



INVESTOR RELATIONS PRESENTATION

NASDAQ: CPST | December 2019



*Saving Money and the Environment –  
One Turbine at a Time.*

# Safe Harbor



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

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 Capstone's Annual Report on Form 10-K, Quarterly Reports on Form 10-Q and other periodic filings with the Securities and Exchange Commission that may cause Capstone's actual results to be materially different from any future results expressed or implied in such statements. Because of the risks and uncertainties, Capstone cautions you not to place undue reliance on these statements, which speak only as of the date of this presentation. We undertake no obligation, and specifically disclaim any obligation, to release any revision to any forward-looking statements to reflect events or circumstances after the date of this presentation or to reflect the occurrence of unanticipated events.

# 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*



Capstone Provides Behind the Meter Distributed Energy Solutions

# Capstone Turbine Advantages



## FEATURES & BENEFITS



### Inverter Based w/ One Moving Part

Low operating costs



### Patented Air Bearing Technology

No lubricants or coolants needed



### Low Emissions

No exhaust aftertreatment



### High Power Density

Compact footprint, small modular design



### Stand Alone Or Grid Connect

Supports aging utility infrastructure



### Fuel Availability

Operates on gaseous, renewable, and liquid fuels



### Free Clean Waste Heat

Thermal energy for cogeneration/trigeneration



### Remote Monitoring

View performance and diagnostics 24/7



### Scalable To Match Demand

Multiple applications and industries

