



Saving Money and the Environment – One Turbine at a Time

**Second Quarter Fiscal Year 2019 – Earnings Call
November 6, 2018**

Nasdaq: CPST

Safe Harbor



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Changing Energy Markets

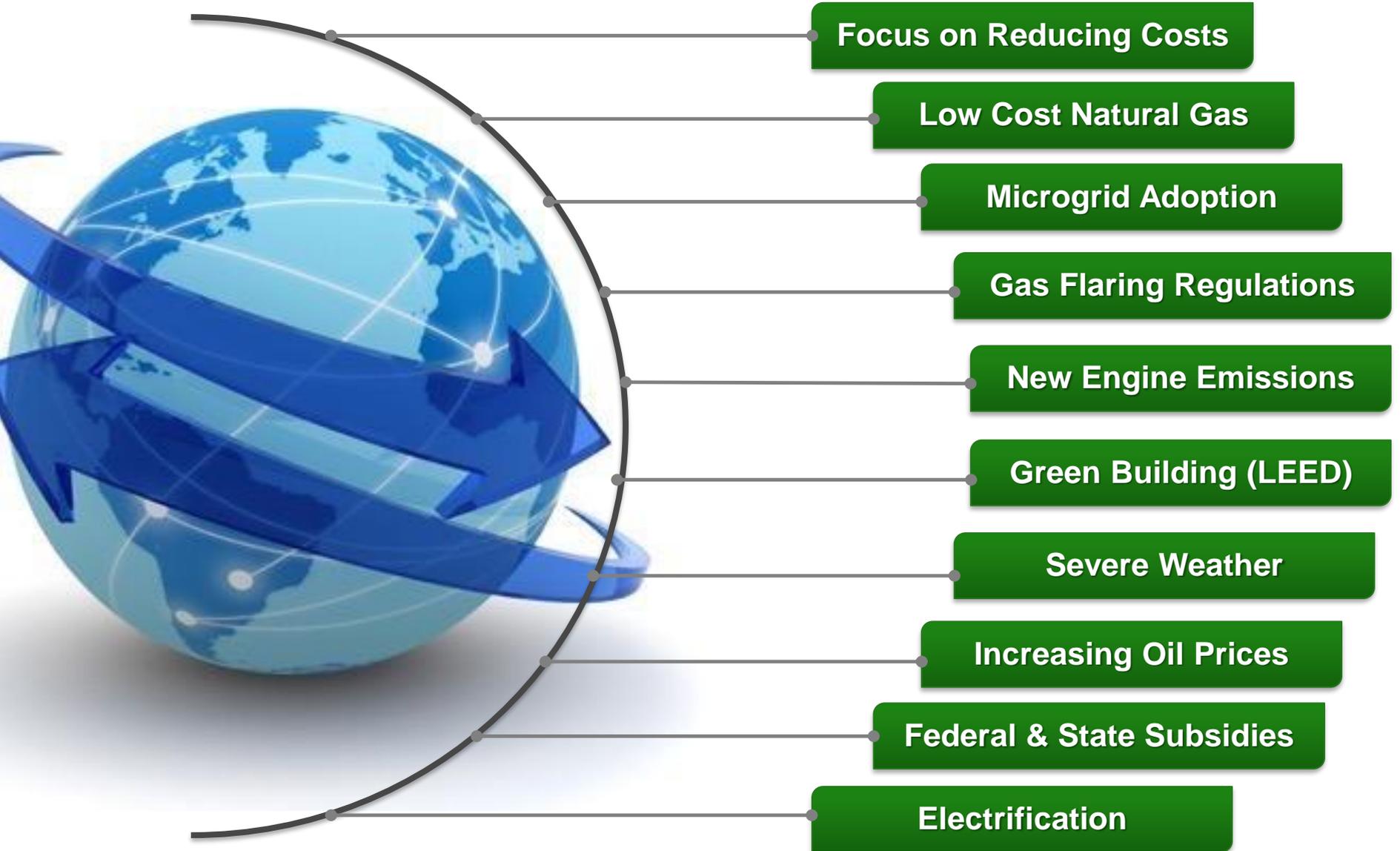


THE IMMINENT CHANGE IN GLOBAL ENERGY

“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*

Growth Catalysts



Highlights Post Preliminary Results



- New Product Development Roadmap (See Appendix) including a new C65 Signature Series to better serve the growing microgrid market.
- Expanding into the Permian Shale Basin with 3.6 megawatts (MWs) of rentals for one of the world's largest oil and gas producers.
- Follow-on pipeline order secured by Russian partner Turbine International.
- Turbine International made their scheduled bad debt recovery payment.
- New partner TOO Synergy Astana secured a microturbine order in Kazakhstan for a current pipeline project.
- New orders for multiple C65s for major oil and gas producer on offshore platforms located off the coast of Malaysia and Brunei.
- Received funding from from the U.S. DOE Technology Commercialization Fund. Funding is to refine Argonne Labs high-efficiency, fast-charging and fast-discharging, thermal energy storage system (TESS) for use with a Capstone C200 combined heat and power (CHP) system.

Q2 FY2019 Business Highlights



- Recorded second consecutive quarter of revenue growth despite impact of lost FPP revenue because of the California distributor change.
- Product shipments increased 22% to \$14.9 million compared to \$12.2 million in the same period last year.
- **Posted the highest product revenue in the last five quarters.**
- Six months, year-over-year product revenue is up 15%, and total revenue is up double digits year-over-year.
- New gross product orders of \$10.8 million in the quarter, for a 0.7:1 book-to-bill ratio, compared with \$5.9 million of new orders booked during the year-ago second quarter, which was a 0.5:1 book-to-bill ratio..
- Payment of \$3.0 million obligation under the Carrier settlement agreement – **No future royalty monies owed to Carrier.**
