



**Capstone**<sup>®</sup>

Turbine Corporation



# Second Quarter Fiscal Year 2018 Earnings Call

November 2, 2017

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Reliable power when and where you need it.  
Clean and simple.



## Safe Harbor Statement

This presentation contains “forward-looking statements” regarding future events or financial performance of the Company, within the meaning of the Safe Harbor provisions of the Private Securities Litigation Reform Act of 1995.

These statements relate to, among other things, Capstone’s competitive advantage, increased dependence on distributed generation, achievement of Company’s three-pronged business profitability plan, including: continued cost reductions, adoption of Company’s Signature Series product and accessories offerings, and the success of Capstone Energy Finance; increasing revenues from: geographic and market diversification, Capstone Energy Finance, Aftermarket Service growth, the Sell-to-Win Program, FPP Contracts, new spare parts programs, spare parts price increases, and Signature Series upgrade kits; attainment of Company’s continuous improvement business initiatives, including: capitalizing on Capstone Energy Finance, cost reductions, increase CHP product sales, increase in FPP service revenue, increase in spare parts revenue, closing out of the C200 reliability program, continuous and ongoing product development efforts, balance sheet management and cash burn minimization efforts; and achievement of Adjusted EBITDA breakeven and profitability.

Forward-looking statements may be identified by words such as “believe,” “expect,” “objective,” “intend,” “targeted,” “plan” and similar phrases.

These forward-looking statements are subject to numerous assumptions, risks and uncertainties described in Company’s Form 10-K, Form 10-Q and other recent filings with the Securities and Exchange Commission that may cause Company’s actual results to be materially different from any future results expressed or implied in such statements. Because of the risks and uncertainties, Company cautions you not to place undue reliance on these statements, which speak only as of today. The Company undertakes no obligation, and specifically disclaims any obligation, to release any revision to any forward-looking statements to reflect events or circumstances after the date of this conference call or to reflect the occurrence of unanticipated events.

# Q2FY2018 Business Highlights



- Capstone received a letter from The NASDAQ Stock Market stating that the company had regained compliance with The NASDAQ Stock Market's minimum bid price listing requirement, Listing Rule 5550(a) (2). The letter was the result of Capstone's share price being at or above \$1.00 per share for ten consecutive business days from October 12 to 25, 2017.
- Signed a 2-megawatt (MW) Factory Protection Plan (FPP) multi-year contract with our Hawaiian Distributor Critchfield Pacific for a global resort hotel chain on the island of Maui. Total FPP long-term contract coverage for Capstone units operating in Hawaii is now 74% as a result of the latest FPP contract.
- Aerospace Industrial Development Corporation (AIDC), Capstone's exclusive distributor for Taiwan, secured its first C1000 Signature Series order for a biogas project in Taiwan. The biogas-fueled microturbine will be installed at a large piggery.
- Capstone executed a new agreement that appoints a new exclusive oil and gas distributor in Russia. Under the terms of the agreement, the company will grant Turbine International and its affiliate, MTE Service, the sole distribution rights for Capstone's products and services in the Russian oil and gas sector in exchange for \$6.3 million in cash. Under the agreement, Turbine International will pay Capstone \$2.5 million in three payments by February 1, 2018 and the payments will be recorded as bad debt recovery. The remaining payment of \$3.8 million to be paid over a three-year period beginning in August 2018.
- The Energy Innovation Center (EIC) in Pittsburgh, Pennsylvania selected Capstone clean and green microturbines to retrofit its building. The EIC worked with E-Finity Distributed Generation, Capstone's exclusive distributor for the Mid-Atlantic and Southeastern United States, for the installation of two natural gas-fueled C65 integrated cooling, heat and power (ICHP) microturbines with Capstone's integrated heat recovery modules (HRMs).
- Capstone successfully winding down its \$5.2 million field retrofit program to upgrade non-Signature Series C1000 and C200 microturbines. The retrofit program was completed on schedule and within budget. This program has provided a significant improvement in demonstrated performance and reliability of the non-Signature Series C1000 and C200 microturbines, which now approaches the world-class performance and reliability of the Signature Series C1000, C200 and the C65 and C30 microturbines.
- Capstone announced a new plan to further lower total operating expense by an additional \$500 thousand per quarter. As a result, the new management quarterly total operating expense target is set at \$5 million. This includes the successful completion of its consolidation plan for its two manufacturing facilities into a single manufacturing facility allowing for an immediate increase in operational efficiency and reduced facility expense when the exited facility is subleased.
- Capstone's energy financing joint venture, Capstone Energy Finance, executed a five-year agreement with a large greenhouse operation in Colorado. Multiple propane-fired C65 microturbines will be installed in stand-alone mode at a remote location to provide electricity for the Colorado greenhouse.

