Capstone® Turbine Corporation

FIRST QUARTER FISCAL 2020

Earnings Call | August 8, 2019

Safe Harbor

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Changing Energy Markets

The Imminent Change

In Global Energy

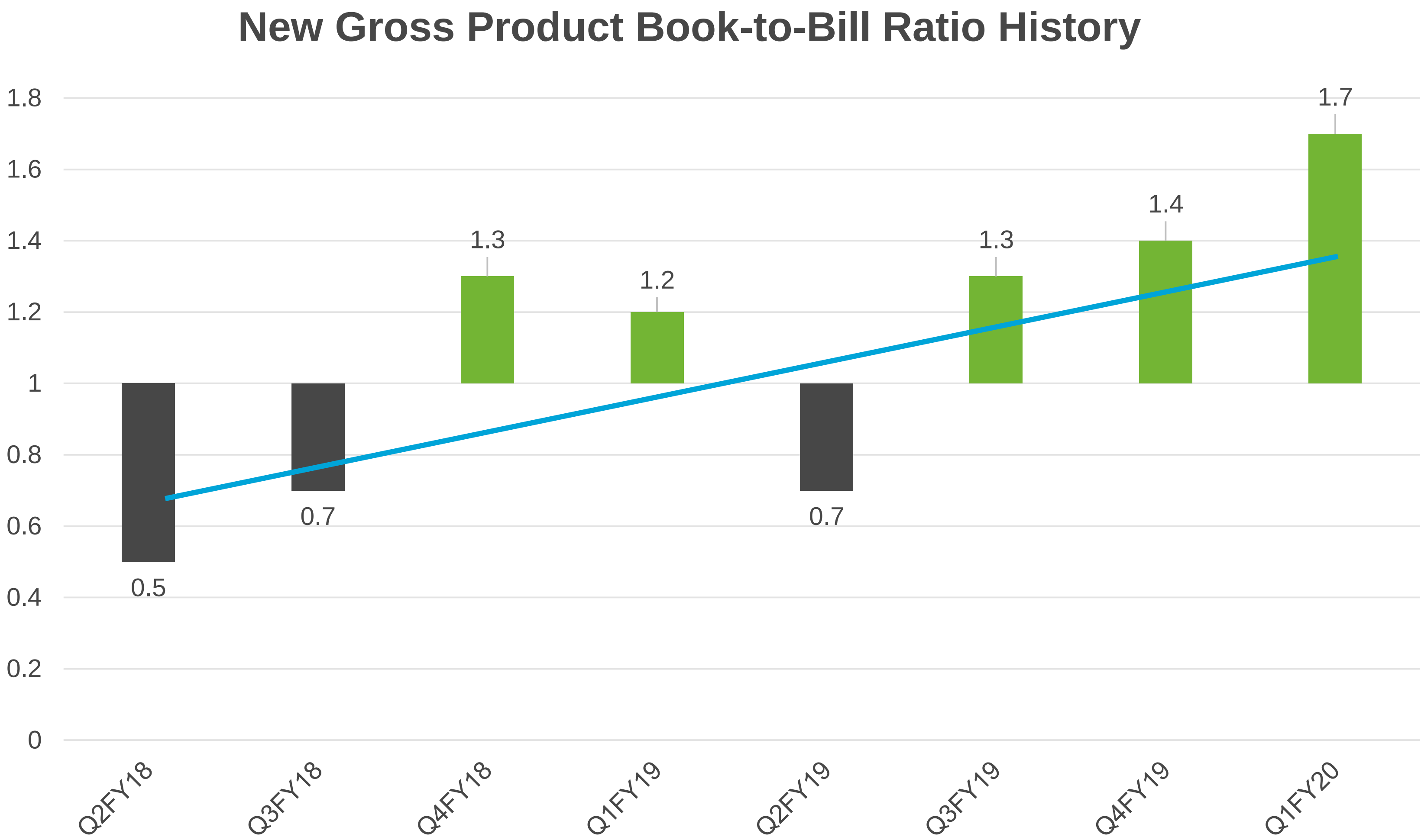
> Change is the law of life. And those who look only to the past or the present are certain to miss the future.
>
> *John F. Kennedy*

