



**SECOND QUARTER
FISCAL 2020**

Earnings Call | November 7, 2019



Safe Harbor



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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

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
Total Revenue	\$ 22.2	\$ 20.7	\$ 23.0
Product Margin	\$ 0.3	\$ 0.4	\$ 1.3
Accessories, Parts, Service, Rental & DSS Margin	1.7	2.7	4.1
Total Gross Margin	\$ 2.0	\$ 3.1	\$ 5.4
Operating Expenses	\$ 6.2	\$ 6.4	\$ 5.7
Adjusted EBITDA	\$ (3.3)	\$ (2.2)	\$ 0.2
Product Margin %	2%	3%	9%
Accessories, Parts, Service, Rental & DSS Margin %	23%	31%	46%
Total Margin %	9%	15%	23.5%

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.

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	15%	9%
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)
Adjusted EBITDA*	\$(2.2)	\$(3.3)

*See Appendix, Slide 13

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	15%	15%
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)
Adjusted EBITDA*	\$(2.2)	\$(3.4)

*See Appendix, Slide 13

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

Planned Safety Power Shutdown Marketing Initiatives



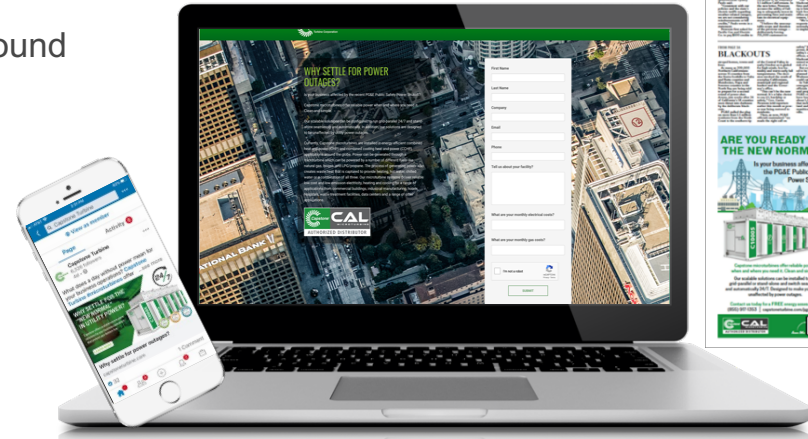
Print Advertising

- 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.

Capstone Turbine
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Protect your bottom line through grid outages with a Capstone microturbine. Capstone microturbines offer scalable solutions for your business and protect your bottom line through grid outages! What does a day without power mean for your business operations? Contact us today for your FREE energy assessment.

Don't Settle for the "New Normal" in Utility Power

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Is your business affected by the PG&E Public Safety Power Shutoff (PSPS) – Capstone microturbines protect your facility from power outages 24/7! Contact us today for your FREE energy assessment.

WHY SETTLE FOR THE "NEW NORMAL" IN UTILITY POWER

Capstone offers scalable microturbine solutions for your business operations that protect your bottom line.

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Learn more bit.ly/2Nm4jV6

#California // #PSPS

PG&E @PG&E - Oct 30

#PSPS: Due to favorable weather conditions, we will no longer need to turn power off in these counties: Alameda, Contra Costa, Santa Clara, Santa Cruz, San Mateo. This further reduces scope of Oct. 29 PSPS by 30,000 to approximately 110,000 customers in portions of 22 counties.

Public Safety Power Shutoff

Alert Alerta Cảnh Báo Babala 警告 Тривога

Capstone Turbine
just now

What does a day without power mean for your business operations? Capstone Turbine #microturbines offer scalable solutions & protect your facility from outages 24/7 ⚡👉

- ✓ Power
- ✓ Heat
- ✓ Cooling

More info <http://bit.ly/2Nm4jV6>

#PSPS // #poweroutages // #cleandoesimple

WHY SETTLE FOR THE "NEW NORMAL" IN UTILITY POWER?

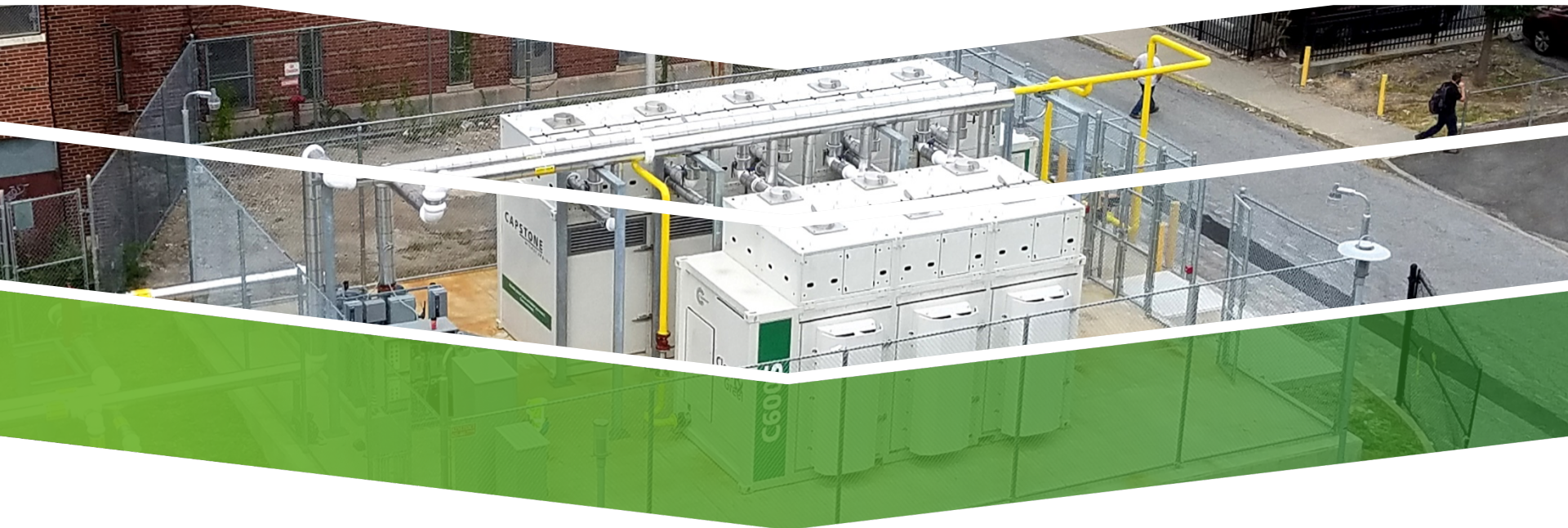
Capstone offers scalable microturbine solutions for your business operations that protect your bottom line.

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ANALYST Q&A SESSION



APPENDIX

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%
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 (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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