# Q2FY18 Financial Results



<i>(In millions, except per share data)</i>	Q2FY18	Q2FY17
Microturbine Product	\$12.2	\$8.2
Accessories, Parts & Service	\$7.6	\$6.8
Total Revenue	\$19.8	\$15.0
Gross Margin	\$3.0	\$0.7
Gross Margin Percent	15%	5%
R&D Expenses	\$1.1	\$1.4
SG&A Expenses	\$4.8	\$5.0
Total Operating Expenses	\$5.9	\$6.4
Net Loss	\$(3.7)	\$(5.9)
Adjusted EBITDA*	\$(2.3)	\$(5.1)
Basic Loss Per Share	\$(0.09)	\$(0.19)
Adjusted EBITDA* Basic Loss Per Share	\$(0.05)	\$(0.17)

\*See Appendix, Slide 15

# Q2FY18 Financial Results



<i>(In millions)</i>	September 30, 2017	June 30, 2017
Cash & Cash Equivalents, Including Restricted Cash	\$15.2	\$19.1
Cash (used in) in Operating Activities	\$(5.1)	\$(0.7)
Accounts Receivable, Net of Allowances	\$13.2	\$12.2
Total Inventories	\$17.3	\$16.3
Accounts Payable & Accrued Expenses	\$14.1	\$13.6

Subsequent to Q2FY18 previously issued warrants exercised for \$1.7 million <sub>5</sub>

# Q2FY2018 vs. New EBITDA Breakeven Model



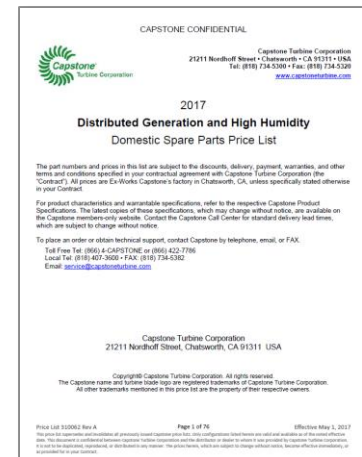
<i>(In millions)</i>	Q2 FY2018 Results	New CHP Balanced Service Model	Capstone Initiatives and Management Notes
Microturbine Product	\$12.2	\$15.0	Crude Oil Strengthening, USD Weakening, Hurricane Activity
Accessories, Parts & Service	\$7.6	\$10.0	FPP Service Revenue at Record Levels and Growing
<b>Total Revenue</b>	<b>\$19.8</b>	<b>\$25.0</b>	New Signature Series Products and New <i>Sell-to-Win</i> program
Cost of Good Sold	\$16.8	\$19.5	Signature Series Cost Reduction Program
<b>Gross Margin</b>	<b>\$3.0</b>	<b>\$5.0</b>	Growing Product Sales & FPP - Lower Warranty and FPP COGS
Gross Margin Percent	15%	20%	Service Margin Expanding to 50%
<b>Total Operating Expenses</b>	<b>\$5.9</b>	<b>\$5.0</b>	Lower Service Provider Costs & Facility Consolidation in Progress
Adjusted EBITDA*	\$(2.3)	\$0	EBITDA Loss is the Lowest in Last 16 Quarters

