and their continued access to financing. Because we sell nearly all of our products through dealers, their financial health is critical to our success. Our business, financial condition and results of operations may be adversely affected if the financial health of the dealers that sell our products suffers. Their financial health may suffer for a variety of reasons, including a downturn in general economic

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conditions, rising interest rates, higher rents, increased labor costs and taxes, compliance with regulations and personal financial issues.

In addition, our dealers require adequate liquidity to finance their operations, including purchases of our products. Dealers are subject to numerous risks and uncertainties that could unfavorably affect their liquidity positions, including, among other things, continued access to adequate financing sources on a timely basis on reasonable terms. These sources of financing are vital to our ability to sell products through our distribution network. Access to floor plan financing generally facilitates our dealers' ability to purchase boats from us, and their financed purchases reduce our working capital requirements. If floor plan financing were not available to our dealers, our sales and our working capital levels would be adversely affected. The availability and terms of financing offered by our dealers' floor plan financing providers will continue to be influenced by:

- their ability to access certain capital markets and to fund their operations in a cost-effective manner;
- the performance of their overall credit portfolios;
- their willingness to accept the risks associated with lending to dealers; and
- the overall creditworthiness of those dealers.

We may be required to repurchase inventory of certain dealers.

Many of our dealers have floor plan financing arrangements with third-party finance companies that enable the dealers to purchase our products. In connection with these agreements, we may have an obligation to repurchase our products from a finance company under certain circumstances, and we may not have any control over the timing or amount of any repurchase obligation nor have access to capital on terms acceptable to us to satisfy any repurchase obligation. This obligation is triggered if a dealer defaults on its debt obligations to a finance company, the finance company repossesses the boat and the boat is returned to us. Our obligation to repurchase a repossessed boat for the unpaid balance of our original invoice price for the boat is subject to reduction or limitation based on the age and condition of the boat at the time of repurchase, and in certain cases by an aggregate cap on repurchase obligations associated with a particular floor financing program. If we were obligated to repurchase a significant number of units under any repurchase agreement, our business, operating results and financial condition could be adversely affected.

If we fail to manage our manufacturing levels while still addressing the seasonal retail pattern for our products, our business and margins may suffer.

The seasonality of retail demand for our products, together with our goal of balancing production throughout the year, requires us to manage our manufacturing and allocate our products to our dealer network to address anticipated retail demand. Our dealers must manage seasonal changes in consumer demand and inventory. If our dealers reduce their inventories in response to weakness in retail demand, we could be required to reduce our production, resulting in lower rates of absorption of fixed costs in our manufacturing and, therefore, lower margins. As a result, we must balance the economies of level production with the seasonal retail sales pattern experienced by our dealers. Failure to adjust manufacturing levels adequately may have a material adverse effect on our financial condition and results of operations.

We have a large fixed cost base that will affect our profitability if our sales decrease.

The fixed cost levels of operating a powerboat manufacturer can put pressure on profit margins when sales and production decline. Our profitability depends, in part, on our ability to spread fixed costs over a sufficiently large number of products sold and shipped, and if we make a decision to reduce our rate of production, gross or net margins could be negatively affected. Consequently, decreased demand or the need to reduce production can lower our ability to absorb fixed costs and materially impact our financial condition or results of operations.

Our industry is characterized by intense competition, which affects our sales and profits.

The performance sport boat category, and the powerboat industry as a whole, is highly competitive for consumers and dealers. We also compete against consumer demand for used boats. Competition affects our ability to succeed in both the markets we currently serve and new markets that we may enter in the future. Competition is based primarily on brand name, price, product selection and product performance. We compete with several large manufacturers that may have greater financial, marketing and other resources than we do and who are represented by dealers in the markets in which we now operate and into which we plan to expand. We also compete with a variety of small, independent manufacturers. We cannot assure you that we will not face greater competition from existing large or small

manufacturers or that we will be able to compete successfully with new competitors. Our failure to compete effectively with our current and future competitors would adversely affect our business, financial condition and results of operations.

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Our sales may be adversely impacted by increased consumer preference for used boats or the supply of new boats by competitors in excess of demand.

During the economic downturn, we observed a shift in consumer demand toward purchasing more used boats, primarily because prices for used boats are typically lower than retail prices for new boats. If this were to continue or occur again, it could have the effect of reducing demand among retail purchasers for our new boats. Also, while we have taken steps designed to balance production volumes for our boats with demand, our competitors could choose to reduce the price of their products, which could have the effect of reducing demand for our new boats. Reduced demand for new boats could lead to reduced sales by us, which could adversely affect our business, results of operations or financial condition.

Our sales and profitability depend, in part, on the successful introduction of new products.

Market acceptance of our products depends on our technological innovation and our ability to implement technology in our boats. Our sales and profitability may be adversely affected by difficulties or delays in product development, such as an inability to develop viable or innovative new products. Our failure to introduce new technologies and product offerings that our markets desire could adversely affect our business, financial condition and results of operations. Also, we have been able to achieve higher margins in part as a result of the introduction of new features or enhancements to our existing boat models. If we fail to introduce new features or those we introduce, such as the Wakesetter 24 MXZ, fail to gain market acceptance, our margins may suffer.

In addition, some of our direct competitors and indirect competitors may have significantly more resources to develop and patent new technologies. It is possible that our competitors will develop and patent equivalent or superior technologies and other products that compete with ours. They may assert these patents against us and we may be required to license these patents on unfavorable terms or cease using the technology covered by these patents, either of which would harm our competitive position and may materially adversely affect our business.

We also cannot be certain that our products or technologies have not infringed or will not infringe the proprietary rights of others. Any such infringement could cause third parties, including our competitors, to bring claims against us, resulting in significant costs and potential damages.