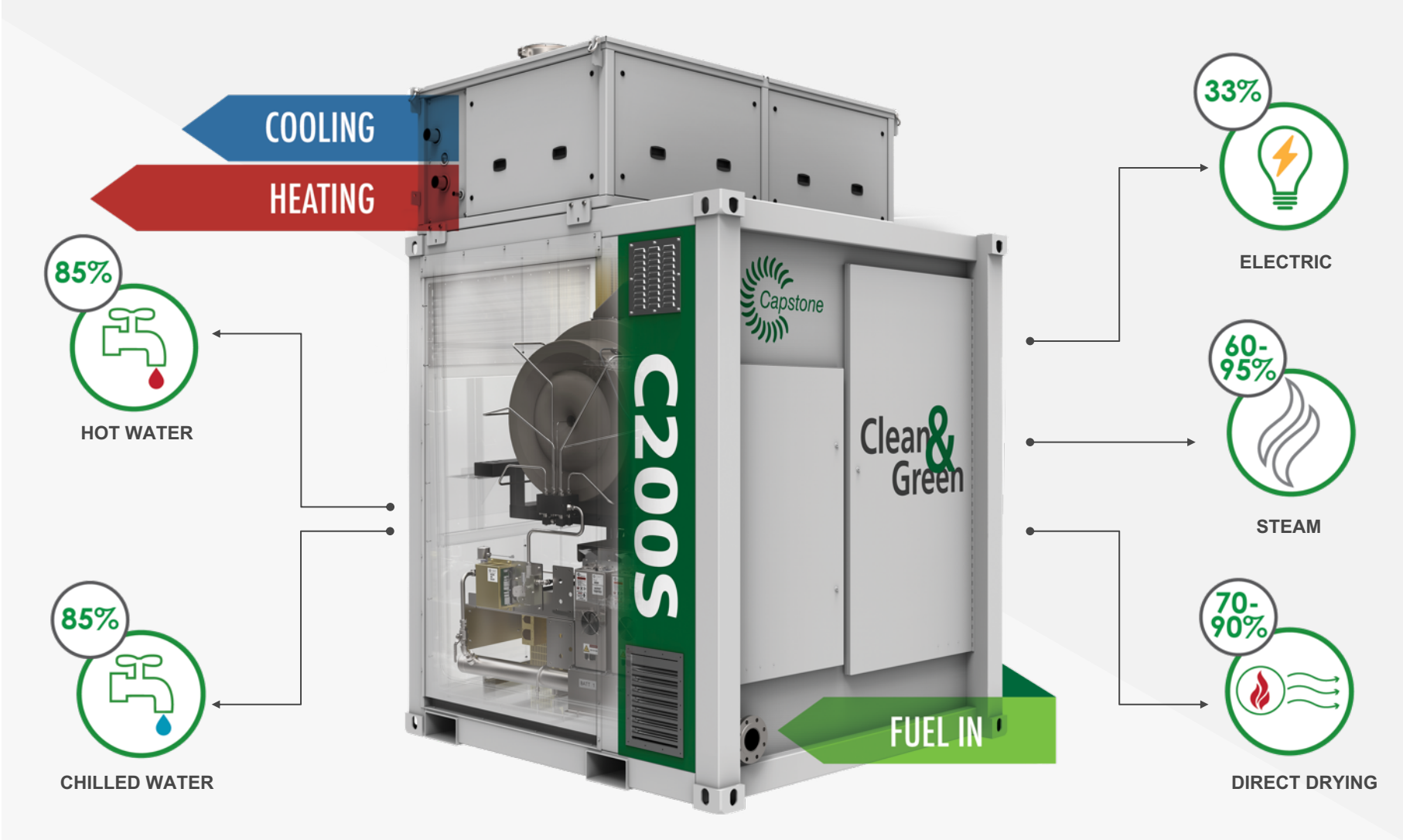


### Potential Emissions Credits

Offset project costs



# Energy Efficient Turbine Products

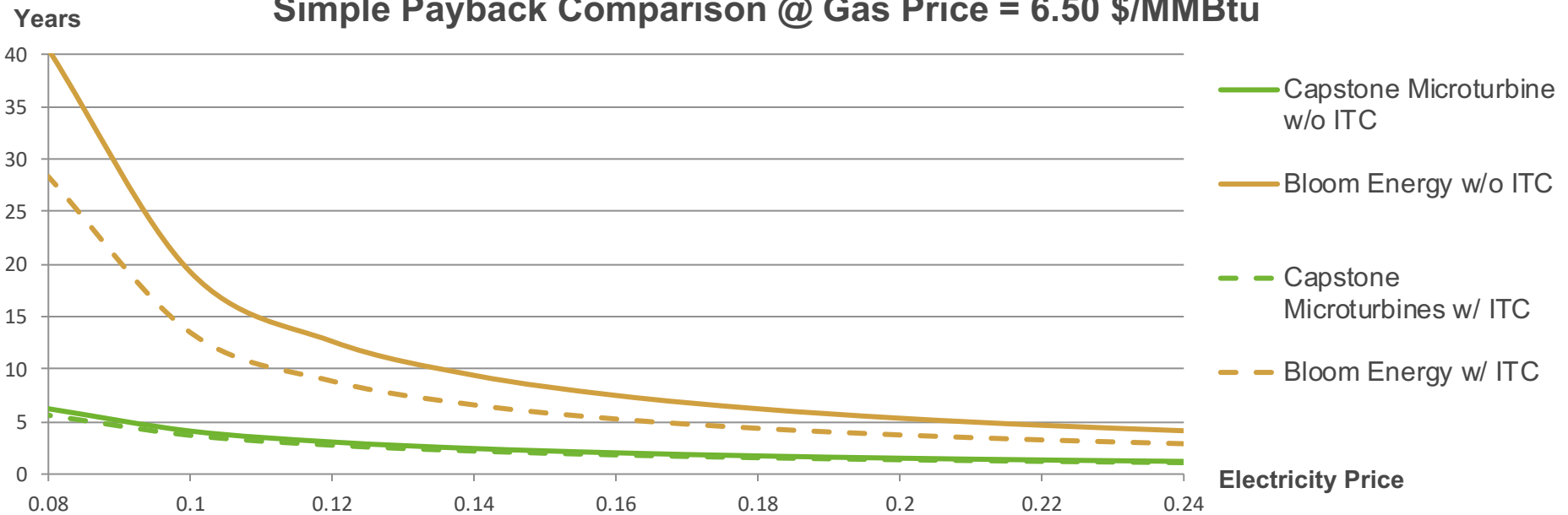


# Sample Customer Economics



Economics		Microturbines	Fuel Cell
Total System Cost	\$/kW	2,100	6,440
Investment Tax Credit	\$/kW	210	1,930
Annual Maintenance Cost	\$/kW	140	200

Simple Payback Comparison @ Gas Price = 6.50 \$/MMBtu



Source: EIA 12 month average industrial gas price \$4.20  
12 month average commercial gas price \$8.10

# Strong Market Diversification



**ENERGY EFFICIENCY**



**NATURAL RESOURCES**



**RENEWABLE ENERGY**



**CRITICAL POWER SUPPLY**



**MICROGRID/ZERO EMISSION SYSTEMS**

## APPLICATIONS INCLUDE:

**Large Retailers, Hospitality, Office Buildings, Recreation**

- SL Green Realty
- Related Properties
- Tishman Speyer
- Brandywine
- Capreit
- Host Properties
- Marriott
- Wyndham
- Woods Bagot

**Oil & Gas, Land Rigs, Water Conversion, Gas Compression**

- Shell
- EQT Corporation
- XTO Energy
- California Resource
- Williams Company
- Anadarko
- Occidental
- Pioneer
- Pacific Resources

**Wastewater Treatment Plants, Farm Digesters, Landfills, Food Processing**

- Durango WWTP
- Oneida WWTP
- Dallas WWTP
- Tuscany WWTP
- Carmel WWTP
- Great Neck WWTP
- Taiwan Swine Farm
- Malaysian Palm Oil Farms

**Data Centers, Hospitals, Telecom, Power Rentals**

- Intel Data Center
- Kaiser Hospital
- Kings County
- Dryden Hospital
- Auburn Hospital
- Pertamina Hospital
- Memorial Sloan Kettering
- White Memorial

**Manufacturing, Retail, Hospitality, Data Center**

- Sierra Nevada
- Philly Navy Shipyard
- Stone Edge Farms
- Open Access Tech
- Goldwind, China
- Gordon Bubolz
- Plaza Extra
- Mali, Africa
- 247Solar
- B+K