- \$4.3 million lower cash usage during this quarter, which represents a 78% reduction compared to prior year's second quarter.

FY2019 Strategic Business Goals



- 1. Improve quarterly working capital, cash flow, and balance sheet**
 - New “*Bundled Solutions*” Product and Service Sales Program
 - Lean Manufacturing and Facility Consolidation
 - Target SG&A of \$6M per quarter reduced 40%
 - Increased aftermarket margins – Target of 50%
 - Collect the fully reserved Russian receivable
- 2. Double-digit growth through accelerating global product sales**
 - Increased marketing and customer acquisition spend
 - Received \$1.1 million from new Distributor Support System (DSS) to accelerate future product revenues and improve global brand identification
 - New product remanufacturing program
- 3. Diversification into new market verticals and new geographies**
 - Product modification for Microgrid and Marine
 - Expand into Africa, Latin America, Caribbean and Middle East
 - Rebuild Russia and CIS distributor business
- 4. Increased Service/OpEx absorption percentage to 100% absorption**
 - \$25 million of significant pending aftermarket service contracts
 - Increased remanufacturing of spare parts
 - Higher service contract attachment rates in oil and gas
 - Sell air bearings into adjacent products and technologies

1. Cash & Working Capital



- **Improve quarterly working capital, cash flow and balance sheet.**
 - New “*Bundled Solutions*” Product and Service Sales Program
 - Lean Manufacturing and Facility Consolidation
 - Target SG&A of \$6M per quarter reduced 40%
 - Increased aftermarket margins – Target of 50%
 - Collect the fully reserved Russian receivable
- Total cash balance decreased \$1.3 million to \$18.3 million for the second quarter of FY2019 over the prior quarter.
- Recovered scheduled \$100 thousand of fully reserved BPC receivable from Turbine International.
- During the quarter we raised \$3.0 million through at-the-market, or ATM, equity program which we used to cover the Carrier settlement of this perpetual royalty.
- Carrier agreement avoids tens of millions of future royalty obligations and frees up Capstone to work with other chiller manufacturers.