We compete with a variety of other activities for consumers' scarce leisure time.

Our boats are used for recreational and sport purposes, and demand for our boats may be adversely affected by competition from other activities that occupy consumers' leisure time and by changes in consumer life style, usage pattern or taste. Similarly, an overall decrease in consumer leisure time may reduce consumers' willingness to purchase and enjoy our products.

Our success depends upon the continued strength of our brands, Malibu and Axis, and the value of our brands and sales of our products could be diminished if we, the athletes who use our products or the sports and activities in which our products are used, are associated with negative publicity.

We believe that our brands, Malibu and Axis, are significant contributors to the success of our business and that maintaining and enhancing our brands are important to expanding our consumer and dealer base. Failure to continue to protect our brands may adversely affect our business, financial condition and results of operations.

Negative publicity, including that resulting from severe injuries or death occurring in the sports and activities in which our products are used, could negatively affect our reputation and result in restrictions, recalls or bans on the use of our products. Further, actions taken by athletes associated with our products that harm the reputations of those athletes could also harm our brand image and adversely affect our financial condition. If the popularity of the sports and activities for which we design, manufacture and sell products were to decrease as a result of these risks or any negative publicity, sales of our products could decrease, which could have an adverse effect on our net revenue, profitability and operating results. In addition, if we become exposed to additional claims and litigation relating to the use of our products, our reputation may be adversely affected by such claims, whether or not successful, including by generating potential negative publicity about our products, which could adversely impact our business and financial condition.

We may not be able to execute our manufacturing strategy successfully, which could cause the profitability of our products to suffer.

Our manufacturing strategy is designed to improve product quality and increase productivity, while reducing costs and increasing flexibility to respond to ongoing changes in the marketplace. To implement this strategy, we must be successful in our continuous improvement efforts, which depend on the involvement of management, production employees and suppliers. Any inability to achieve these objectives could adversely impact the profitability of our products and our ability to deliver desirable products to our consumers.

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Our ability to meet our manufacturing workforce needs is crucial to our results of operations and future sales and profitability.

We rely on the existence of an available hourly workforce to manufacture our boats. We cannot assure you that we will be able to attract and retain qualified employees to meet current or future manufacturing needs at a reasonable cost, or at all. Although none of our employees is currently covered by collective bargaining agreements, we cannot assure you that our employees will not elect to be represented by labor unions in the future. Additionally, competition for qualified employees could require us to pay higher wages to attract a sufficient number of employees. Significant increases in manufacturing workforce costs could materially adversely affect our business, financial condition or results of operations.

We rely on third-party suppliers and may be unable to obtain adequate raw materials and components.

We depend on third-party suppliers to provide components and raw materials essential to the construction of our boats. Historically, we have not entered into long-term agreements with our suppliers, but have developed 90-day forecast models with our major suppliers to minimize disruptions in our supply chain. While we believe that our relationships with our current suppliers are sufficient to provide the materials necessary to meet present production demand, we cannot assure you that these relationships will continue or that the quantity or quality of materials available from these suppliers will be sufficient to meet our future needs, irrespective of whether we successfully implement our growth strategy. In particular, the availability and cost of engines used in the manufacture of our boats are critical. For fiscal years 2014 and 2013, we purchased approximately 90% and nearly 100%, respectively, of the engines for our boats from a single supplier. If we are required to replace this supplier or the supplier of any other key components or raw materials, it could cause a decrease in products available for sale or an increase in the cost of goods sold, either of which could adversely affect our business, financial condition and results of operations.

We depend upon key personnel and we may not be able to retain them nor to attract, assimilate and retain highly qualified employees in the future.

Our future success will depend in significant part upon the continued service of our senior management team and our continuing ability to attract, assimilate and retain highly qualified and skilled managerial, product development, manufacturing, marketing and other personnel. The loss of the services of any members of our senior management or other key personnel or the inability to hire or retained qualified personnel in the future could adversely affect our business, financial condition and results of operations.

We may attempt to grow our business through acquisitions or strategic alliances and new partnerships, which we may not be successful in completing or integrating.

We may in the future explore acquisitions and strategic alliances, such as our potential acquisition of our Australian licensee, that will enable us to acquire complementary skills and capabilities, offer new products, expand our consumer base, enter new product categories or geographic markets and obtain other competitive advantages. We cannot assure you, however, that we will identify acquisition candidates or strategic partners that are suitable to our business, obtain financing on satisfactory terms, complete acquisitions or strategic alliances or successfully integrate acquired operations into our existing operations. Once integrated, acquired operations may not achieve anticipated levels of sales or profitability, or otherwise perform as expected. Acquisitions also involve special risks, including risks associated with unanticipated challenges, liabilities and contingencies, and diversion of management attention and resources from our existing operations.

Our reliance upon patents, trademark laws and contractual provisions to protect our proprietary rights may not be sufficient to protect our intellectual property from others who may sell similar products and may lead to costly litigation. We are currently, and may be in the future, party to lawsuits and other intellectual property rights claims that are expensive and time-consuming.

We hold patents and trademarks relating to various aspects of our products and believe that proprietary technical know-how is important to our business. Proprietary rights relating to our products are protected from unauthorized use by third parties only to the extent that they are covered by valid and enforceable patents or trademarks or are maintained in confidence as trade secrets. We cannot be certain that we will be issued any patents from any pending or future patent applications owned by or licensed to us or that the claims allowed under any issued patents will be sufficiently broad to protect our technology. In the absence of enforceable patent or trademark protection, we may be

vulnerable to competitors who attempt to copy our products, gain access to our trade secrets and know-how or diminish our brand through unauthorized use of our trademarks, all of which could adversely affect our business. In addition, others may initiate litigation or other proceedings to challenge the validity of our patents, or allege that we infringe their patents, or they may use their resources to design comparable products that do not infringe our patents. We may

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incur substantial costs if our competitors initiate litigation to challenge the validity of our patents, or allege that we infringe their patents, or if we initiate any proceedings to protect our proprietary rights. Further, we may need to engage in future litigation to enforce intellectual property rights to protect trade secrets or to determine the validity and scope of proprietary rights of others. If the outcome of any such litigation is unfavorable to us, our business, financial condition and results of operations could be adversely affected.