# Strong Geographic Diversification

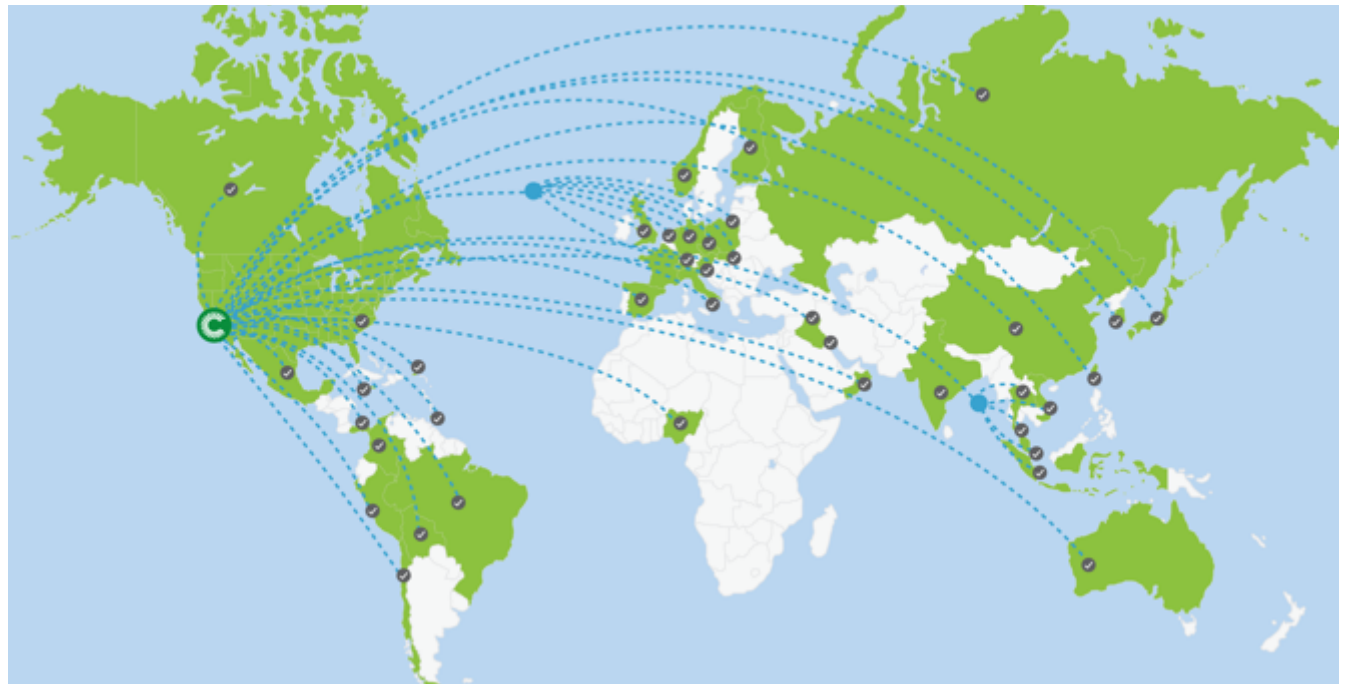


**Company continues to diversify into new market verticals and new geographies.**

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

**63**  
Distributors

**41**  
Countries





# Planned Safety Power Shutdown Marketing Initiatives



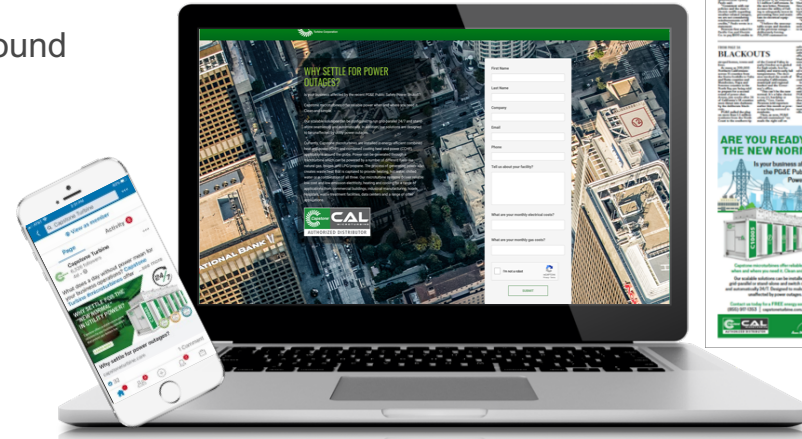
## Print Advertising

- Two ¼ page advertisements placed in the main sections of the “Sacramento Bee” Sunday and mid-week issues.
- Incoming leads/inquiries tracked with QR code and in-bound call metrics tracking software.



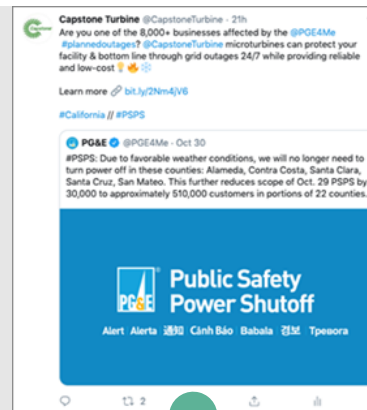
## Social Media – Paid and Organic

- Targeted paid advertising on LinkedIn and Facebook – Focus on industrial/commercial customers by location.
- Organic (non-paid) advertising on all corporate accounts (Facebook, Twitter, LinkedIn, Instagram)



## Custom Landing Page

- Custom landing page was created on corporate website to qualify and score incoming leads.
- All lead data is automatically entered and tracked in customer relationship management (CRM) system.