Q1 FY2020 Business Highlights

- Gross margin increased $1.1 million, or 61%, to $2.9 million from $1.8 million for the first quarter of fiscal 2019
- Gross margin percentage expanded by 67% to 15% from 9% in the year ago first quarter
- Total revenue from accessories, parts and service increased $1.5 million, or 20%, to $9.1 million from $7.6 million for the same quarter last year - Third highest quarter and highest first quarter on record
- The company set a new record for quarterly Factory Protection Plan (“FPP”) revenue at $4.2 million
- Service revenue grew $0.5 million in the quarter, representing an 11% growth on a sequential basis over the fourth quarter
- New gross product book-to-bill ratio for the first quarter was 1.7:1 compared with 1.4:1 for the fourth quarter and 1.3:1 in the third quarter of fiscal 2019
- Reported new gross product bookings for the quarter of $17.4 million, representing a 7% increase year-over-year
- New gross product book-to-bill ratio was positive for the third consecutive quarter and fifth time in the last six quarters
- Adjusted EBITDA loss was $3.4 million, compared to Adjusted EBITDA loss of $3.9 million the first quarter of fiscal 2019

Q1 Shows Progress Against Strategic Business Initiatives

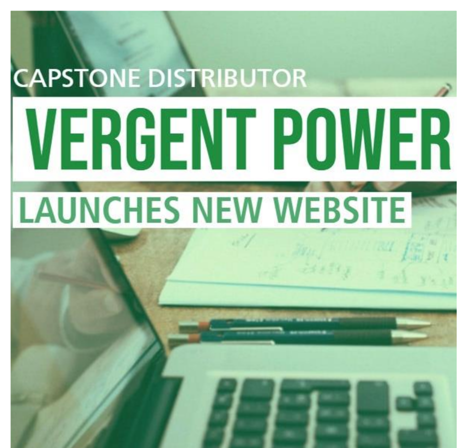
Book-to-Bill Sales Trend



Book-to-Bill Positive for the Third Consecutive Quarter and the Fifth Time in the Last Six Quarters.

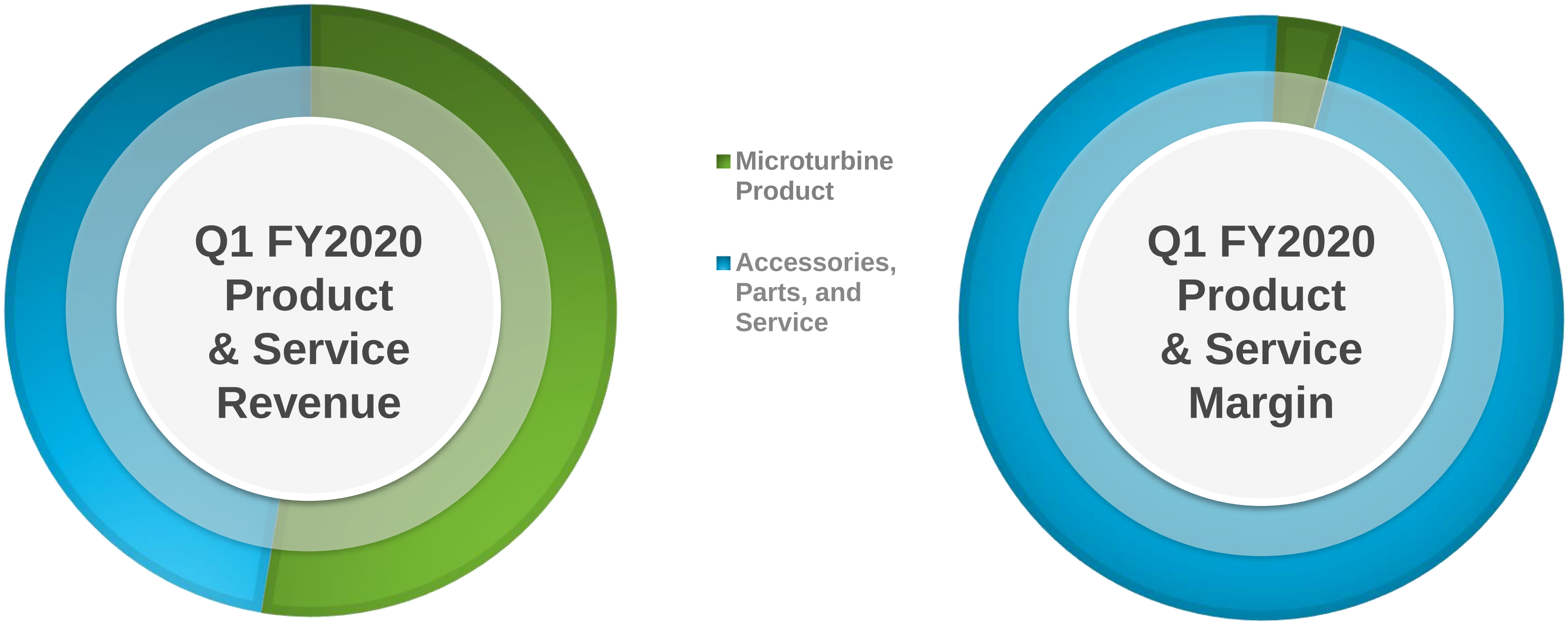
DSS Program Funding & Increased Marketing Spend