2. Double-Digit Revenue Growth



- **Double-digit revenue growth through accelerating product sales**
 - Increased marketing and customer acquisition spend
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3. Diversify Market Vertical & Geographies



- **Diversify the company into new market verticals and new geographies**
 - Product modification for Microgrid and Marine
 - Expand into Africa, Latin America, Caribbean and Middle East
 - Rebuild Russia and CIS distributor business
- **0.7:1 book-to-bill ratio** representing new product orders from **18 different countries** and **23 different distributors**



NOTE: MW Shipped Includes 3 x C1000R Remanufactured Units

4. Increase Service Absorption

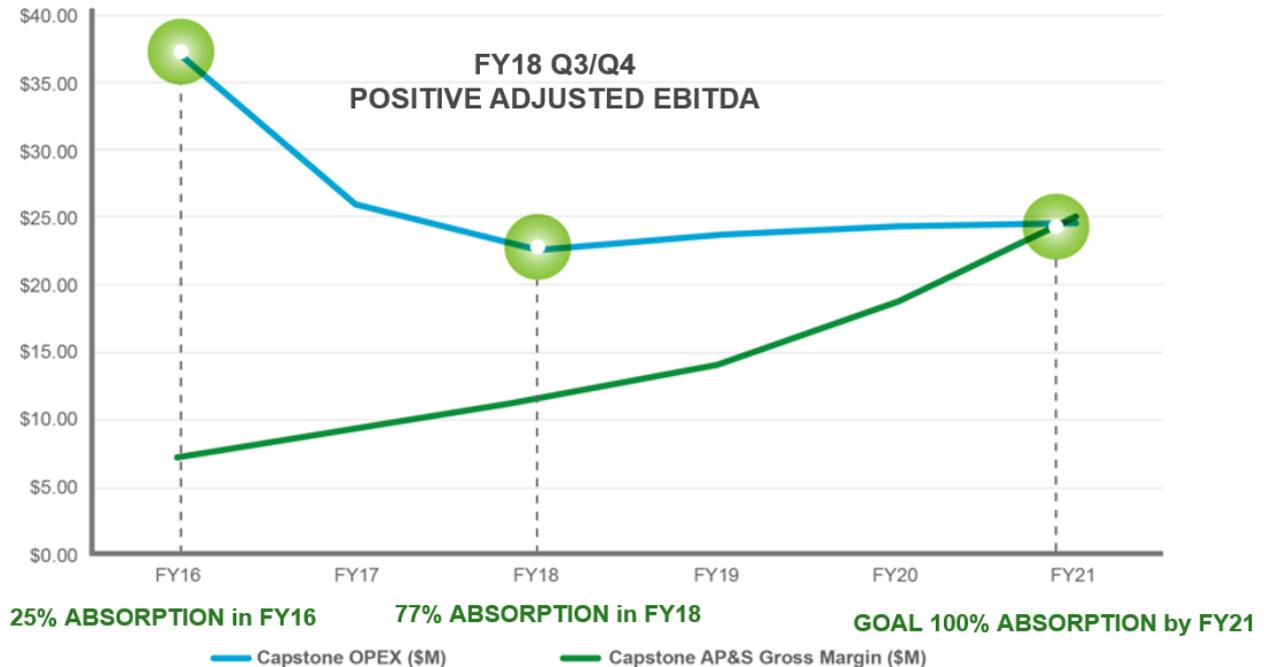


- **Increased Service/OpEx absorption percentage driving towards targeted 100% absorption**

- \$25 million of significant pending aftermarket service contracts
- Increased remanufacturing of spare parts
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- Accessories and parts revenue improved slightly versus the first quarter.