# Growing Long-Term Rental Fleet



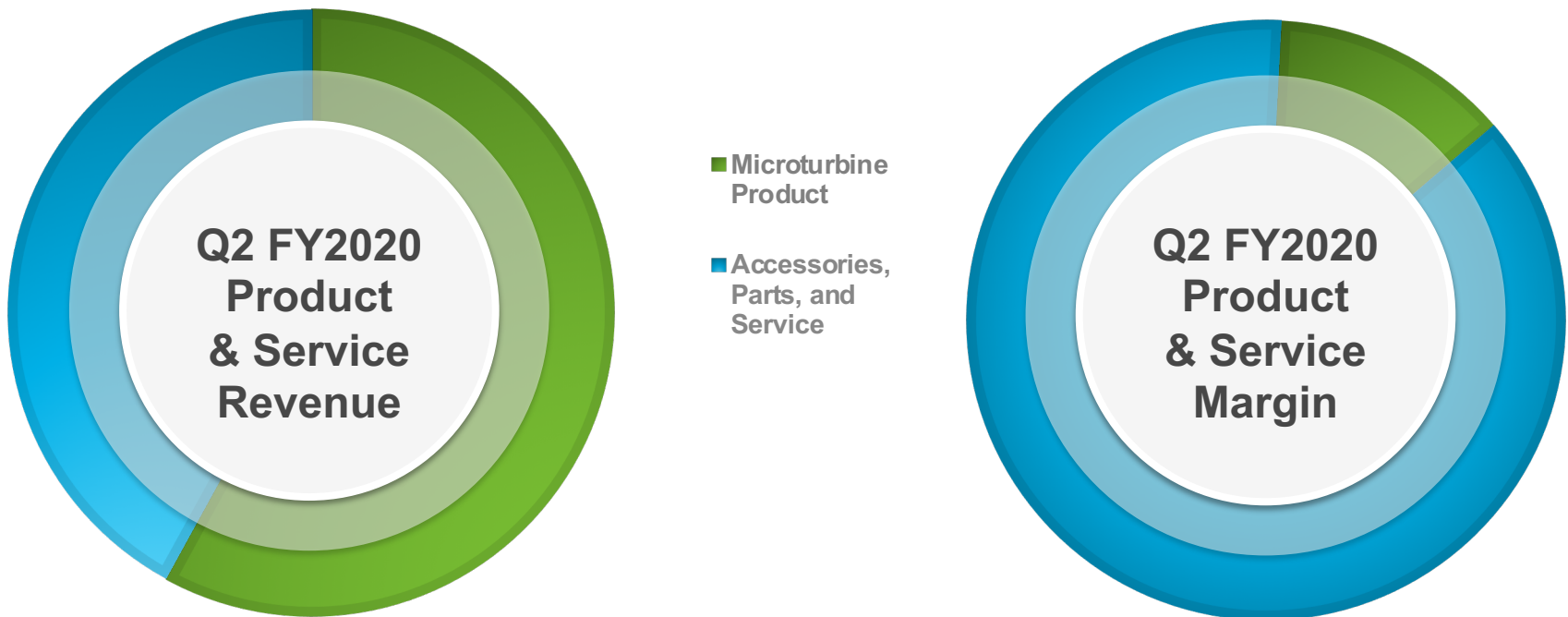
- Launched new long-term rental fleet late last year with 3.6 MWs in the Permian Shale Basin.
- Today we have executed rental agreements for 6.2 MWs vs. an initial management target plan of 10 MW.



# Service Driven Business Model



## Clean, Efficient, and Reliable Energy Product and Service Enterprise



**Q2 FY2020 Capstone Aftermarket Service Business Was 42% of Revenue, But 87% of Margin**

# Aftermarket Business Initiatives



## Vendor quality issue had significantly impacted both product aftermarket margins (*Warranty & FPP*)

- Warranty impact is now behind us with two consecutive quarters at  $\approx 1\%$  (vs.  $>3\%$  warranty expenses we had experienced) since terminating this vendor and resolving this issue
- Expecting FPP impact will tail off during 2020, as field upgrade program is completed, driving increasing gross margins (returning to and then exceeding levels of  $>40\%$  seen in our EBITDA profitable quarters during FY18 Q3 & Q4)

## Capstone continues to reduce aftermarket costs with our Extensive Parts Remanufacturing (EPR) program ( $>\$15M$ since 2015)

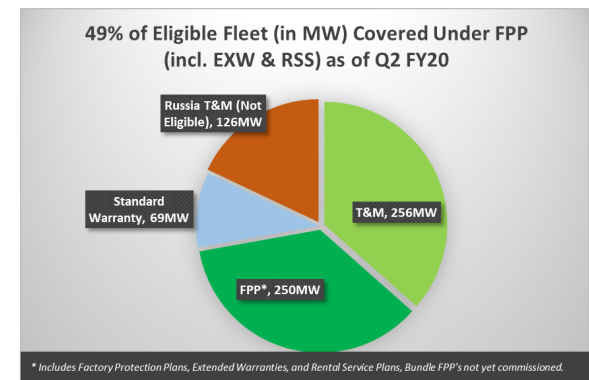
- United Kingdom facility upgrades expected to be completed and online by early 2020 enabling further remanufacturing & shipping cost reductions

## Increasing Capstone Long-Term Rental program to a 15 MW target

- Use of both new and refurbished systems presents opportunity for even higher margin and free cash flow from this growing business segment