FY2018	VS	FY2020
Marketing Funding		**Potential Marketing Funding**
$0.2 million (A)		*$2.5 million (E)*



Service Driven Business Model

Clean, Efficient, and Reliable Energy Product and Service Enterprise



Q1 FY2020 Capstone Aftermarket Service Business Was 47% of Revenue, But 97% of Margin

Three-Year Margin Growth Trend

Three Months Ended June 30,	2018 Actual (Q1 FY19)	2019 Actual (Q1 FY20)	2020 Forecast (Q1 FY21)
Gross Margin			
Product	$ 0.1	$ 0.1	$ 1.3
As a Percentage of Product Revenue	**0%**	**1%**	**9%**
Accessories, Parts & Service	1.7	2.8	4.1
As a Percentage of Accessories, Parts and Service Revenue	**23%**	**31%**	**46%**
Total Gross Margin	$ 1.8	$ 2.9	$ 5.4
As a Percentage of Total Revenue	**9%**	**15%**	**24%**

Product gross margin improvement is driven primarily by a reduction in the impact from a known supplier poor quality parts issue, lower product discounting and lower direct material costs.

A/P/S gross margin improves from the lower impact from the supplier poor quality parts issue, increased remanufacturing parts volumes, new 10 MW long-term rental fleet and expanded factory protection plan (FPP) long-term service contract attachment rates.

Aftermarket Business Initiatives

Vendor quality issue has significantly impacted aftermarket margins (*both warranty and FPP*) in the near term

- We expect the impact will tail off by the end of fiscal year 2020 with expected gross margin returning & then exceeding levels seen in our EBITDA profitable quarters during FY18 Q3 & Q4 (*>40% to >50% aftermarket gross margin*)

Capstone is continuing to reduce service and warranty costs through the Extensive Parts Remanufacturing (EPR) program

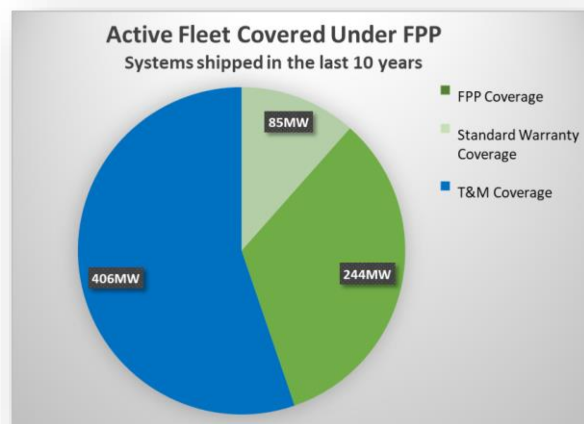
- Since 2015 inception, EPR has contributed over $15 million in cost avoidance for service spend (*both warranty and FPP*), with savings increasing year-over-year
- Continued investment in United Kingdom remanufacturing capabilities during 2019, enabling further growth in annual savings

Developing a new 10 MW Capstone Long-Term Rental program

- Currently 6.2 MW of high margin long-term rental agreements have been executed vs. 10 MW target

Expanding Factory Protection Plan (FPP) service contract attachment rates

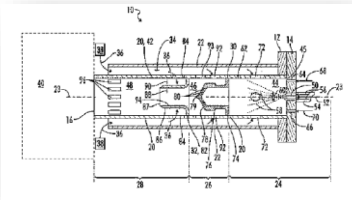
- 38% of eligible fleet now covered under FPP, growing year-over-year
- FPP is becoming more attractive as protection against geopolitical and macroeconomic risks that have resulted in cost increases to raw materials and a parts price increase by Capstone in April 2019



