

ETI ALPHADIRECT EXPERT SERIES

DECEMBER 20, 2017

IN FOCUS: CAPSTONE TURBINE CORPORATION AND THE MARKETPLACE FROM A DISTRIBUTORS' POINT OF VIEW.

This report focuses on Capstone Turbine (NASDAQ: CPST) and its exclusive Mid-Atlantic distributor, E-Finity Distributed Generation.



E-Finity Vehicle Service Fleet. Source: Capstone Turbine Corporation

THE ETI ALPHADIRECT INSIGHT

We believe that Capstone Turbine's distribution network is a key asset and critical to the long-term growth and success of the company. Capstone currently has approximately 100 distributors in its network selling across multiple geographies with the top 25 making up roughly 80%, but this is diversifying as Capstone enters new markets such as Africa, the Middle East and Asia. It is important that investors understand this asset as part of Capstone's operating strategy as we believe it ties directly into the growth and aftermarket success. In this AlphaDirect ETI Management Series, we had a chance to talk with one of Capstone Turbine's major distributors, E-Finity Distributed Generation, to get a better view and understanding of what drives their success in the field as well as the challenges they face. E-Finity Distributed Generation is the exclusive Mid-Atlantic and Southeast distributor for Capstone Turbine.

CPST Business Snapshot

HQ: Chatsworth, California
Nasdaq Ticker: CPST (NASDAQ)
Full Time Employees: 168
Stock Price: \$0.72*
Market Cap: \$33.636M*
Website: www.capstoneturbine.com
*As of December 19, 2017



About EnergyTech Investor

EnergyTech Investor, LLC (ETI), a division of AlphaDirect Advisors, is a research and investor intelligence firm that creates and implements digital content and programs to help investors better understand a company's key drivers including industry dynamics, technology, strategy, outlook and risks as well as the impact they could have on the stock price. EnergyTech Investor's expertise encompasses a variety of sectors including Clean Transportation, Emerging EnergyTech, Energy Services, Smart Buildings, Solar, Water Value Chain and Industrial. EnergyTech Investor was founded by Wall Street veteran and research analyst, Shawn Severson, after seeing a significant shift in the investment industry that resulted in less fundamental research conducted on small cap companies and a significant decline in information available to all investors. ETI's mission is to bridge that information gap and engage companies and investors in a way that opens information flow and analytical insights.

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Participants

Mr. Jeff Beiter

Managing Partner

E-Finity Distributed Generation

Mr. Beiter founded E-Finity Corporation, LLC in 1991 to provide lighting upgrade services throughout the Mid-Atlantic states. In 1995 he formed a Joint Venture with Statoil Energy from Norway to continue this effort as E-Finity Energy, LLC. In 2007, Beiter had the opportunity to become the exclusive Capstone distributor for the Mid-Atlantic and Southeastern United States trading as E-Finity Distributed Generation, LLC. During his time as a Capstone distributor, Beiter has received many awards, including the distinguished Capstone Platinum Distributor Award and currently chairs the Capstone Global Distributor Forum. Under his leadership, E-Finity Distributed Generation, LLC has deployed hundreds of microturbines in the commercial, industrial, and oil and gas markets and has been one of Capstone's leading distributors worldwide since 2013. Jeff lives in Wayne, Pennsylvania where he grew up with his lovely wife Sheryl, talented daughters Haley and Carly, and their Yorkie Luke. As well as his family, Jeff maintains a steadfast commitment to his church, community, local charitable organizations as well as to his employees. In his free time, he enjoys running, bicycling and golf. Beiter holds a B.A. Degree from Temple University and is a proud member of The Union League of Philadelphia.

Mr. Shawn Severson

Founder & CEO

EnergyTech Investor, LLC

Mr. Severson is the founding partner and CEO of EnergyTech Investor, LLC. He has over 20 years of experience as a senior research analyst covering the technology and cleantech industries. Prior to founding ETI he lead the Energy, Environmental and Industrial Technologies practice at the Blueshirt Group, a leading growth company investor relations firm. He was frequently ranked as a top research analyst including one of the Wall Street Journal's "Best on the Street" stock pickers and multiple awards as Starmine's top three stock pickers.



ABOUT CAPSTONE TURBINE CORP.