\*See Appendix, Slide 15

# Revenue Growth Initiative

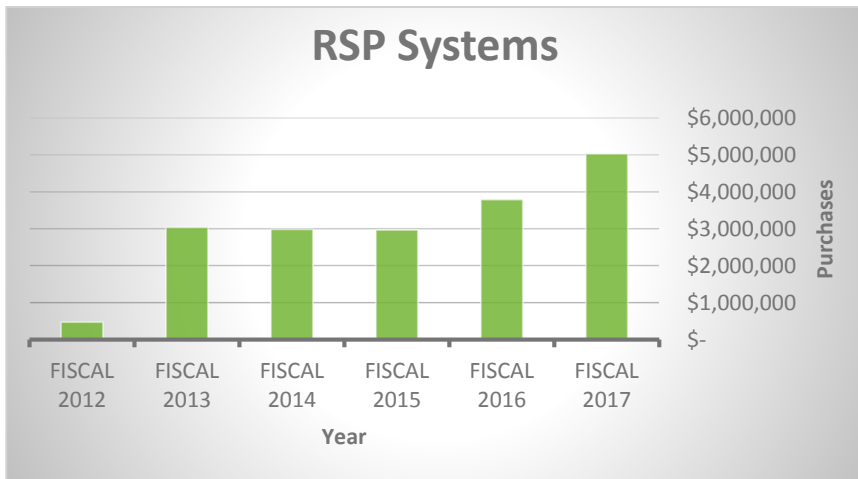
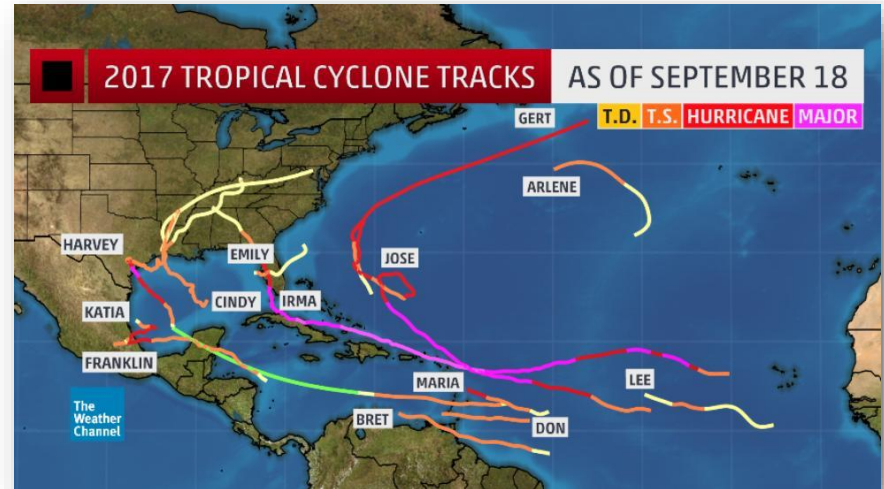


- New Signature Series product focused on CHP market
- Launched new “*Sell-to-Win*” ICHP bundled solutions
  - **C200S ICHP bundle** - microturbine, heat recovery module (HRM) and pre-paid FPP service contract
  - **C65 ICHP bundle** - microturbine, HRM and pre-paid FPP service contract
  - “*Sell-to-Win*” drives CHP product, HRM and FPP service contract revenue
  - “*Sell-to-Win*” program positively impacts working capital and cash flow
- Launched special program for FY18 for all future 5 & 9-year FPP service contracts that are 100% pre-paid
- Launched program to sell “Signature Series” upgrade kits for older non “Signature Series” systems
- New spare parts price increase (5% domestic, 3% international)
- New creative plan to increase the FPP service contract attachment rate targeted for second half of fiscal year
- New spare parts programs planned for second half of fiscal year
- Focus on Distributor recommended spare parts stocking levels



# Impact of Hurricanes

- Overwhelming majority of our microturbine installations in Texas, Florida, Puerto Rico, Dominican Republic and the U.S. Virgin Islands not only survived the storms but were fully operational providing critical power and in some cases provided the power needed to pump water.
- Similar results in late October 2012 when Hurricane Sandy devastated the states of New York and New Jersey. An estimated 93, out of 95 microturbines, remained fully operational at that time.



Five years removed from Hurricane Sandy, RSP Systems, Capstone's distributor for the greater New York area, is a top five revenue producer worldwide.