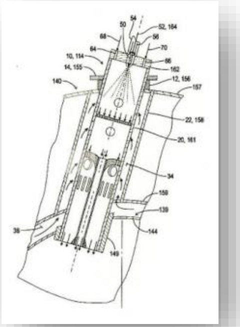
Aftermarket Business Continues to Anchor Sustainable Profitability Strategy

New Technology & Product Development

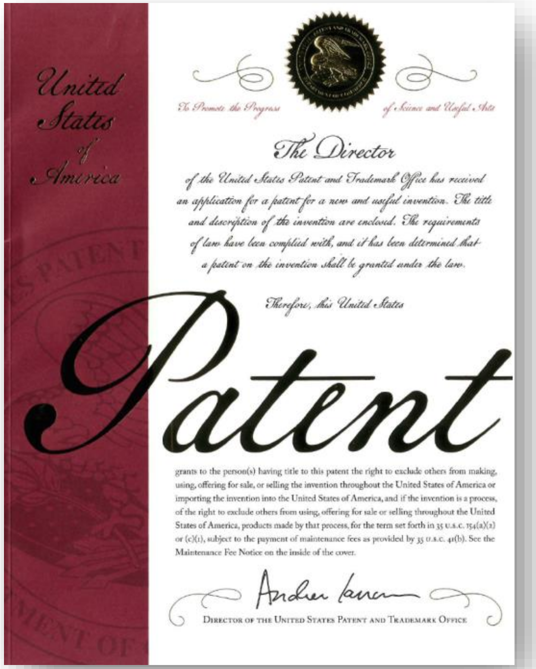
Capstone received two new patents by the U.S. Patent and Trademark Office



1. **Patent 10,184,664**, is for a multiple-fuel capable, pre-mixed, low emission injector for high flame speed fuel combustion.



2. **Patent 10,197,292**, is for a multi-staged, lean pre-vaporizing, pre-mixing fuel injector providing ultra-low emissions that meet EPA Tier 4 requirements for power generation.



These two patents support Capstone's Technology Roadmap –
Targeting the expansion of multiple fuels, including high flame speed fuels such as Hydrogen, while also maintaining Capstone's industry-leading low emissions

Near Term Target Model

(In millions)	New Annual Target Model	Initiatives and Strategies
Microturbine Product	$86.5	Oil & Gas and Biogas Markets
Accessories, Parts, & Service	$44.5	New FPP & Parts Pricing Plan
Total Annual Revenue	**$131.0**	Diversified Markets & Verticals
Cost of Good Sold	$92.6	Lower DMC on Higher Volumes
Gross Margin	**$38.2**	New Long-Term Rentals
Gross Margin Percent	29%	Aftermarket Margin to 50%
Total Operating Expenses	$27.3	Lean Manufacturing & SG&A
Adjusted EBITDA	**$13.2**	$643M in Federal NOLs

Adjusted EBITDA Grows to 10% of Revenue in Target Model

Near Term Profitability Model

OPEX RESTRUCTURING

~ $10M Annually
of Improved EBITDA once
all initiatives are completed

ENTERPRISE OPTIMIZATION

~ $7M Annually
of Improved EBITDA once
all initiatives are completed

RETURN TO GROWTH

~ $7M Annually
of Improved EBITDA once
all initiates are completed

*See Slide 21

Adjusted EBITDA Grows from ($10.8M) to $13.2M in Profitability Model

Long-Term Rental Fleet

- Launched new long-term rental fleet late last year with 3.6 MW in the Permian Shale Basin.
- Today we have executed rental agreements for 6.2 MW vs. an initial management target plan of 10 MW.

FY2020 Strategic Business Goals

Improve Cash Flows

Quarterly working capital, cash flow and balance sheet

- **Grow aftermarket margin from 31% to 46% in 4 qtrs.**
- Grow product margin from 1% to 9% in 4 qtrs.
- New $2.2M Distributor Support Fee (DSS) program
- Keep SG&A at $6.5M on average per quarter
- Reduce parts costs by $3M+ through new CSS program
- Improved vendor payment terms to 60 days on average
- Chatsworth facility rent terminates in September saving $1.2M+
- Double inventory turns from 3.2x to 5.8x in 4 qtrs.