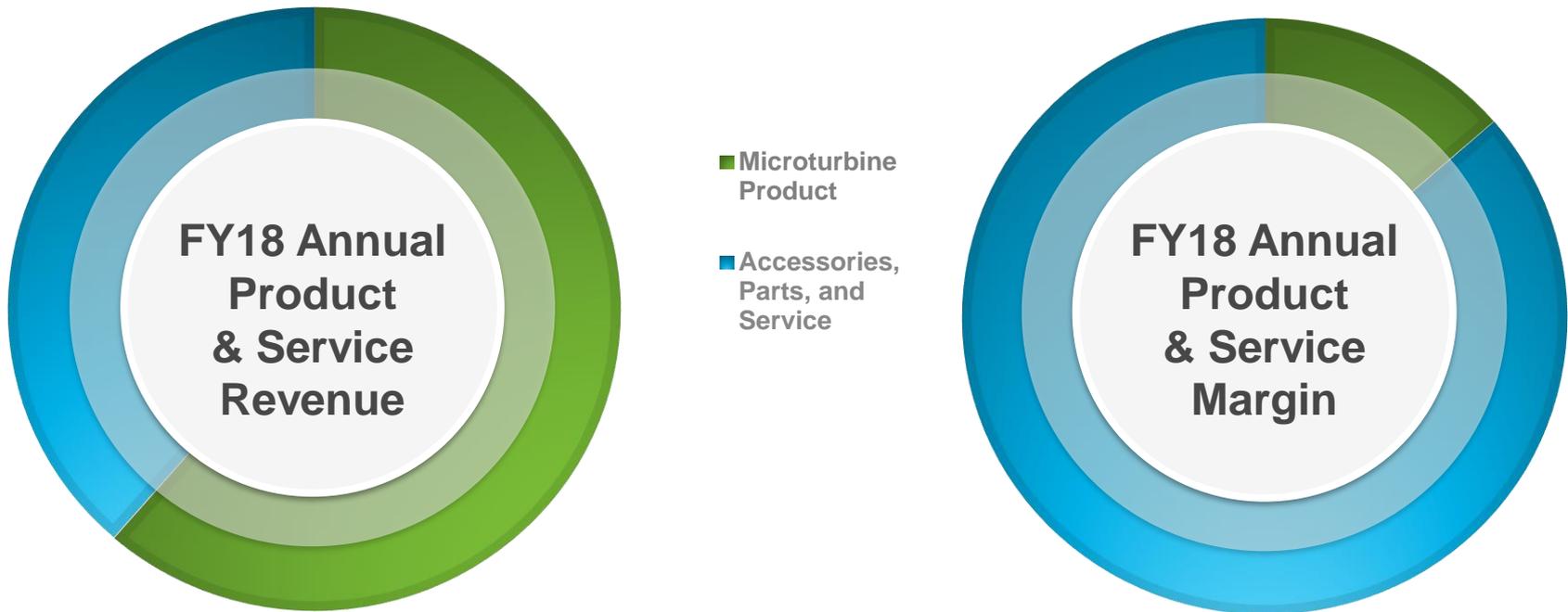
- Negative impact on our FPP revenue and gross margin due to the reassignment of certain FPP contracts from our legacy California distributor to Cal Microturbine.



Service Driven Business Model



Clean, Efficient, and Reliable Energy Product and Service Enterprise



FY18 Capstone Aftermarket Service Business was 39% of Revenue but 81% of Margin

Q2FY2019 vs. Q2FY2018 Financial Results



<i>(In millions, except per share data)</i>	Q2FY19	Q2FY18
Microturbine Product	\$14.9	\$12.2
Accessories, Parts & Service	\$7.3	\$7.6
Total Revenue	\$22.2	\$19.8
Gross Margin	\$2.0	\$3.0
Gross Margin Percent	9.2%	15.2%
R&D Expenses	\$0.9	\$1.1
SG&A Expenses	\$5.3	\$4.8
Total Operating Expenses	\$6.2	\$5.9
Net Loss	\$(4.4)	\$(3.7)
Adjusted EBITDA*	\$(3.3)	\$(2.3)
Basic Net Loss Per Share	\$(0.07)	\$(0.09)
Adjusted EBITDA* Basic Net Earnings (Loss) Per Share	\$(0.05)	\$(0.05)

*See Appendix, Slide 19

FPP Service Revenue was Impacted by \$0.5M by CA Distributor Change 13

Q2/Q1 FY19 Balance Sheet



<i>(In millions)</i>	September 30, 2018	June 30, 2018
Cash & Cash Equivalents, Including Restricted Cash	\$18.3	\$19.6
Cash used in Operating Activities (*Approx. \$3.0 million for Carrier settlement agreement **Approx. \$3.2 million for an unexpected supplier prepayment obligation and for one-time Leadership Incentive Bonus Program)	\$(6.6)*	\$(6.0)**
Accounts Receivable, Net of Allowances	\$16.5	\$15.9
Total Inventories	\$16.6	\$17.2
Accounts Payable & Accrued Expenses	\$14.1	\$13.6