We are currently a party to a legal proceeding arising from intellectual property matters. We are a plaintiff in a Tennessee lawsuit alleging infringement by a competitor of our patent rights in certain wake surfing technology. We also were a defendant in a lawsuit alleging patent infringement and related claims in connection with windshields installed in our boats that we purchased from a third-party supplier. We resolved this lawsuit with the plaintiffs in September 2014 and have agreed to pay \$20.0 million in cash to the plaintiffs upon the entry into a definitive settlement agreement or such later date as the parties agree. We accrued a one-time charge of \$20.0 million for the settlement in the fiscal year ended June 30, 2014. For more information, see Note 14 to our audited consolidated financial statements included elsewhere in this Annual Report. Although we do not believe that the remaining unresolved lawsuit will have a material adverse effect on our business, financial condition or results of operations, we cannot predict its outcome, and an unfavorable outcome could have an adverse impact on our business, financial condition or results of operation. Regardless of the outcome of such litigation or similar litigation in the future, it could significantly increase our costs and divert management's attention from operation of our business, which could adversely affect our financial condition and results of operations.

Product liability, warranty and recall claims may materially affect our financial condition and damage our reputation. We are engaged in a business that exposes us to claims for product liability and warranty claims in the event our products actually or allegedly fail to perform as expected or the use of our products results, or is alleged to result, in property damage, personal injury or death. Although we maintain product and general liability insurance of the types and in the amounts that we believe are customary for the industry, we are not fully insured against all such potential claims. We may experience legal claims in excess of our insurance coverage or claims that are not covered by insurance, either of which could adversely affect our business, financial condition and results of operations. Adverse determination of material product liability and warranty claims made against us could have a material adverse effect on our financial condition and harm our reputation. In addition, if any of our products are, or are alleged to be, defective, we may be required to participate in a recall of that product if the defect or alleged defect relates to safety. These and other claims we face could be costly to us and require substantial management attention.

Our international markets require significant management attention, expose us to difficulties presented by international economic, political, legal and business factors, and may not be successful or produce desired levels of sales and profitability.

We currently sell our products throughout the world. Our total sales outside North America (including licensing royalties from our Australian licensee) were less than 10% of our total revenue for fiscal year 2014 and fiscal year 2013. International markets have, and will continue to be, a focus for sales growth. We believe many opportunities exist in the international markets, and over time we intend for international sales to comprise a larger percentage of our total revenue. Several factors, including weakened international economic conditions, could adversely affect such growth. The expansion of our existing international operations and entry into additional international markets require significant management attention. Some of the countries in which we market and our distributors or licensee sell our products are to some degree subject to political, economic or social instability. Our international operations expose us and our representatives, agents and distributors to risks inherent in operating in foreign jurisdictions. These risks include, but are not limited to:

- increased costs of customizing products for foreign countries;
- unfamiliarity with local demographics, consumer preferences and discretionary spending patterns;
- the imposition of additional foreign governmental controls or regulations, including rules relating to environmental, health and safety matters and regulations and other laws applicable to publicly-traded companies, such as the Foreign Corrupt Practices Act, or the FCPA;
- new or enhanced trade restrictions and restrictions on the activities of foreign agents, representatives and distributors;
-

the imposition of increases in costly and lengthy import and export licensing and other compliance requirements, customs duties and tariffs, license obligations and other non-tariff barriers to trade;
• the relative strength of the U.S. dollar compared to local currency, making our products less price-competitive relative to products manufactured outside of the United States;

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laws and business practices favoring local companies;

longer payment cycles and difficulties in enforcing agreements and collecting receivables through certain foreign legal systems; and

difficulties in enforcing or defending intellectual property rights.

Our international operations may not produce desired levels of total sales, or one or more of the foregoing factors may harm our business, financial condition or results of operations.

An increase in energy costs may adversely affect our business, financial condition and results of operations.

Higher energy costs result in increases in operating expenses at our manufacturing facility and in the expense of shipping products to our dealers. In addition, increases in energy costs may adversely affect the pricing and availability of petroleum-based raw materials, such as resins and foams, that are used in our products. Also, higher fuel prices may have an adverse effect on demand for our boats, as they increase the cost of ownership and operation.

We are subject to U.S. and other anti-corruption laws, trade controls, economic sanctions and similar laws and regulations, including those in the jurisdictions where we operate. Our failure to comply with these laws and regulations could subject us to civil, criminal and administrative penalties and harm our reputation.

Doing business on a worldwide basis requires us to comply with the laws and regulations of various foreign jurisdictions. These laws and regulations place restrictions on our operations, trade practices, partners and investment decisions. In particular, our operations are subject to U.S. and foreign anti-corruption and trade control laws and regulations, such as the FCPA, export controls and economic sanctions programs, including those administered by the U.S. Treasury Department's Office of Foreign Assets Control, or the OFAC. As a result of doing business in foreign countries and with foreign partners, we are exposed to a heightened risk of violating anti-corruption and trade control laws and sanctions regulations.

The FCPA prohibits us from providing anything of value to foreign officials for the purposes of obtaining or retaining business or securing any improper business advantage. It also requires us to keep books and records that accurately and fairly reflect our transactions.