Fully operational Capstone Microturbines on St. Thomas surrounded by debris from Hurricane Irma

**On-site Distributed Generation Provides Money Savings, On-site Generation & Critical Emergency Backup Power**



# Cost Reduction Initiative



<b>Q2FY18 Operating Expenses</b> <i>(in millions)</i>	<b>\$ 5.9</b>
Non-recurring Q2 expenses	(0.2)
<b>Adjusted Q2 Operating Expenses</b>	<b>\$ 5.7</b>
<b>Cost Reduction Activities</b>	<b>\$ (0.4)</b>
<b>Average Quarterly Operating Expenses FY2018</b>	<b>\$ 5.3</b>
Estimated savings from facility consolidation	(0.3)
<b>Average Quarterly Operating Expenses</b>	<b>\$ 5.0</b>

**Final Goal is \$5.0M in Quarterly Expense After Facility Consolidation**

# Financial & Market Statistics Comparison



## Selected Public Companies

(\$ in millions, except per share data)

Company	Financial Statistics						Market Statistics		
	Revenue	Gross Margin	GM %	OPEX	EBITDA	Revenue Per Employee	Market Cap (1)	Cash (2)	Q/Q in Cash
Capstone Turbine Corporation(3)(4)	\$19.8	\$3.0	15%	\$5.9	\$(2.3)	\$0.12	\$42.2	\$15.2	\$(3.9)
<b>Small-Cap Distribution Generation</b>									
American Superconductor Corp.(5)	8.9	(4.5)	-51%	10.2	(10.9)	0.03	80.6	37.6	10.8
Ballard Power Systems(6)	31.8	10.2	32%	11.1	0.3	0.07	881.3	60.1	(8.0)
FuelCell Energy(7)	10.4	(2.6)	-25%	11.7	(12.5)	0.02	134.0	73.8	(10.3)
Maxwell Technologies, Inc.(8)	37.1	7.8	21%	16.5	(4.2)	0.11	178.2	19.2	(1.7)
Plug Power, Inc.(8)	20.8	(3.5)	-17%	24.5	(36.1)	0.05	638.2	16.9	(9.7)
<b>Avg. selected companies</b>	<b>\$21.8</b>	<b>\$1.5</b>	<b>-8%</b>	<b>\$14.8</b>	<b>\$(12.7)</b>	<b>\$0.05</b>	<b>\$382.5</b>	<b>\$41.5</b>	<b>\$(3.8)</b>

(1) Source: Nasdaq as of October 31, 2017

(2) Cash, cash equivalents and restricted cash

(3) Source: Capstone Turbine Corporation's November 2017 Form 10-Q filing

(4) Company is reporting Adjusted EBITDA see slide 15 for reconciliation

(5) Source: American Superconductor Corporation's August 2017 Form 10-Q filing

(6) Source: Ballard Power Systems third quarter financial report issued November 2017 on company's website

(7) Source: FuelCell Energy's September 2017 Form 10-Q filing

(8) Source: Maxwell Technologies, Inc. and Plug Power, Inc. August 2017 Form 10-Q filings

**Capstone Beats Average in All Areas Except Cash and Market Cap**



# APPENDIX

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# Kenworth Class 7 Track Testing

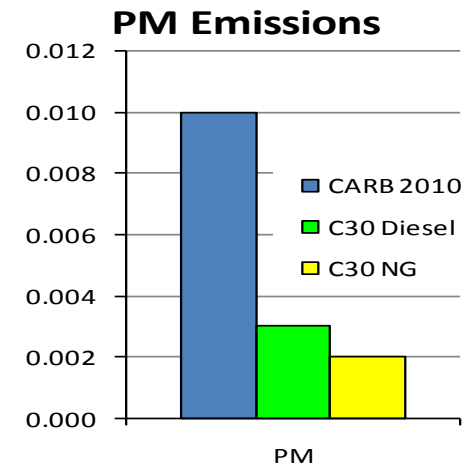
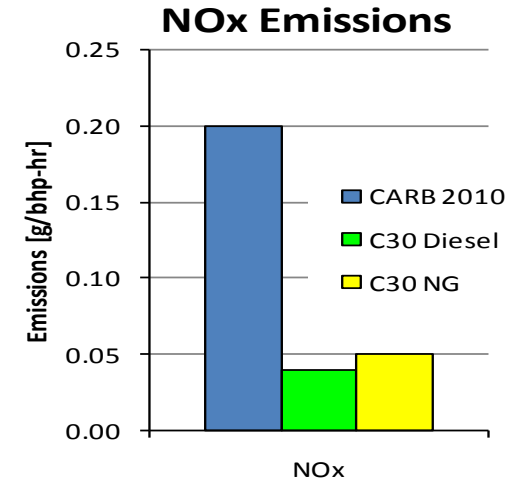