Capstone Turbine Corporation is the world's leading developer and manufacturer of clean-and-green microturbine power generation systems and was first to market with its high-efficiency air bearing turbine technology. Capstone has shipped thousands of microturbines to customers worldwide. These innovative and award-winning systems have logged millions of documented runtime operating hours and are compliant with current and future emissions regulations. With a total of 100 distributors and Original Equipment Manufacturers ("OEMs") worldwide, Capstone's low-emission microturbines serve multiple vertical markets with industry-leading reliability and efficiency. Capstone offers a comprehensive product lineup, providing scalable solutions from 30kW to 30MW. Capstone microturbines can also operate on a variety of gaseous or liquid fuels and are the ideal solution for today's distributed generation needs. Capstone is a member of the U.S. Environmental Protection Agency's Combined Heat and Power Partnership which is committed to improving the efficiency of the nation's energy infrastructure and reducing emissions of pollutants and greenhouse gases. A UL-Certified ISO 9001:2015 and ISO 14001:2015 company, Capstone is headquartered in the Los Angeles area with sales and/or service centers in the United States, Latin America, Europe, Middle East and Asia.

ABOUT E-FINITY DISTRIBUTED GENERATION

E-Finity Distributed Generation is the exclusive Mid-Atlantic and Southeast distributor for Capstone Turbine. Located in Wayne, PA and with offices and services hubs in West Virginia, Florida, and Washington, DC, E-Finity maintains over 600 microturbines throughout the Mid-Atlantic and Southeastern United States, including Pennsylvania, Maryland, Ohio, Delaware, New Jersey, West Virginia, Virginia, North Carolina, Georgia, and Florida. E-Finity has a dedicated staff of application engineers, sales and marketing, customer service, and Capstone Certified Technicians that are located throughout its territory.

Shawn Severson: First, I would like to thank you, Jeff, for taking time to speak with us today. Our focus is on your company, E-Finity Distributed Generation, and its role as the exclusive Capstone distributor for the mid-Atlantic and Southeast United States. Before we dig into the business, though, would you start by giving us a brief introduction of yourself and your background?

Jeff Beiter: Absolutely and thank you, Shawn. Our story actually begins with my father who was with GE Lighting for 35 years and then went on to Philips Lighting. When he retired in 1990, we formed the E-Finity Corporation, which provided lighting upgrades and energy efficiency work. We did that successfully until about 1995 when we entered into a joint venture with Statoil Energy out of Norway and formed E-Finity Energy, LLC. That was when Ken Lay from Enron and other players came to Pennsylvania to open up the market for the sale of electricity, which our services at E-Finity complimented. After about two years, Enron and others left the game because PECO ultimately won out, leaving no open market for the sale of electricity. We ended up taking over as E-Finity Energy, LLC and continued to be a family-owned business providing energy conservation measures.

In the late 1990's, we picked up a new product line called Encorp Paralleling Switchgear and proactively marketed the switchgear to industry leaders like Darren Jamison at Stewart & Stevenson Services, now President and CEO of Capstone Turbine, as well as Jim Crouse and others, paralleling with reciprocating technology for distributed generation (DG) and combined heat and power (CHP) applications. We built a very strong brand and industry relationship, and business had been good for a little while, but in the end, Encorp wanted to go back to a

traditional direct sales approach, so we ended up parting ways on good terms.

In April of 2007, I learned that Jim Crouse had moved over to Capstone and so I reached out to him, confident that if he went to work at Capstone, the product must work. We would go on to form E-Finity Distributed Generation and became a distributor for the mid-Atlantic states with about 36 microturbines in our local area fleet, and 100% of our resources have been dedicated to Capstone ever since. We are now in our 11th year and have built a fleet of over 600 microturbines that we service and operate on a 24/7 basis.

Shawn Severson: Great, thank you, Jeff. So, you are the exclusive distributor for the mid-Atlantic and Southeastern United States for Capstone's microturbines. Can you help investors understand how you developed this relationship with Capstone over the last couple of years from the beginning to where it is today?

Jeff Beiter: Yes, we took the approach of being very proactive with the product line, similar to what we did with other ventures where we approached utilities with the idea of encouraging their customers to implement energy efficiency upgrades. Initially, we took that same approach with gas companies in the mid-Atlantic, and we got started with Philadelphia Gas Works. Our technology was able to help them increase their sale of natural gas as well as provide their customer base with new energy efficient technologies like CHP and CCHP that also aided those customers in their effort to lower their carbon footprint. We took a similar approach with other trades, contractors and folks who were not familiar with "on-site" combined heating and power. Originally, it was all about education and is still somewhat the same today.

Shawn Severson: Capstone's distribution network is a very important element of their growth strategy and we believe it to be one of their most valuable assets. Can you help investors understand what role you play in the sales, application and aftermarket service process and the overall value chain?