Maintained Cash by Effectively Leveraging Credit Facility & ATM

Top 10 Accomplishments & Achievements



1. 22% Product revenue growth – 12% Revenue growth year-over-year
2. Continued geographic diversification (POs - 18 Countries)
3. \$4.3 million lower cash usage during this quarter over a year ago
4. New high margin rental program – (3.6 MWs)
5. Elimination of the Carrier Royalty – (Saving millions over 15 years)
6. Ability to form new strategic chiller opportunities – (Grow CHP)
7. New product roadmap with new C65 Signature Series
8. Successful Equity Analyst and Investor Open House event
9. The remanufacturing and sale of our first C1000 systems
10. Department of Energy funding to refine Argonne National Laboratory's high-efficiency, fast-charging and fast-discharging thermal energy-storage system for use with a Capstone C200 CHP system



APPENDIX

Technology Roadmap



6 STEPS TO SUCCESS

C65 SIGNATURE SERIES

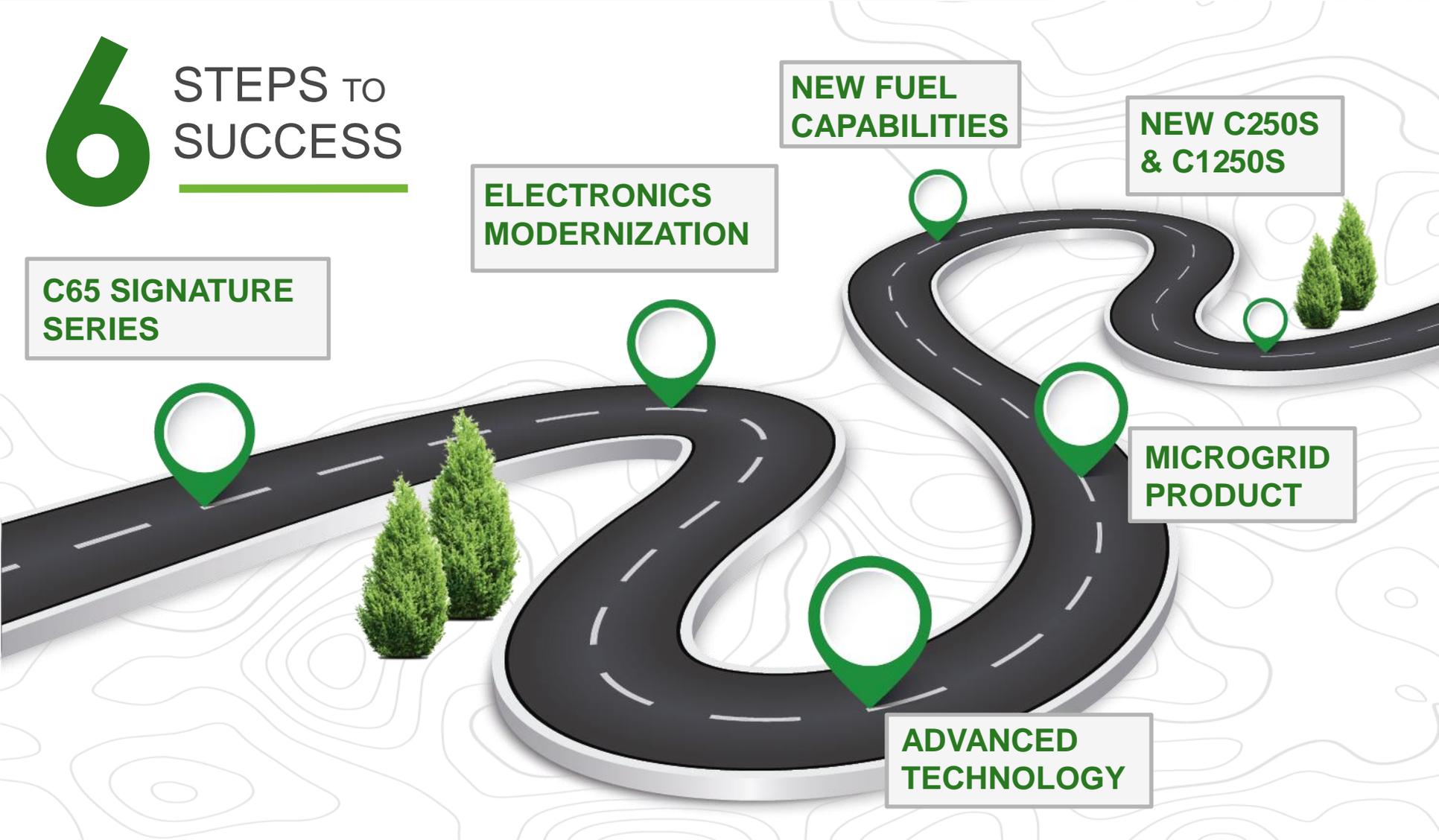
ELECTRONICS MODERNIZATION

NEW FUEL CAPABILITIES

NEW C250S & C1250S

MICROGRID PRODUCT