Grow Double-Digits

Through accelerating global product sales

- Book-to-Bill ratios 1.7:1 vs. 1.2:1 in the year-ago quarter
- **Book-to-Bill ratio positive 5 of the last 6 quarters**
- Increasing marketing spend from $0.2M in FY18 to $2.5M in FY20 for customer acquisition and branding
- Growing new rental program from current executed agreements of 6.2 MW to 10 MW
- New Harding/Steinbrenner #88 Capstone Indy Car prime sponsorship

More Diversification

Into new market verticals and new geographies

- Improved diversification between O&G & CHP markets
- Targeting 50/50 split between U.S. and International sales
- Product modification for Microgrid and Marine
- **Expanding into India, Africa, Latin America, Caribbean & Middle East region**
- Growing biogas & renewable natural gas (RNG) – Recently received $12M order from GESS Int. for biogas to RNG
- Rebuilding Russia and CIS distributor business

Increase Absorption

Service/OpEx percentage to 100% absorption

- Recurring revenue from DSS and Rental Programs
- Expand attachment rates in O&G FPP service contracts
- April 1, 2019 large spare parts price increase
- **Elimination of costly supplier defect identified during Q1 FY19 by Q4 FY20**
- Expand UK facility into a remanufacturing hub
- Increased volume of remanufactured parts
- Sell air bearings into adjacent technologies

Geographic Diversification

Company continues to diversify into new market verticals and new geographies.

- During Fiscal Year 2019, we secured orders from 63 different distributors, representing 41 different countries.

63
Distributors

41
Countries

Q1 FY2020 vs. Q1 FY2019 Financial Results

(In millions, except per share data)	Q1 FY20	Q1 FY19
Microturbine Product	$10.1	$13.6
Accessories, Parts & Service	$9.1	$7.6
Total Revenue	$19.2	$21.2
Gross Margin	$2.9	$1.8
Gross Margin Percent	**15%**	**9%**
R&D Expenses	$0.9	$0.9
SG&A Expenses	$6.2	$5.7
Total Operating Expenses	$7.1	$6.6
Net Loss	$(5.6)	$(4.9)
Adjusted EBITDA*	$(3.4)	$(3.9)
Basic Net Loss Per Share	$(0.08)	$(0.08)
Adjusted EBITDA* Basic Net Loss Per Share	$(0.05)	$(0.06)

*See Appendix, Slide 22

Q1 FY2020 vs. Q4 FY2019 Financial Results

(In millions, except per share data)	Q1 FY20	Q4 FY19
Microturbine Product	$10.1	$12.8
Accessories, Parts & Service	$9.1	$9.2
Total Revenue	$19.2	$22.0
Gross Margin	$2.9	$3.4
Gross Margin Percent	**15%**	**15%**
R&D Expenses	$0.9	$0.9
SG&A Expenses	$6.2	$5.4
Total Operating Expenses	$7.1	$6.3
Net Loss	$(5.6)	$(4.0)
Adjusted EBITDA*	$(3.4)	$(2.2)
Basic Net Loss Per Share	$(0.08)	$(0.06)
Adjusted EBITDA* Basic Net Loss Per Share	$(0.05)	$(0.03)