## Expanding Factory Protection Plan (FPP) service contract attachment rates

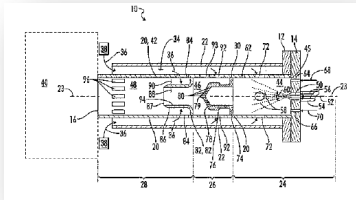
- 49% of eligible fleet now covered under FPP, continuing growth and expected to exceed 50% in the very near term
- Russian fleet remains primarily “cash up front” T&M for the foreseeable future



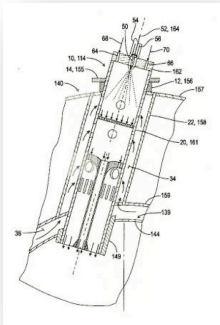
# New Technology & Product Development



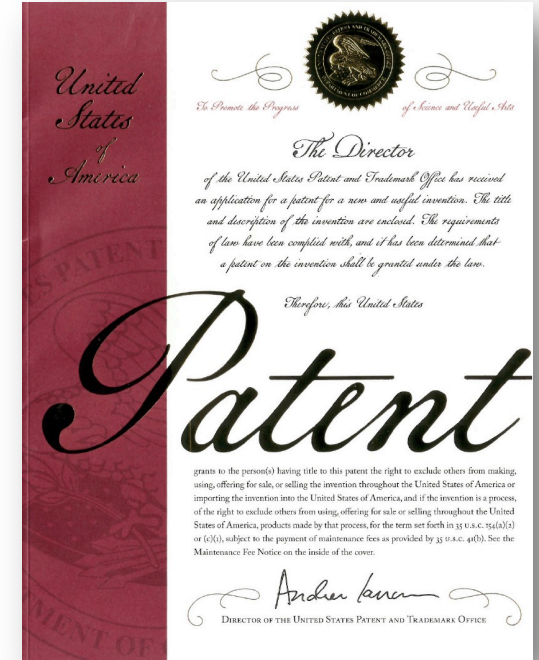
## Capstone received two new patents by the U.S. Patent and Trademark Office



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



2. **Patent 10,197,282**, 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

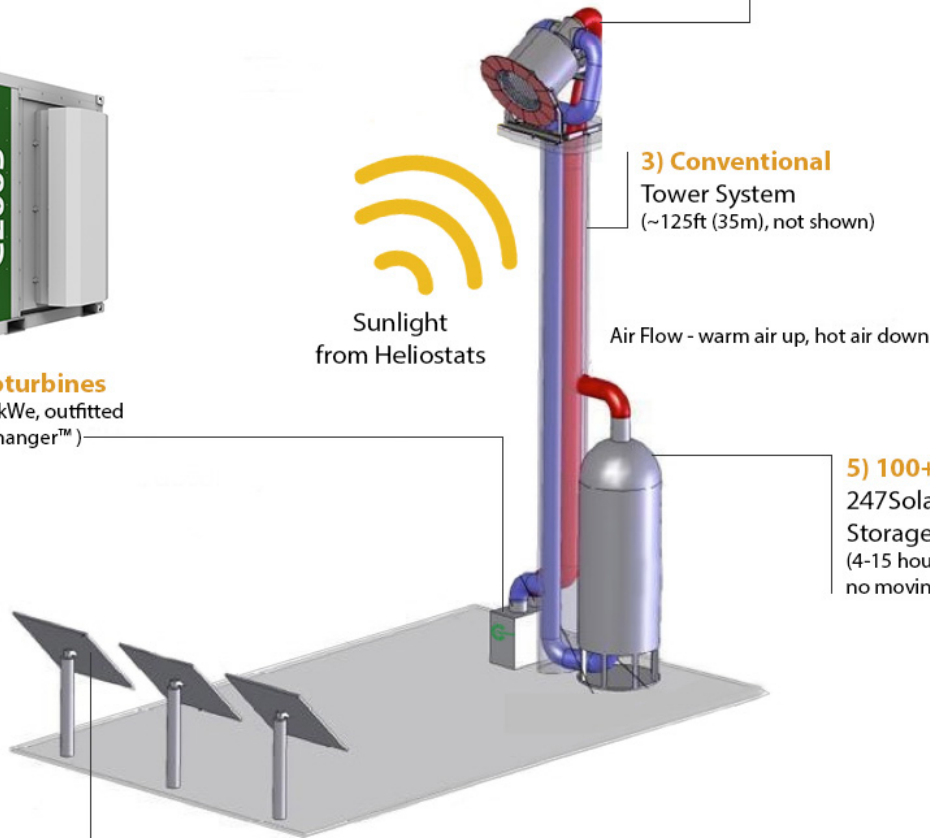
# New 247Solar Partnership



**4) Capstone Microturbines**  
(Off-the-Shelf, 300-400 kWe, outfitted with 247Solar Heat Exchanger™)



**1) Off-the-Shelf**  
Sun-tracking Heliostats  
(~4 acres per 400 kWe)



**2) Highly Innovative**  
247Solar Receiver™  
(air heating, no moving parts)



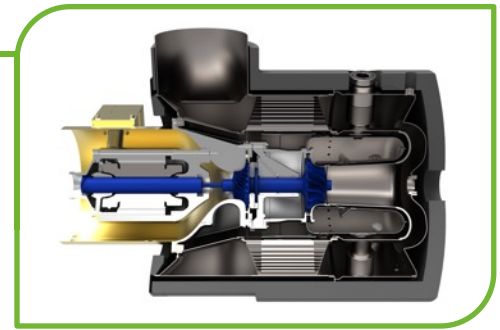
**3) Conventional**  
Tower System  
(~125ft (35m), not shown)