- Series Hybrid Design
  - ✓ 65kW Range Extender
  - ✓ 47kWh Li-Ion Battery Pack
  - ✓ 220kW Traction Motor
- CNG Fuel for Microturbine
- Level II On-board Plug-in Charging
- Regenerative Braking
- Main Advantage is in Stop & Go Delivery Applications

# Why Trucks with Microturbines?



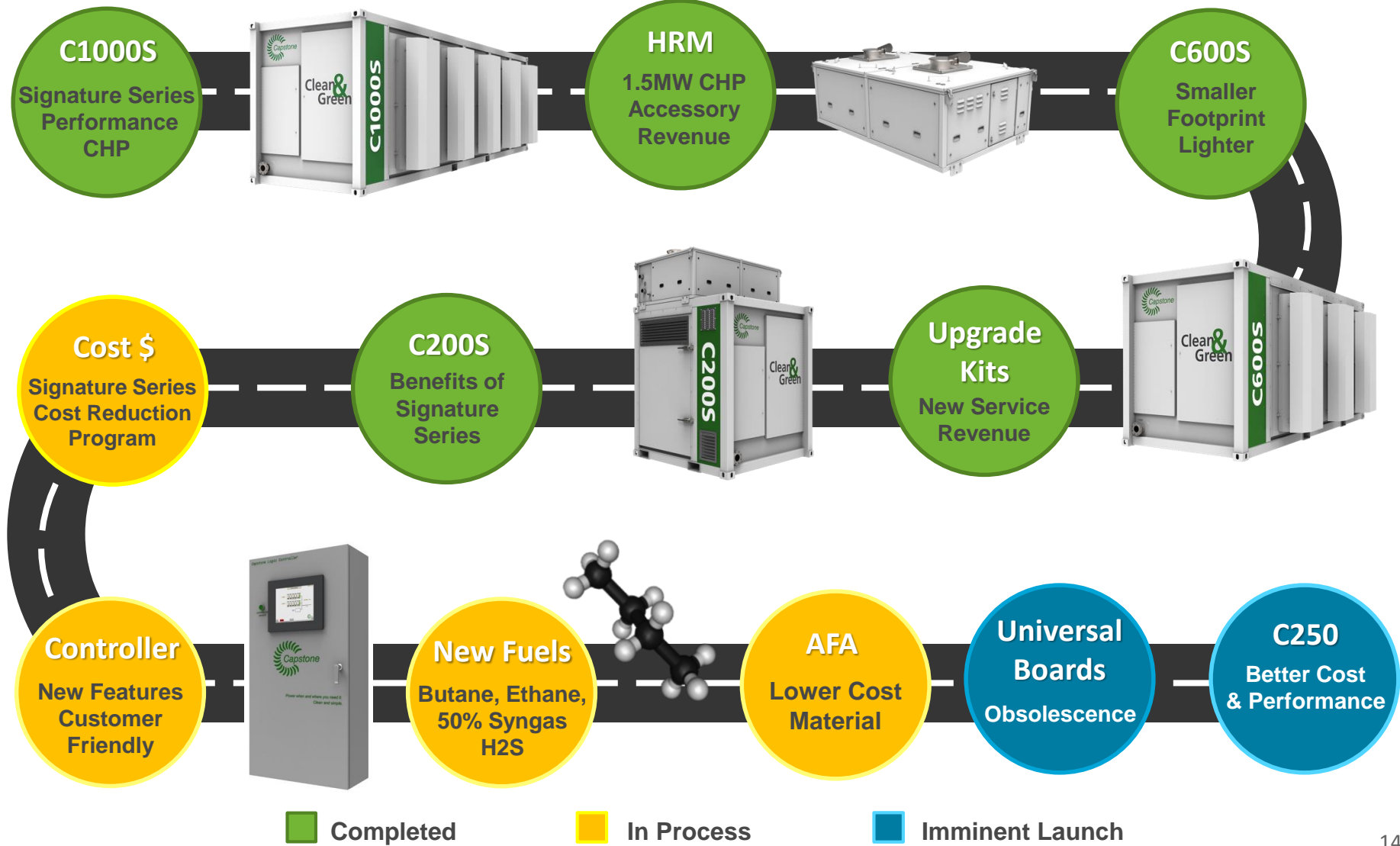
- Ultra-Low Emissions
  - ✓ Below CARB Levels
  - ✓ No Exhaust After Treatment
- Low Maintenance Requirements
  - ✓ No Oil Changes (Air Bearings)
  - ✓ No Engine Overhaul (Extended Life Design)
- Ability to Operate on Alternative Fuels
- Efficiency of a Diesel on Any Fuel
- Lightweight
- Essentially No Vibration
- Low Sound Levels