Economic sanctions programs restrict our business dealings with certain sanctioned countries, persons and entities. In addition, because we act through dealers and distributors, we face the risk that our dealers, distributors or consumers might further distribute our products to a sanctioned person or entity, or an ultimate end-user in a sanctioned country, which might subject us to an investigation concerning compliance with OFAC or other sanctions regulations.

Violations of anti-corruption and trade control laws and sanctions regulations are punishable by civil penalties, including fines, denial of export privileges, injunctions, asset seizures, debarment from government contracts and revocations or restrictions of licenses, as well as criminal fines and imprisonment. We cannot assure you that all of our local, strategic or joint partners will comply with these laws and regulations, in which case we could be held liable for actions taken inside or outside of the United States, even though our partners may not be subject to these laws. Such a violation could materially and adversely affect our reputation, business, results of operations and financial condition. Our continued international expansion, including in developing countries, and our development of new partnerships and joint venture relationships worldwide, could increase the risk of FCPA or OFAC violations in the future.

If we are unable to comply with environmental and other regulatory requirements, our business may be exposed to material liability or fines.

Our operations are subject to extensive regulation, including product safety, environmental and health and safety requirements, under various federal, state, local and foreign statutes, ordinances and regulations. While we believe that we are in material compliance with all applicable federal, state, local and foreign regulatory requirements, we cannot assure you that we will be able to continue to comply with applicable regulatory requirements. The failure to comply with applicable regulatory requirements could cause us to incur significant fines or penalties or could materially increase the cost of operations. In addition, legal requirements are constantly evolving, and changes in laws, regulations or policies, or changes in interpretations of the foregoing, could also increase our costs or create liabilities where none exists today.

As with boat construction in general, our manufacturing processes involve the use, handling, storage and contracting for recycling or disposal of hazardous substances and wastes. The failure to manage or dispose of such hazardous substances and wastes properly could expose us to material liability or fines. Also, the components to our boats may

become subject to more stringent environmental regulations. For example, boat engines may be subject to more stringent emissions standards, which could increase the cost of our engines and our products, which, in turn, may reduce consumer demand for our products.

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A natural disaster or other disruption at our manufacturing facilities could adversely affect our business, financial condition and results of operations.

We rely on the continuous operation of manufacturing facilities in Tennessee and California. Any natural disaster or other serious disruption to our facilities due to fire, flood, earthquake or any other unforeseen circumstances could adversely affect our business, financial condition and results of operations. The occurrence of any disruption at our manufacturing facilities may have an adverse effect on our productivity and profitability, during and after the period of the disruption. These disruptions may also cause personal injury and loss of life, severe damage to or destruction of property and equipment and environmental damage. Although we maintain property, casualty and business interruption insurance of the types and in the amounts that we believe are customary for the industry, we are not fully insured against all potential natural disasters or other disruptions to our manufacturing facilities.

Increases in income tax rates or changes in income tax laws or enforcement could have a material adverse impact on our financial results.

Changes in domestic and international tax legislation could expose us to additional tax liability. Although we monitor changes in tax laws and work to mitigate the impact of proposed changes, such changes may negatively impact our financial results. In addition, any increase in individual income tax rates, such as those implemented at the beginning of 2013, would negatively affect our potential consumers' discretionary income and could decrease the demand for our products.

Our credit facilities contain covenants which may limit our operating flexibility; failure to comply with covenants may restrict our access to these.

In the past, we have relied upon our existing credit facilities to provide us with adequate liquidity to operate our business. The availability of borrowing amounts under our credit facilities are dependent upon compliance with the debt covenants set forth in our credit agreement. Violation of those covenants, whether as a result of operating losses or otherwise, could result in our lenders restricting or terminating our borrowing ability under our credit facilities. If our lenders reduce or terminate our access to amounts under our credit facilities, we may not have sufficient capital to fund our working capital and other needs and we may need to secure additional capital or financing to fund our operations or to repay outstanding debt under our credit facilities. We cannot assure you that we will be successful in ensuring our availability to amounts under our credit facilities or in connection with raising additional capital and that any amount, if raised, will be sufficient to meet our cash needs or on terms as favorable as have historically been available to us. If we are not able to maintain our borrowing availability under our credit facilities or raise additional capital when needed, our business and operations will be materially and adversely affected.

We are an "emerging growth company" and we cannot be certain if the reduced disclosure requirements applicable to emerging growth companies will make our Class A Common Stock less attractive to investors.

We are an "emerging growth company" as defined in the Jumpstart Our Business Startups Act, or the JOBS Act. We have taken, and for as long as we continue to be an emerging growth company, we may choose to take, advantage of certain exemptions from various reporting requirements applicable to other public companies but not to emerging growth companies, which includes, among other things:

- exemption from the auditor attestation requirements under Section 404 of the Sarbanes-Oxley Act;
 - reduced disclosure obligations regarding executive compensation in our periodic reports and proxy statements;
 - exemption from the requirements of holding non-binding stockholder votes on executive compensation arrangements;
 - and
- exemption from any public rules requiring mandatory audit firm rotation and auditor discussion and analysis and, unless the SEC otherwise determines, any future audit rules that may be adopted by the Public Company Accounting Oversight Board.

We could be an emerging growth company until the last day of the fiscal year following the fifth anniversary after our initial public offering (June 30, 2019) or until the earliest of (1) the last day of the fiscal year in which we have annual gross revenue of \$1 billion or more, (2) the date on which we have, during the previous three-year period, issued more than \$1 billion in non-convertible debt or (3) the date on which we are deemed to be a large accelerated filer under the federal securities laws. We will qualify as a large accelerated filer as of the first day of the first fiscal year after we have (a) more than \$700 million in outstanding common equity held by our non-affiliates and (b) been public for at

least 12 months. The value of our outstanding common equity will be measured each year on the last day of our second fiscal quarter.