**5) 100+ Year Proven**  
247Solar Thermal  
Storage System™  
(4-15 hours, e.g. fire brick  
no moving parts)



*An illustration of the pre-engineered 247Solar Plant, outfitted with Capstone microturbines.*

# B+K | CHP Solutions



# New Technology Roadmap

6

STEPS TO  
SUCCESS

C65 SIGNATURE  
SERIES

ELECTRONICS  
MODERNIZATION

NEW FUEL  
CAPABILITIES

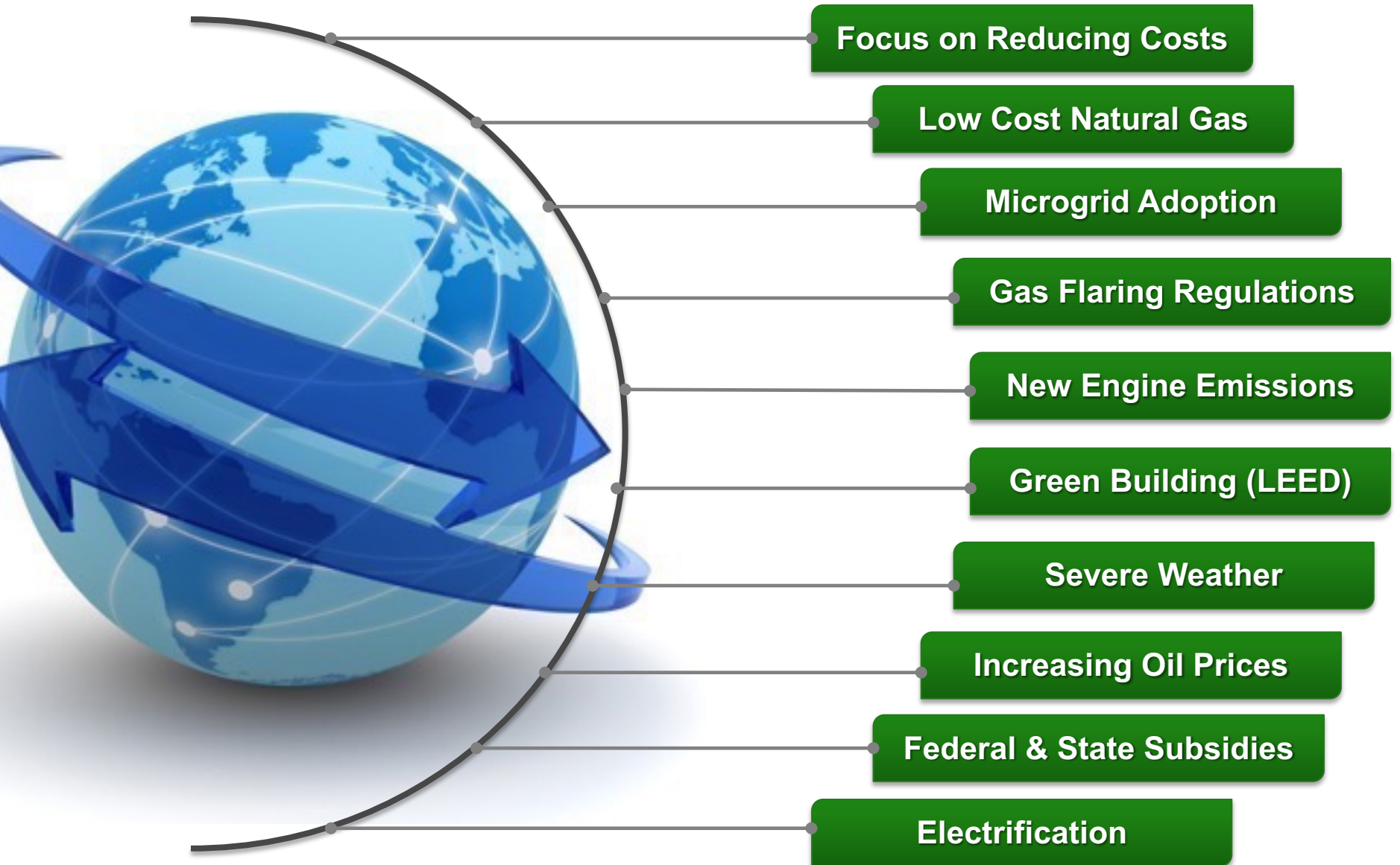
NEW C250S  
& C1250S

MICROGRID  
PRODUCT

ADVANCED  
TECHNOLOGY



# Capstone Growth Catalysts



# Capstone Customer Benefits



## DID YOU KNOW?

In **FY19**, Capstone customers benefited from:

**95.6%** in Global Availability

**350,000 Tons** in Carbon Savings

**\$253 Million** in Financial Savings



# New Positive Adjusted EBITDA Initiative



- Lower quarterly operating expenses from an average of \$6.5M to a range of \$5.2M to \$5.7M with a 10% headcount reduction, reduce travel, elimination of non-critical spend and leaner manufacturing.
- Reduce direct material costs \$3M annually, improve product forecasting accuracies and operational flexibility.
- Cut annual R&D spend by approximately 15% and push out all non-essential product development.
- Expand long-term microturbine rental fleet from current 6.2 MW to 10 MW.
- Help key distributors achieve higher Factory Protection Plan (FPP) service contract attachment rates from 38% of 45%.
- Increase aftermarket spare parts margins.
- Continue to focus on improving product reliability and drive warranty expenses from approximately 3% down to 1.25%.
- Increase distributor management and push performance to produce near-term product backlog and revenue growth.
- Hire new salespeople for National Account development to drive incremental business for Capstone.