Jeff Beiter: We take a 360-degree ownership of the customers' interest in the Capstone product line, and we make sure that they know we are an authority on the product line. We get involved in understanding exactly what our clients want to achieve and help them size the best combinations of equipment. Our applications and engineering team supports every one of our sales quotes to ensure seamless integration of the equipment and ultimately, its operation. It is not just the microturbines; it's the other bolt-on technologies that make the new and growing "small scale" combined heat and power market gain traction. Educating people, being consistently in front of trade organizations and attending industry trade shows are the keys to our success.

We sell into three market segments. Biogas projects, of which we are averaging two to four projects a year, like the Sierra Nevada Brewery site located in North Carolina where we burn biogas from the brewing process to generate electricity with what is truly free renewable biogas. We do the same at wastewater treatment facilities where we capture the waste heat and produce free hot water to feed the digesters. Within our natural gas segments, we sell microturbines to midstream, exploration, and compression based applications in the Marcellus and Utica shale basins. These customers rely on Capstone and E-Finity for low emission, redundant and reliable power at all times. We have been very fortunate to grow our fleet within

the oil and gas market segment to over 400 microturbines, powering extremely remote Appalachian sites where utility power is simply not available.



Capstone's biogas project at the Sierra Nevada Brewery site located in Mills River, North Carolina. Source: Capstone Turbine Corporation

As production grows in these remote areas, it allows pipeline development to bring the clean-burning, abundant shale gas to our city gas distribution gates. At this point, our strategy is to capture the waste heat to increase energy efficiency and provide a return on investment for the business owner. It could be a university, a hotel, a manufacturing facility, office building, hospital or long-term care facility as well as what is becoming in vogue, "microgrids." We are involved in every one of these segments and very pleased to have the ability to produce hot water, chilled water, steam or any of those combinations simultaneously in addition to electricity. The latest opportunity is falling into the resiliency category due to the aging utility grids in the U.S. Small-scale, inside the fence-combined heat and power is the solution that people are turning to.

Shawn Severson: Just to expand on that a bit, how does lead generation take place and then business development work? Is it through Capstone or E-Finity?

Jeff Beiter: Both. Capstone and its distribution partners undertake a two-pronged approach to lead generation. Capstone focuses its marketing efforts on industry-wide or market-wide activities, while its distribution partners focus on more localized activities within their territories. As a distributor, we are proactive in educating the engineering and architectural community. We are also extremely active in numerous market segment trade shows and industry market groups. In the commercial and industrial market segment, for example, we network within numerous trade organizations such as the Association of Energy Engineers.

We have also aligned ourselves with natural gas companies, educating them and demonstrating how the deployment of CHP will increase throughput and revenue. As a distributor, and in an effort to educate and support project development, we have created a simple “Go or No-Go” analysis that will provide a high-level return on investment (ROI) report, allowing the customer to see the value of purchasing and installing a combined heat and power project. As a result, this gives the customer, whether the director of engineering or the vice president of operations, the confidence to consider CHP with Capstone.

The other areas that we are active in are the U.S. Department of Energy or DOE Clean Energy Partnership as well as the EPA Energy Star Partnership and the CHP Association, which are federal programs that are educating end users on the resiliency and lower emissions that inside the fence combined

heat and power provides. We encourage our customers to make sure that they apply for awards or be involved in the organizations.

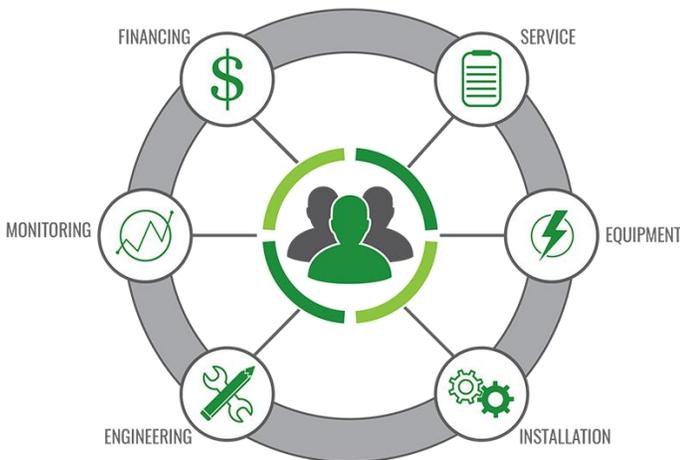


*Capstone Microturbine CHP Solution.
 Source: Capstone Turbine Corporation*

Additionally, Capstone continues to directly market and capture quality leads through various marketing campaigns and initiatives. These activities include trade shows, email campaigns, advertising, web campaigns and participation in various national and international energy associations. Once a lead has been entered into the Capstone customer relationship management (CRM) program it is automatically forwarded on to the distributor that covers that specific territory. That lead is not only stored for historical reference but now gives both the Distributor and Capstone the ability to closely manage the sales opportunity from beginning to end, and track the ROI of their marketing campaigns.