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Under the JOBS Act, emerging growth companies are also permitted to elect to delay adoption of new or revised accounting standards until companies that are not subject to periodic reporting obligations are required to comply, if such accounting standards apply to non-reporting companies. We have made an irrevocable decision to opt out of this extended transition period for complying with new or revised accounting standards.

We cannot predict if investors will find our Class A Common Stock less attractive if we rely on these exemptions. If some investors find our Class A Common Stock less attractive as a result, there may be less active trading market for our Class A Common Stock and our stock price may be more volatile.

We will incur significant increased costs as a result of being a new public company, and our management will be required to devote substantial time to comply with the laws and regulations affecting public companies, particularly after we are no longer an emerging growth company.

We recently became a public company on January 30, 2014. As a public company, particularly after we cease to qualify as an emerging growth company, we will incur significant legal, accounting and other expenses that we did not incur as a private company, including costs associated with public company reporting and corporate governance requirements, in order to comply with the rules and regulations imposed by the Sarbanes-Oxley Act, as well as rules implemented by the SEC and NASDAQ Stock Market, LLC, or NASDAQ. Our management and other personnel will need to devote a substantial amount of time to these compliance initiatives and our legal and accounting compliance costs will increase. It is likely that we will need to hire additional staff in the areas of investor relations, legal and accounting as we continue to operate as a public company. We also believe these new rules and regulations make it more difficult and expensive for us to obtain director and liability insurance, and we may be required to accept reduced policy limits and coverage or incur substantially higher costs to obtain the same or similar coverage. As a result, it may be more difficult for us to attract and retain qualified individuals to serve on our board of directors or as executive officers. We are currently evaluating and monitoring developments with respect to these rules, and we cannot predict or estimate the amount of additional costs we may incur in the future or the timing of such costs. For example, the Sarbanes-Oxley Act requires, among other things, that we maintain effective internal controls over financial reporting and disclosure controls and procedures. In particular, as a public company, we will be required to perform system and process evaluations and testing of our internal control over financial reporting to allow management and our independent registered public accounting firm to report on the effectiveness of our internal controls over financial reporting, as required by Section 404 of the Sarbanes-Oxley Act. As an emerging growth company, we will not need to comply with the auditor attestation provisions of Section 404 for several years. Our testing, or the subsequent testing by our independent registered public accounting firm, may reveal deficiencies in our internal control over financial reporting that are deemed to be material weaknesses. Our compliance with Section 404 will require that we incur substantial accounting expense and management time on compliance-related issues. Moreover, if we are not able to comply with the requirements of Section 404 in a timely manner, or if we or our independent registered public accounting firm identify deficiencies in our internal control over financial reporting that are deemed to be material weaknesses, we could lose investor confidence in the accuracy and completeness of our financial reports, which could cause our stock price to decline.

When the available exemptions under the JOBS Act cease to apply, we expect to incur additional expenses and devote increased management effort toward ensuring compliance with them. We cannot predict or estimate the amount of additional costs we may incur as a result of becoming a public company or the timing of such costs.

Risks Related to Our Organizational Structure

Our only material asset is our interest in the LLC, and we are accordingly dependent upon distributions from the LLC to pay taxes, make payments under the tax receivable agreement or pay dividends.

Malibu Boats, Inc. is a holding company and has no material assets other than our ownership of LLC Units. Malibu Boats, Inc. has no independent means of generating revenue. We intend to cause the LLC to make distributions to its unit holders in an amount sufficient to cover all applicable taxes at assumed tax rates, payments under the tax receivable agreement and dividends, if any, declared by us. To the extent that we need funds, and the LLC is restricted from making such distributions under applicable law or regulation or under the terms of its financing arrangements, or is otherwise unable to provide such funds, it could materially adversely affect our liquidity and financial condition. For example, our credit agreement generally prohibits the LLC, Malibu Boats, LLC and Malibu Domestic

International Sales Corp. from paying dividends or making distributions. Our credit agreement permits, however, distributions based on a member's allocated taxable income, distributions to fund payments that are required under the tax receivable agreement, payments pursuant to stock option and other benefit plans up to \$2 million in any fiscal year, dividends and distributions within the loan parties and dividends payable solely in interests of classes of securities. In addition, the LLC may make dividends and distributions of up to \$4,000,000 in any fiscal year, subject to compliance with other financial covenants.

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We will be required to pay the pre-IPO owners (or any permitted assignees) for certain tax benefits pursuant to our tax receivable agreement with them, and the amounts we may pay could be significant.

Malibu Boats, Inc. used a portion of the proceeds from the IPO and follow-on offering to purchase LLC Units from the LLC members. We entered into a tax receivable agreement with the pre-IPO owners that provides for the payment by us to the pre-IPO owners (or any permitted assignees) of 85% of the tax benefits, if any, that we are deemed to realize as a result of (1) the increases in tax basis resulting from our purchases or exchanges of LLC Units and (2) certain other tax benefits related to our entering into the tax receivable agreement, including tax benefits attributable to payments under the tax receivable agreement. These payment obligations are our obligations and not of the LLC. For purposes of the agreement, the benefit deemed realized by us will be computed by comparing our actual income tax liability (calculated with certain assumptions) to the amount of such taxes that we 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 we not entered into the tax receivable agreement. Estimating the amount of payments that may be made under the tax receivable agreement is by its nature imprecise, insofar as the calculation of amounts payable depends on a variety of factors. The actual increase in tax basis, as well as the amount and timing of any payments under the agreement, will vary depending upon a number of factors, including:

the timing of purchases or exchanges—for instance, the increase in any tax deductions will vary depending on the fair value, which may fluctuate over time, of the depreciable or amortizable assets of the LLC at the time of each purchase or exchange;