# Three-Year Quarterly Adjusted EBITDA Trend



Quarter Ending (In millions)	September 2018 Actual (Q2 FY19)	September 2019 Actual (Q2 FY20)	June 2020 Forecast (Q1 FY21)
Product Revenue	\$ 14.9	\$ 12.0	\$ 14.0
Accessories, Parts, Service, Rental & DSS Revenue	7.3	8.7	9.0
<b>Total Revenue</b>	<b>\$ 22.2</b>	<b>\$ 20.7</b>	<b>\$ 23.0</b>
Product Margin	\$ 0.3	\$ 0.4	\$ 1.3
Accessories, Parts, Service, Rental & DSS Margin	1.7	2.7	4.1
<b>Total Gross Margin</b>	<b>\$ 2.0</b>	<b>\$ 3.1</b>	<b>\$ 5.4</b>
Operating Expenses	\$ 6.2	\$ 6.4	\$ 5.7
<b>Adjusted EBITDA</b>	<b>\$ (3.3)</b>	<b>\$ (2.2)</b>	<b>\$ 0.2</b>
Product Margin %	2%	3%	9%
Accessories, Parts, Service, Rental & DSS Margin %	23%	31%	46%
<b>Total Margin %</b>	<b>9%</b>	<b>15%</b>	<b>23.5%</b>

**Product margin driven by lower warranty costs, reduced discounting and lower DMC.**

**A/P/S, Rental & DSS margin improves from the lower impact of supplier quality parts issue, increased remanufactured parts capacity, new 10 MW long-term rental fleet and expanded factory protection plan (FPP) attachment rates.**

# Near-Term Target Model



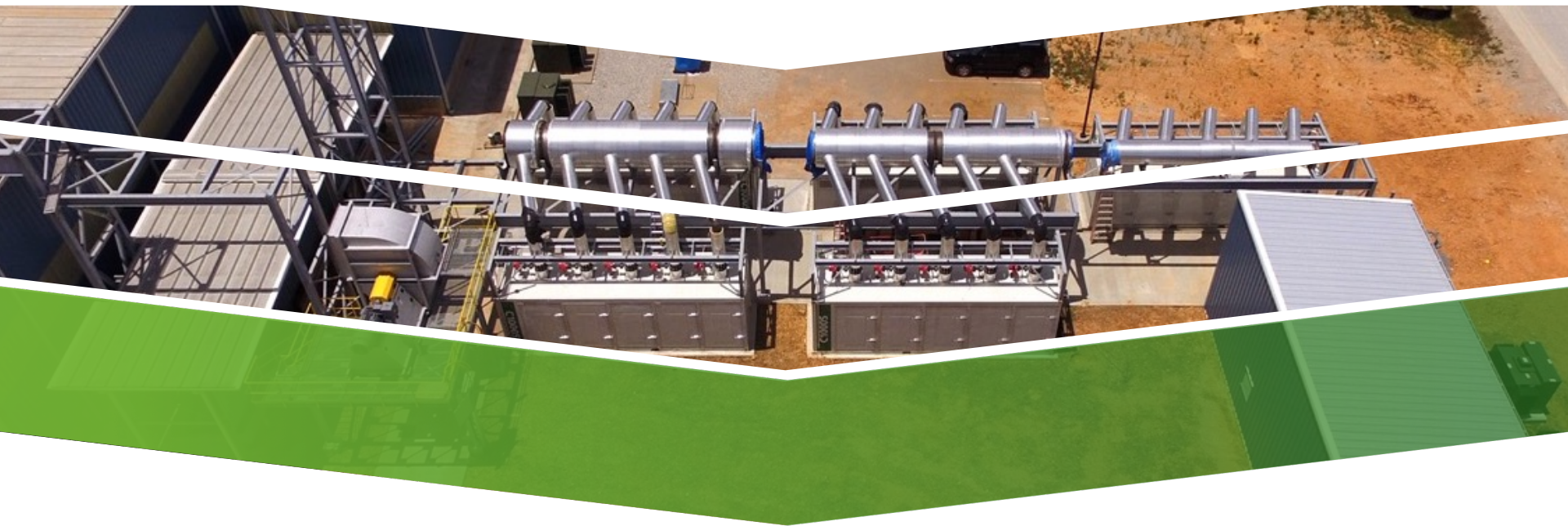
(In millions)	New Annual Target Model	Initiatives & Strategies
Microturbine Product	\$86.5	Oil & Gas and Biogas Markets
Accessories, Parts, & Service	\$44.5	New FPP & Parts Pricing Plan
<b>Total Annual Revenue</b>	<b>\$131.0</b>	Diversified Markets & Verticals
Cost of Good Sold	\$92.6	Lower DMC on Higher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