Shawn Severson: How important do you think that the new Capstone financing arm is when it comes to these projects in terms of winning new business and getting people to convert or expand their business with you?

Jeff Beiter: That is a very good question as it is a relatively new program for Capstone, so we are still in the learning phase. However, I can tell you it's important to give customers multiple solution options. To date, most customers we have worked with have decided to self-finance the project, as they do not want to lose 20 years of cost savings. Therefore, they decide to take on the risk of ownership themselves. In addition, it's important to note that Capstone Energy Finance is not a band-aid for bad projects or customers with poor credit history. Overall, as a distributor, I see it is another key tool in our sales toolbox since it helps to shift the potential customers thought process from "a maybe next year" to convincing them to purchase sooner, which is helpful.



Finance Program. Source: Capstone Turbine Corporation

Shawn Severson: What do you find you are typically competing against when it comes to a new customer opportunity in terms of alternative technologies?

Jeff Beiter: Well, we are competing with the electric utility companies and the lack of spark spread. The second competing item is the less expensive reciprocating engine driven generator sets out there – which are dirtier, louder and require more effort to install along with considerably more downtime for regular maintenance. On the other hand, Capstone microturbines are air-lubricated, air-cooled and only require one scheduled maintenance interval per year.

Shawn Severson: Microturbines have been in the marketplace and a commercial technology for a number of years. I know we have touched on this a bit, but are there any specific markets or industry trends developed recently that you think will help or hurt the distributed generation industry?

Jeff Beiter: Yes. First, we have to see the balance of plant products such as highly efficient heat exchangers, absorption chillers, and steam HSRG becoming more available allowing for the deployment of bigger and better CHP & CCHP project plants, especially those that complement the Capstone C200S and C1000S Series Products. With this balance of plant products, we have new market segments to target. In addition, there is a resiliency play becoming in vogue due to superstorms such as Hurricane Irma and Hurricane Sandy. With Capstone's electrical islanding capabilities, we have the ability to run without utility power. In fact, we operate a number of safe haven facilities, such as Red Cross disaster relief locations, that can run indefinitely so long as the fuel source remains intact. These microturbines generate electricity, hot water and chilled water until the utility is reestablished and secure. Lastly, there is the microgrid, which is truly gaining momentum. In my opinion, we currently operate hundreds of them, if you consider all of our oil and gas

standalone sites as well as any of our island capable sites. The only difference is most microgrids also tend to employ solar, wind and battery storage technology as part of the overall package, which also works with our Capstone technology.

Shawn Severson: It seems to be an economically competitive solution if you look at the overall project life in terms of competing technologies. Is that correct?

Jeff Beiter: I would say yes. If your boiler is old, inefficient and in need of replacement, it should be replaced with a hot water CHP plant. Instead of buying natural gas to make hot water, you could buy natural gas and get electricity and hot water with it. The same is true for an aging chiller, with which you will get electricity and chilled water.



A Capstone C800 microturbine operating in a CCHP application producing 800kW of clean and reliable power for the PSECU data center UPS, located in Harrisburg, Pennsylvania. Source: Capstone Turbine Corporation

Compared to the traditional approach, the CHP approach gives you a free byproduct as

well as structured resiliency with or without the utility grid. In fact, two sites come to mind that produce all three forms of energy simultaneously. The first is PSECU, the Pennsylvania State Employees Credit Union, where we produce electricity, hot water and chilled water simultaneously to support the building HVAC. The second is the Viking Yacht Company in New Jersey, where we deliver 100% of the factory's HVAC and generate 40% of their electricity.



Natural gas fuels six Capstone C65 Integrated CHP micro-turbines that produce 390kW of clean and reliable power as well as thermal energy for the Viking Yacht Company, located in New Gretna, New Jersey. Source: Capstone Turbine Corporation.

Shawn Severson: Can we bring this together by helping investors understand how you target a typical project? Can you provide examples of recent projects that you have won, and walk us through the steps?