- the price of shares of our Class A Common Stock at the time of the purchase or exchange—the increase in any tax deductions, as well as the tax basis increase in other assets, of the LLC is directly related to the price of shares of our Class A Common Stock at the time of the purchase or exchange;

the extent to which such purchases or exchanges are taxable—if an exchange or purchase is not taxable for any reason, increased deductions will not be available; and

the amount and timing of our income—the corporate taxpayer will be required to pay 85% of the deemed benefits as and when deemed realized. If we do not have taxable income, we generally will not be required (absent a change of control or other circumstances requiring an early termination payment) to make payments under the tax receivable agreement for that taxable year because no benefit will have been realized. However, any tax benefits that do not result in realized benefits in a given tax year will likely generate tax attributes that may be utilized to generate benefits in previous or future tax years. The utilization of such tax attributes will result in payments under the tax receivable agreement.

For more information see "Item 1. Business - History and Formation Transactions" and Note 2 to our audited consolidated financial statements included elsewhere in this Annual Report.

We expect that the payments that we may make under the tax receivable agreement may be substantial. Assuming no material changes in the relevant tax law, and that we earn sufficient taxable income to realize all tax benefits that are subject to the agreement, we expect that future payments under the tax receivable agreement relating to the purchases by Malibu Boats, Inc. of LLC Units as part of the Recapitalization, the IPO and the follow-on offering will be approximately \$47.7 million over the next 15 years. Future payments to the pre-IPO owners (or their permitted assignees) in respect of subsequent exchanges or purchases would be in addition to these amounts and are expected to be substantial. The foregoing numbers are merely estimates and the actual payments could differ materially. It is possible that future transactions or events could increase or decrease the actual tax benefits realized and the corresponding tax receivable agreement payments. There may be a material negative effect on our liquidity if distributions to us by the LLC are not sufficient to permit us to make payments under the tax receivable agreement after we have paid taxes. For example, we may have an obligation to make tax receivable agreement payments for a certain amount while receiving distributions from the LLC in a lesser amount, which would negatively affect our liquidity. The payments under the tax receivable agreement are not conditioned upon the pre-IPO owners' (or any permitted assignees') continued ownership of us.

We are required to make a good faith effort to ensure that we have sufficient cash available to make any required payments under the tax receivable agreement. The limited liability company agreement of the LLC requires the LLC to make "tax distributions" which, in the ordinary course, will be sufficient to pay our actual tax liability and to fund

required payments under the tax receivable agreement. 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 the London Interbank Offered Rate, or LIBOR, plus 500 basis points until they are paid.

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In certain cases, payments under the tax receivable agreement to the pre-IPO owners (or any permitted assignees) may be accelerated or significantly exceed the actual benefits we realize in respect of the tax attributes subject to the tax receivable agreement.

The tax receivable agreement provides that, in the event that we exercise our right to early termination of the tax receivable agreement, or in the event of a change in control or a material breach by us of our obligations under the tax receivable agreement, the tax receivable agreement will terminate, and we will be required to make 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, which lump-sum payment would be based on certain assumptions, including those relating to our future taxable income. The change in control payment and termination payments to the pre-IPO owners (or any permitted assignees) could be substantial and could exceed the actual tax benefits that we receive as a result of acquiring the LLC Units because the amounts of such payments would be calculated assuming that we would have been able to use the potential tax benefits each year for the remainder of the amortization periods applicable to the basis increases, and that tax rates applicable to us would be the same as they were in the year of the termination. In these situations, our obligations under the tax receivable agreement could have a substantial negative impact on our liquidity. There can be no assurance that we will be able to finance our obligations under the tax receivable agreement. Payments under the tax receivable agreement will be based on the tax reporting positions that we determine. Although we are not aware of any issue that would cause the Internal Revenue Service, or the IRS, to challenge a tax basis increase, Malibu Boats, Inc. will not be reimbursed for any payments previously made under the tax receivable agreement. As a result, in certain circumstances, payments could be made under the tax receivable agreement in excess of the benefits that Malibu Boats, Inc. actually realizes in respect of (1) the increases in tax basis resulting from our purchases or exchanges of LLC Units and (2) certain other tax benefits related to our entering into the tax receivable agreement, including tax benefits attributable to payments under the tax receivable agreement.

We have entered into a voting agreement with Black Canyon Management LLC, which provides it with rights to nominate a number of designees to our board of directors.

In connection with our Recapitalization and IPO, we entered into a voting agreement with certain affiliates. Under the voting agreement, Black Canyon Management LLC is entitled to nominate to our board of directors a number of designees equal to (1) 20% of the total number of directors comprising our board of directors at such time, so long as specified entities affiliated with Black Canyon Management LLC (and their permitted transferees) and Messrs. Springer, Wilson and Anderson together beneficially own 15% or more of the voting power of the shares of Class A Common Stock and Class B Common Stock entitled to vote generally in the election of directors, voting together as a single class, and (2) 10% of the total number of directors comprising the board of directors at such time, so long as specified entities affiliated with Black Canyon Management LLC (and their permitted transferees) and Messrs. Springer, Wilson and Anderson together beneficially own more than 5% but less than 15% of the voting power of the shares of Class A Common Stock and Class B Common Stock entitled to vote generally in the election of directors, voting together as a single class. In addition, Black Canyon Management LLC has the right to remove and replace its director-designees at any time and for any reason and to nominate any individuals to fill any such vacancies. Messrs. Springer, Wilson and Anderson will be required to vote any of their Class A Common Stock and Class B Common Stock in favor of the director or directors nominated by Black Canyon Management LLC. As of September 24, 2014, the specified entities affiliated with Black Canyon Management LLC, their permitted transferees, and Messrs. Springer, Wilson and Anderson own (as calculated pursuant to the voting agreement) approximately 21.6% of the voting power of the shares of Class A Common Stock and Class B Common Stock, voting together as a single class. It is possible that the interests of Black Canyon Management LLC may in some circumstances conflict with our interests and the interests of our other stockholders.