**Adjusted EBITDA Grows to 10% of Revenue in Target Model**



# Q&A SESSION

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# APPENDIX

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# Q2 FY2020 Business Highlights



- Total revenue for the second quarter was \$20.7 million, an increase of \$1.5 million, or 8% sequentially, from \$19.2 million in the previous quarter.
- Product revenue grew 19% sequentially to \$12.0 million in the second quarter.
- New gross product book-to-bill ratio was 1.0:1 for the second quarter of fiscal 2020, up from 0.7:1 in the year-ago quarter.
- Rental fleet revenue grew 52% sequentially and this high margin long-term rental fleet now stands at 6.2 megawatts (MW).
- Total gross margin increased \$1.1 million, or 55%, to \$3.1 million compared to \$2.0 million in the year-ago quarter despite lower total revenues.
- Gross margin percentage expanded by 67% to 15% from 9% in the year-ago quarter but was flat on a sequential basis because of business mix.
- Adjusted EBITDA loss improved to \$2.2 million, a decrease of \$1.2 million, or 35% sequentially, from \$3.4 million in the previous quarter.
- Net loss improved \$1.2 million on a sequential basis.

**Q2 Shows Progress Against Strategic Business Initiatives**



# Q2 FY2020 vs. Q2 FY2019 Financial Results



<i>(In millions)</i>	Q2 FY20	Q2 FY19
Microturbine Product	\$12.0	\$14.9
Accessories, Parts & Service	\$8.7	\$7.3
Total Revenue	\$20.7	\$22.2
Gross Margin	\$3.1	\$2.0
Gross Margin Percent	<b>15%</b>	<b>9%</b>
R&D Expenses	\$0.9	\$0.9
SG&A Expenses	\$5.5	\$5.3
Total Operating Expenses	\$6.4	\$6.2
Net Loss	\$(4.4)	\$(4.4)
<b>Adjusted EBITDA*</b>	<b>\$(2.2)</b>	<b>\$(3.3)</b>

\*See Appendix, Slide 28

# Q2 FY2020 vs. Q1 FY2020 Financial Results



<i>(In millions)</i>	Q2 FY20	Q1 FY20
Microturbine Product	\$12.0	\$10.1
Accessories, Parts & Service	\$8.7	\$9.1
Total Revenue	\$20.7	\$19.2
Gross Margin	\$3.1	\$2.9
Gross Margin Percent	<b>15%</b>	<b>15%</b>
R&D Expenses	\$0.9	\$0.9
SG&A Expenses	\$5.5	\$6.2
Total Operating Expenses	\$6.4	\$7.1
Net Loss	\$(4.4)	\$(5.6)
<b>Adjusted EBITDA*</b>	<b>\$(2.2)</b>	<b>\$(3.4)</b>

\*See Appendix, Slide 28

# Q2 FY2020/Q1 FY2020 Balance Sheet



<i>(In millions)</i>	September 30, 2019	June 30, 2019
Cash & Cash Equivalents	\$20.9	\$24.6
Cash Used in Operating Activities	\$6.3	\$5.2
Accounts Receivable, Net of Allowances	\$18.1	\$14.8
Total Inventories	\$21.3	\$21.9
Accounts Payable & Accrued Expenses	\$15.9	\$15.3

**\$30M Goldman Sachs 3-Year Term Note Increases Financial Flexibility**

# New Annual Target vs. FY2014 Actual – Business Comparison



<i>(in millions)</i>	New Annual Target	FY14 (A)	Y/Y \$ Δ	Y/Y % Δ
Product Revenue	\$ 86.5	\$ 108.8	\$ (22.3)	(20%)
Accessories, Parts & Service Revenue	44.4	24.3	20.1	83%
<b>Revenue</b>	<b>130.9</b>	<b>133.1</b>	<b>(2.2)</b>	<b>(2%)</b>
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%
<b>Cost of Goods Sold</b>	<b>92.6</b>	<b>111.5</b>	<b>18.9</b>	<b>17%</b>
Gross Margin	38.3	21.6	16.7	77%
<b>Gross Margin %</b>	<b>29%</b>	<b>16%</b>		
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%
<b>Operating Income (Loss)</b>	<b>11.0</b>	<b>(15.3)</b>	<b>26.3</b>	<b>172%</b>
<b>Adjusted EBITDA</b>	<b>\$ 13.2</b>	<b>\$ (10.8)</b>	<b>\$ 24.0</b>	<b>(222%)</b>

# Reconciliation of Non-GAAP Financial Measure



Reconciliation of Reported Net Loss to EBITDA and Adjusted EBITDA (In thousands)	Three months ended September 30,		Six months ended September 30,	
	2019	2018	2019	2018
Net loss, as reported	\$ (4,448)	\$ (4,357)	\$ (10,041)	\$ (9,255)
Interest expense	1,287	186	2,563	304
Provision for income taxes	—	2	8	5
Depreciation and amortization	443	281	816	568
EBITDA	(2,718)	(3,888)	(6,654)	(8,378)
Stock-based compensation	104	224	366	451
Restructuring charges	370	369	670	772
Adjusted EBITDA	\$ (2,244)	\$ (3,295)	\$ (5,618)	\$ (7,155)

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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