ADVANCED TECHNOLOGY

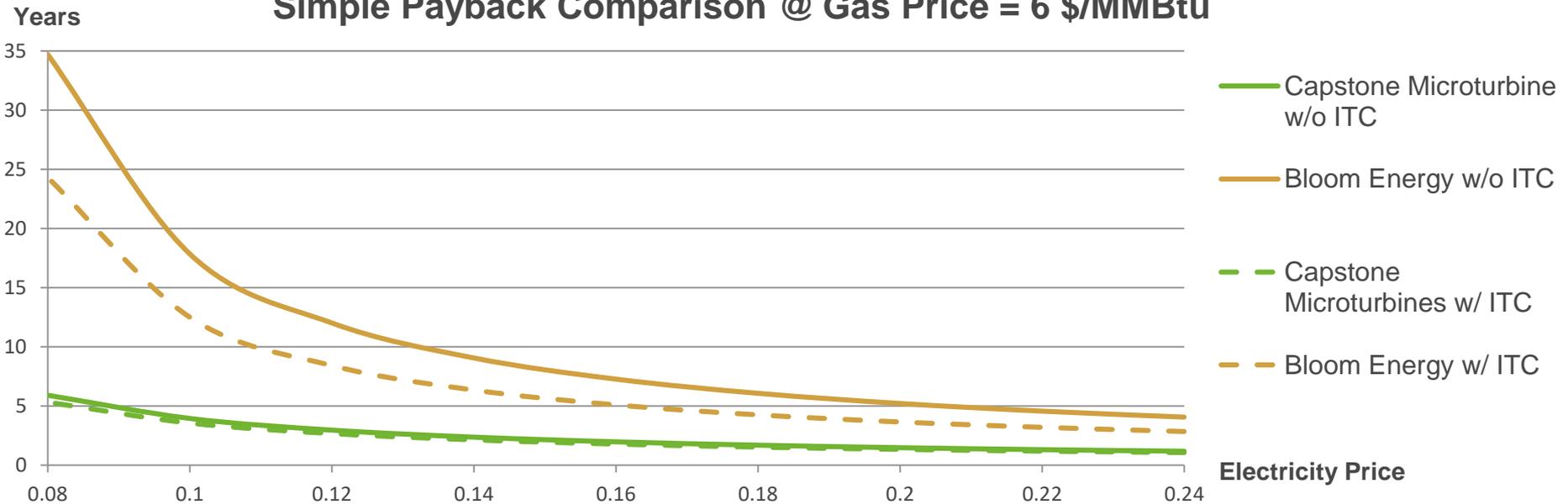


Sample Customer Economics



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 \$/MMBtu



Reconciliation of Non-GAAP Financial Measure



Reconciliation of Reported Net Loss to EBITDA and Adjusted EBITDA	Three months ended September 30,		Six months ended September 30,	
	2018	2017	2018	2017
Net loss, as reported	\$ (4,357)	\$ (3,667)	\$ (9,255)	\$ (7,760)
Interest expense	186	98	304	319
Provision for income taxes	2	7	5	7
Depreciation and amortization	281	279	568	583
EBITDA	(3,888)	(3,283)	(8,378)	(6,851)
Stock-based compensation	224	154	451	307
Restructuring charges	369	219	772	219
Change in warrant valuation	—	657	—	657
Adjusted EBITDA	\$ (3,295)	\$ (2,253)	\$ (7,155)	\$ (5,668)

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, the change in warrant valuation and warrant issuance expenses. Restructuring charges includes facility consolidation costs and 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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