*See Appendix, Slide 22

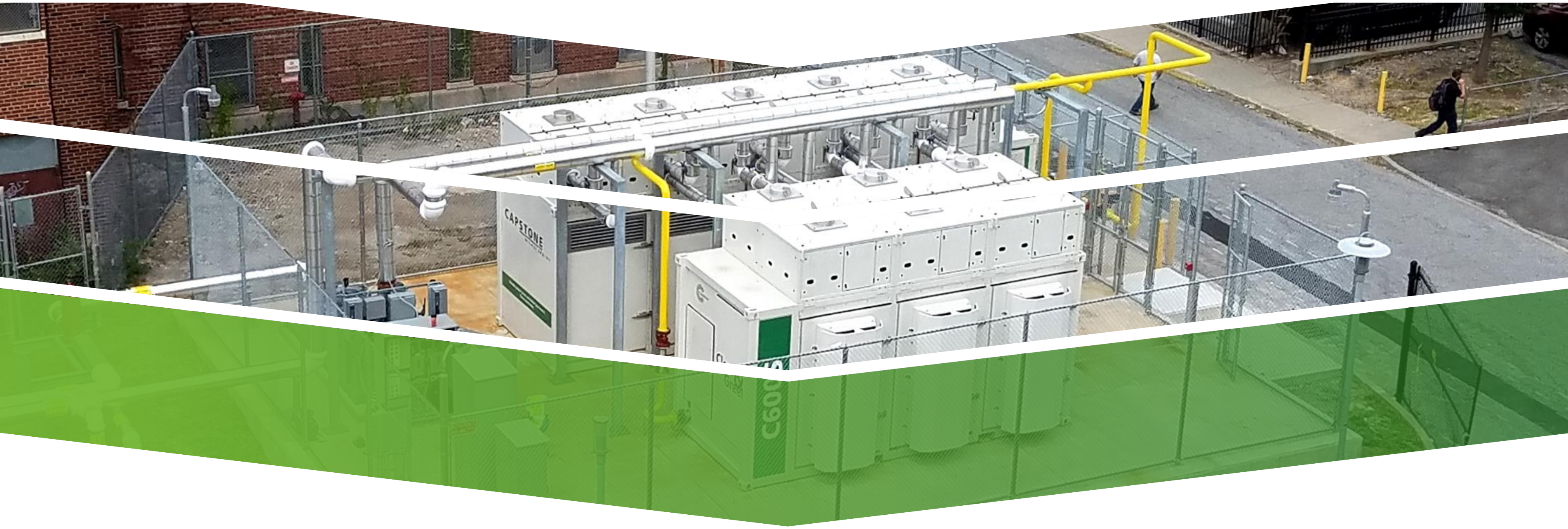
Q1 FY2020/Q4 FY2019 Balance Sheet

(In millions)	June 30, 2019	March 31, 2019
Cash & Cash Equivalents	$24.6	$29.7
Cash used in Operating Activities	$5.2	$5.0
Accounts Receivable, Net of Allowances	$14.8	$16.2
Total Inventories	$21.9	$21.7
Accounts Payable & Accrued Expenses	$15.3	$16.6

$30M Goldman Sachs Term Note Increases Financial Flexibility

ANALYST Q&A SESSION

Nasdaq: CPST



APPENDIX

New Annual Target vs. FY2014 Actual – Business Comparison

(in millions)	New Annual Target	FY14 (A)	Y/Y $∆	Y/Y %∆
Product Revenue	$ 86.5	$ 108.8	$ (22.3)	(20%)
Accessories, Parts & Service Revenue	44.4	24.3	20.1	83%
Revenue	**130.9**	**133.1**	**(2.2)**	**(2%)**
Direct Materials	74.5	83.4	8.9	11%
Warranty	2.6	3.9	1.3	33%
Royalties	0.2	2.9	2.7	93%
Manufacturing & Service costs	15.3	21.3	6.0	28%
Cost of Goods Sold	**92.6**	**111.5**	**18.9**	**17%**
Gross Margin	38.3	21.6	16.7	77%
Gross Margin %	**29%**	**16%**		
Product Development	3.6	9.0	5.4	60%
Selling, G&A	23.7	27.9	4.2	15%
Total Operating Expenses	27.3	36.9	9.6	26%
Operating Income (Loss)	**11.0**	**(15.3)**	**26.3**	**172%**
Adjusted EBITDA	**$ 13.2**	**$ (10.8)**	**$ 24.0**	**(222%)**

Reconciliation of Non-GAAP Financial Measure

Reconciliation of Reported Net Loss to EBITDA and Adjusted EBITDA	Three months ended March 31,	Three months ended June 30,	
	2019	2019	2018
Net loss, as reported	$ (3,954)	$ (5,593)	$ (4,897)
Interest expense	966	1,276	118
Provision for income taxes	3	8	4
Depreciation and amortization	304	373	287
EBITDA	(2,681)	(3,936)	(4,488)
Stock-based compensation	164	262	227
Restructuring charges	303	300	403
Adjusted EBITDA	$ (2,214)	$ (3,374)	$ (3,858)

To supplement the Company's unaudited financial data presented on a generally accepted accounting principles (GAAP) basis, management has used EBITDA and Adjusted EBITDA, non-GAAP measures. These non-GAAP measures are 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 these non-GAAP measures 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.

EBITDA is defined as net income before interest, provision for income taxes, depreciation and amortization expense. Adjusted EBITDA is defined as EBITDA before stock-based compensation expense, restructuring charges, leadership incentive program, the change in warrant valuation and warrant issuance expenses. Restructuring charges includes facility consolidation costs and one-time costs related to the company's cost reduction initiatives. EBITDA and Adjusted EBITDA are not measures of the company's 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 its 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 the company's GAAP results and by using EBITDA and 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.

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