# Research & Development



## Capstone Product Development Roadmap



# Reconciliation of Non-GAAP Financial Measure



Reconciliation of Reported Net Loss to Adjusted EBITDA	Three months ended September 30,		Six months ended September 30,	
	2017	2016	2017	2016
Net loss, as reported	\$ (3,667)	\$ (5,865)	\$ (7,760)	\$ (10,382)
Interest expense	98	129	319	263
Provision for income taxes	7	—	7	3
Depreciation and amortization	279	396	583	802
Stock-based compensation	154	241	307	479
Restructuring charges	219	—	219	—
Change in warrant valuation	657	—	657	—
Adjusted EBITDA	<u>\$ (2,253)</u>	<u>\$ (5,099)</u>	<u>\$ (5,668)</u>	<u>\$ (8,835)</u>

To supplement the Company's unaudited financial data presented on a generally accepted accounting principles (GAAP) basis, management has used Adjusted EBITDA, a non-GAAP measure. This non-GAAP measure is among the indicators management uses as a basis for evaluating the Company's financial performance as well as for forecasting future periods. Management establishes performance targets, annual budgets and makes operating decisions based in part upon these metrics. Accordingly, disclosure of this non-GAAP measure provides investors with the same information that management uses to understand the Company's economic performance year-over-year. The presentation of this additional information is not meant to be considered in isolation or as a substitute for net income or other measures prepared in accordance with GAAP.

Adjusted EBITDA is defined as net income before interest, provision for income taxes, depreciation and amortization expense, stock-based compensation expense, the change in warrant valuation and restructuring charges. Restructuring charges includes one-time costs related to our cost reduction initiatives. Adjusted EBITDA is not a measure of our liquidity or financial performance under GAAP and should not be considered as an alternative to net income or any other performance measure derived in accordance with GAAP, or as an alternative to cash flows from operating activities as a measure of our liquidity.

While management believes that the non-GAAP financial measures provide useful supplemental information to investors, there are limitations associated with the use of these measures. The measures are not prepared in accordance with GAAP and may not be directly comparable to similarly titled measures of other companies due to potential differences in the exact method of calculation. Management compensates for these limitations by relying primarily on our GAAP results and by using Adjusted EBITDA only supplementally and by reviewing the reconciliations of the non-GAAP financial measures to their most comparable GAAP financial measures.

Non-GAAP financial measures are not in accordance with, or an alternative for, generally accepted accounting principles in the United States. The Company's non-GAAP financial measures are not meant to be considered in isolation or as a substitute for comparable GAAP financial measures, and should be read only in conjunction with the Company's consolidated financial statements prepared in accordance with GAAP.



**NASDAQ: CPST**

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[www.capstoneturbine.com](http://www.capstoneturbine.com)