Affiliates of Black Canyon Capital LLC have certain consent rights that could limit the ability of stockholders to influence the outcome of key transactions, including a sale of Malibu Boats, Inc.

The amended and restated limited liability company agreement of the LLC provides that Malibu Boats, Inc., as managing member of the LLC, has the right to require all members to exchange their LLC Units for Class A Common Stock in accordance with the terms of the exchange agreement, subject to the consent of Black Canyon Management LLC and the holders of a majority of outstanding LLC Units other than those held by Malibu Boats, Inc. This consent

right could impede the ability of Malibu Boats, Inc. to take certain actions that might benefit its stockholders, including a sale of Malibu Boats, Inc. The interests of Black Canyon Management LLC may conflict with or differ from our interests and the interests of our other stockholders.

The consent of Black Canyon Management LLC will be required for certain amendments to the limited liability company agreement of the LLC.

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The limited liability company agreement of the LLC provides that, for so long as specified entities affiliated with Black Canyon Management LLC and their permitted transferees own an amount of LLC Units equal to at least 5% of the LLC Units that were outstanding immediately following our IPO, after giving effect to the use of proceeds therefrom, or 568,687 LLC Units, the consent of Black Canyon Management LLC will be required for any amendment to the limited liability company agreement that would:

- reduce the rights of a holder of LLC Units to receive tax distributions, except on a pro rata basis with other holders of LLC Units;
- preclude or limit the rights of any member to exercise its rights under the exchange agreement;
- require any member to make a capital contribution;
- materially increase the obligations of any member under the limited liability company agreement; or
- result in the LLC being treated as a corporation for tax purposes.

Specified entities affiliated with Black Canyon Management LLC and their permitted transferees own (as calculated pursuant to the LLC Agreement) 2,858,094 LLC Units as of September 24, 2014. The interests of the entities affiliated with Black Canyon Management LLC may conflict with or differ from our interests and the interests of our other stockholders.

Risks Related to Our Class A Common Stock

Our stock price may be volatile and stockholders may be unable to sell shares at or above the price at which they purchased them.

The market price of our Class A Common Stock could be subject to wide fluctuations in response to the many risk factors listed in this section, and others beyond our control, including:

- general economic, market and industry conditions;
 - actual or anticipated fluctuations in our financial condition and results of operations;
- addition or loss of consumers or dealers;
- actual or anticipated changes in our rate of growth relative to our competitors;
- additions or departures of key personnel;
- failure to introduce new products, or for those products to achieve market acceptance;
- disputes or other developments related to proprietary rights, including patents, litigation matters and our ability to obtain intellectual property protection for our technologies;
- announcements by us or our competitors of significant acquisitions, strategic partnerships, joint ventures or capital commitments;
- fluctuations in the valuation of companies perceived by investors to be comparable to us;
- changes in applicable laws or regulations;
- issuance of new or updated research or reports by securities analysts;
- sales of our Class A Common Stock by us or our stockholders;
- share price and volume fluctuations attributable to inconsistent trading volume levels of our shares; and
- the expiration of contractual lock-up agreements with our executive officers, directors and stockholders.

Further, the stock markets may experience extreme price and volume fluctuations that can affect the market prices of equity securities. These fluctuations can be unrelated or disproportionate to the operating performance of those companies. These broad market and industry fluctuations, as well as general economic, political and market conditions such as recessions, interest rate changes or international currency fluctuations, could harm the market price of our Class A Common Stock.

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In the past, companies that have experienced volatility in the market price of their stock have been subject to securities class action litigation. We may be the target of this type of litigation in the future. Securities litigation against us could result in substantial costs and divert our management's attention from other business concerns, which could harm our business.

Further, the stock markets may experience extreme price and volume fluctuations that can affect the market prices of equity securities. These fluctuations can be unrelated or disproportionate to the operating performance of those companies. These broad market and industry fluctuations, as well as general economic, political and market conditions such as recessions, interest rate changes or international currency fluctuations, could harm the market price of our Class A Common Stock.

If securities or industry analysts do not publish research or reports about our business, or publish negative reports about our business, our share price and trading volume could decline.

The trading market for our Class A Common Stock will depend on the research and reports that securities or industry analysts publish about us or our business. We do not have any control over these analysts. If one or more of the analysts who cover us downgrade our shares or change their opinion of our shares, our share price would likely decline. If one or more of these analysts cease coverage of our company or fail to regularly publish research or reports on us, we could lose visibility in the financial markets, which could cause our stock price or trading volume to decline. Future sales of our Class A Common Stock in the public market could cause our share price to fall.

Sales of a substantial number of shares of our Class A Common Stock in the public market, or the perception that these sales might occur, could depress the market price of our Class A Common Stock and could impair our ability to raise capital through the sale of additional equity securities.

Our governing documents and Delaware law could prevent a takeover that stockholders consider favorable and could also reduce the market price of our stock.

Our certificate of incorporation and bylaws contain certain provisions that could delay or prevent a change in control. These provisions could also make it more difficult for stockholders to elect directors and take other corporate actions. These provisions include, without limitation:

- a classified board structure;
- a requirement that stockholders must provide advance notice to propose nominations or have other business considered at a meeting of stockholders;
- supermajority stockholder approval to amend our bylaws or certain provisions in our certificate of incorporation; and
- authorization of blank check preferred stock.