Jeff Beiter: Staying within the commercial and industrial market segment, I will refer to our Viking Yacht project as previously mentioned. We first had to educate them on our technology, and we did this by showing them a number of existing sites that allowed them to see, touch and appreciate how compact, quiet and easy to install our technology is. We

ran a high-level ROI analysis to see if the project had a decent payback. Next, we supported the engineer they selected to be sure the pipe sizing and balancing plan integration were capable of meeting the Capstone operating criteria. The plans and drawings were then released to contractors, and the project was awarded and moved to the construction phase. Through this entire process, our applications team remained involved to support the customer and ensure a seamless startup and successful plant operation.

Shawn Severson: That is great, and leads into my next question. Capstone recently talked about the importance of their aftermarket service offerings. Can you help us understand how that fits into your selling process and if it is an important part of your sales initiative? If so, can you help us understand how it helps you with new contract opportunities?

Jeff Beiter: We take pride in our products not only being properly installed and programmed but also in achieving and exceeding our customers' expectations. We have been able to bring them 5, 9 and 15-year fixed price service contracts that takes any day-to-day operation of the equipment out of their hands, which is key. Successful integration, startup and a dedicated and responsive customer service team are what ultimately drive repeat sales.

One of our strong value-added services is our Remote Monitoring Program where we have round the clock connectivity to each site. This allows us to become aware of any fault or shut down before our customer does. We have technicians on duty 24/7, numerous Capstone Factory Authorized Service Providers and service trucks and millions of dollars in spare parts inventory to manage our fleet,

which ultimately provides uptime operation, that leads to a very high level of customer satisfaction.



E-Finity Remote Monitoring. Source: Capstone Turbine Corporation

Shawn Severson: Do you think that this differentiates you more between reciprocating engines or other technologies? How does the aftermarket play out relative to other competing technologies?

Jeff Beiter: Regarding reciprocating engines and other technologies, Capstone units are completely different from the more traditional 100+-year-old reciprocating engine technology. Again, Capstone units are air lubricated, air-cooled, has only one moving part, requires no vibration support or spill containment, are quieter than a vacuum cleaner and have ultra-low emissions requiring no additional air cleaning equipment. Our first planned service is at 8,000 hours and only the single unit you are servicing needs to be shut down. When servicing a reciprocating engine, the entire unit must be shut down, and it generally needs its oil changed every four months not to mention all the moving parts and potential additional points of failure.

Regarding the aftermarket, let me just say that when you only have one moving part, you are going to have a long-life cycle. For example, we have six C65 units at the Masonic Village retirement community in Elizabethtown, Pennsylvania that we started up in 2002. We have overhauled the units twice at each of the 40,000-hour intervals – all units in one day each time – and they are now in their 17th year of operation and approaching 700,000 microturbine run-hours on the array. Masonic Village has won numerous awards for their CHP project and could potentially achieve another one this year for their high runtime and well-maintained overall high system efficiency.



Capstone microturbines generate electricity and heating at Masonic Village, a 1,400-acre complex serving more than 1,700 residents since 1910, located in Elizabethtown, Pennsylvania. Source: Capstone Turbine Corporation

Shawn Severson: Lastly, what type of growth do you think E-Finity can sustain over the long-term and what do you think the most attractive market verticals are going to be in terms of growth drivers?

Jeff Beiter: I think that the commercial and industrial marketplace, electrical resiliency, microgrids and continued abundant, low-cost natural gas are going to be the drivers for on-site, combined heat and power sales. When we sell a microturbine, we also sell the long-term annuity in the Capstone factory protection plans (FPP), and that is what certainly helps us grow our business on a double-digit year-over-year basis.

Shawn Severson: Thank you very much for your time, Jeff. I think investors have a better understanding of E-Finity and its relationship with Capstone Turbine.

Jeff Beiter: You're welcome, Shawn.

SHAWN SEVERSON FOUNDER AND CEO

Mr. Severson founded EnergyTech Investor in 2016 after seeing a significant communication and information gap developing between small and micro-cap companies and the financial community. Mr. Severson has over 20 years of experience as a senior research analyst covering the technology and cleantech industries. Previously, he was Managing Director at the Blueshirt Group where he was the head of the Energy, Environmental and Industrial Technologies practice. Prior to the Blueshirt Group, Mr. Severson was at JMP Securities where he was a Senior Equity Research Analyst and Managing Director of the firm's Energy, Environmental & Industrial Technologies research team. Before joining JMP, he held senior positions at ThinkEquity, Robert W. Baird (London) and Raymond James. He began his career as an Equity Research Associate at Kemper Securities. He was frequently ranked as a top research analyst including one of the Wall Street Journal's "Best on the Street" stock pickers and multiple awards as Starmine's top three stock pickers.



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