In addition, we are subject to the provisions of Section 203 of the Delaware General Corporation Law. These provisions may prohibit large stockholders, in particular those owning 15% or more of our outstanding Class A Common Stock, from engaging in certain business combinations without the approval of substantially all of our stockholders for a certain period of time.

These and other provisions in our certificate of incorporation, bylaws and under Delaware law could discourage potential takeover attempts, reduce the price that investors might be willing to pay for shares of our Class A Common Stock in the future and result in the market price being lower than it would be without these provisions.

We currently do not intend to pay dividends on our Class A Common Stock and, consequently, the only opportunity for stockholders to achieve a return on their investment is if the price of our Class A Common Stock appreciates. We currently do not plan to declare or pay dividends on shares of our Class A Common Stock in the foreseeable future. Further, because we are a holding company, our ability to pay dividends depends on our receipt of cash distributions from the LLC and the LLC also relies on its subsidiaries for receipt of cash for distributions. This may further restrict our ability to pay dividends as a result of the laws of the jurisdiction of organization of the LLC and its subsidiaries, agreements of the LLC or its subsidiaries or covenants under our, the LLC's or its subsidiaries' existing or future indebtedness. For example, our credit agreement generally prohibits the LLC, Malibu Boats, LLC and Malibu Domestic International Sales Corp. from paying dividends or making distributions. Our credit agreement permits, however, distributions based on a member's allocated taxable income, distributions to fund payments that are required under the tax receivable agreement, payments pursuant to stock option and other benefit plans, dividends and distributions within the loan parties and dividends payable solely in interests of classes of securities. In addition, the

LLC may make dividends and distributions of up to \$4,000,000 in any fiscal year, subject to

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compliance with other financial covenants. Consequently, for stockholders the only opportunity to achieve a return on the shares they purchase will be if the market price of our Class A Common Stock appreciates and they sell their shares at a profit.

Item 1B. Unresolved Staff Comments

Not applicable.

Item 2. Properties

Tennessee

Our boats are manufactured and tested on the lake at the site of our 144,000 square-foot primary manufacturing facility located in Loudon, Tennessee. We recently added a 9,715 square feet mezzanine to this facility to increase production efficiencies. The construction was completed on July 7, 2014. Our primary facility is leased pursuant to a lease agreement that has a term through March 31, 2028, with the option to extend for three additional terms of ten years each. We also lease:

23,460 square feet of warehouse and office space located in Loudon pursuant to a lease agreement that has a term through December 31, 2014, with an additional renewal term of two years; and

approximately 20,000 square feet of warehouse space in Lenoir City, Tennessee pursuant to a lease agreement which expired August 31, 2014 and is currently month-to-month.

On August 21, 2014, we completed the construction of our warehouse and loading facility on land we own in Loudon, Tennessee. The 16 acre facility contains approximately 24,000 square feet of warehouse and office space and will be used primarily for storing, handling and shipping of our finished boats.

California

We lease a 150,000 square-foot facility in Merced, California pursuant to a lease agreement that has a term through March 31, 2028, with the option to extend for three additional terms of ten years each. Our Merced site houses both our product development team that focuses on design innovations as well as our tower and tower accessory manufacturing operations. The components assembled at this site are delivered to our facilities in Tennessee and our Australian partner.

Item 3. Legal Proceedings

The discussion of legal matters under the section entitled "Legal Proceedings" is incorporated by reference from Note 14 of our audited consolidated financial statements included elsewhere in this Annual Report.

Item 4. Mine Safety Disclosures

Not Applicable.

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PART II.

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Market Information

Our Class A Common Stock has been listed on the NASDAQ Global Select Market under the symbol "MBUU" since January 31, 2014. Prior to that date, there was no public trading market for our Class A Common Stock. The following table sets forth, for the periods indicated, the high and low sales prices of our Class A Common Stock as reported by the NASDAQ Global Select Market:

	High	Low
Third Quarter of Fiscal 2014 (from January 31, 2014)	\$24.90	\$16.67
Fourth Quarter of Fiscal 2014	\$23.49	\$18.39

On September 24, 2014, the last reported sale price on the NASDAQ Global Select Market of our Class A Common Stock was \$19.02 per share. As of September 24, 2014, we had approximately 3 holders of record of our Class A Common Stock and 43 holders of record of our Class B Common Stock. The actual number of stockholders is greater than this number of record holders, and includes stockholders who are beneficial owners, but whose shares are held in street name by brokers and other nominees. This number of holders of record also does not include stockholders whose shares may be held in trust by other entities.

Dividends

Malibu Boats, Inc. has never declared or paid any cash dividends on its capital stock. We currently anticipate that we will retain all of our future earnings for use in the expansion and operation of our business and do not anticipate paying any cash dividends in the foreseeable future. Any future determination to declare cash dividends will be made at the discretion of our board of directors, subject to applicable law and will depend on our financial condition, results of operations, capital requirements, general business conditions and other factors that our board of directors may deem relevant. In addition, our credit facility restricts our ability to pay dividends on our capital stock in certain cases. Malibu Boats, Inc. is a holding company and has no material assets other than its ownership of LLC Units. We intend to cause the LLC to make distributions to us in an amount sufficient to cover cash dividends, if any, declared by us. If the LLC makes such distributions to Malibu Boats, Inc., the other holders of LLC Units will be entitled to receive equivalent distributions on a pro rata basis.

Stock Performance Graph

The stock price performance graph below shall not be deemed soliciting material or to be filed with the SEC