First Quarter Fiscal Year 2019 Earnings Call

August 7, 2018

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

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Q1 FY2019 Business Highlights

- Product revenue year-over-year **increased 8%,** highest first quarter year-over-year increase in three years, powered by increases in the Oil & Gas market vertical
- Accessories, parts and service revenue **up 15%** year-over-year
- Total revenue for the quarter **increased 10%** year-over-year
- **1.2:1 book-to-bill ratio** representing new product orders from **11 different countries**
- Total of $32.5 million in gross product orders for the last six-months compared to $16.4 million in the preceding six months representing **an increase of 98% period-over-period!**
- Total **cash increased $0.2 million** despite a pay down of accrued expenses and unplanned supplier prepayments during the quarter

Q1 FY2019 Continued Strong Execution of Management's Growth Strategy

FY2019 Strategic Business Goals

1. Improve quarterly working capital, cash flow and balance sheet
   - New "*Bundled Solutions*" program
   - Continued "*War on Costs*" and increased distributor marketing effort
   - Increased margins in aftermarket accessories, parts and service business
   - Continue to collect the fully reserved BPC receivable

2. Double digit revenue growth through accelerating global product sales
   - Increased marketing and customer acquisition with new Distributor Support System initiative

3. Diversify the company into new market verticals and new geographies
   - Product modification for Microgrid and Marine markets
   - Continue focus on Africa, Latin America and Middle East
   - Continue to rebuild Russia and CIS Region distributor business

4. Increased Service/OpEx absorption percentage driving towards targeted 100% absorption (*See Appendix, Slide 12)
   - Increased remanufacturing of spare parts in UK and USA
   - Higher FPP attachment rates in oil and gas vertical
   - Sell air bearings into adjacent products and technologies

     (*See Appendix, Slide 13)

1. Cash and Working Capital

- **Improve quarterly working capital, cash flow and balance sheet**
  - New “*Bundled Solutions”* program
  - Continued “*War on Costs*” and increased distributor marketing effort
  - Increased margins in aftermarket accessories, parts and service business
  - Continue to collect the fully reserved BPC receivable
- Cash increased $0.2 million during the first quarter of fiscal 2019 to $19.6 million compared to cash, cash equivalents, and restricted cash of $19.4 million and $19.1 million as of March 31, 2018 and June 30, 2017, respectively.
- During the quarter the Company leveraged its expanded asset-based credit facility and its at-the-market equity offering to cover its expected loss from operations, including cash payments of approximately $3.2 million for an unexpected supplier prepayment obligation and for its one-time Leadership Incentive Bonus Program.

2. Double Digit Revenue Growth

- **Double digit revenue growth through accelerating product sales**
  - Increased marketing and customer acquisition with new Distributor Support System initiative
- Revenue for the first quarter increased 10% to $21.2 compared to $19.2 million in the same period last year.
- Product revenue increased 8% during the quarter to $13.6 million, the highest year-over-year increase in product revenue in three years.
- New gross product orders of $16 million during the quarter generating a 1.2:1 book-to-bill ratio.
- Capstone booked $32.5 million in gross product orders for the six-month period ended June 30, 2018, compared to $16.4 million in the preceding six-month period ended December 31, 2017, an increase of 98% period-over-period.

3. Diversify Market Vertical & Geographies

- **Diversify the company into new market verticals and new geographies**
  - Product modification for Microgrid and Marine markets
  - Continue focus on Africa, Latin America and Middle East
  - Continue to rebuild Russia and CIS Region distributor business

- **1.2:1 book-to-bill ratio** representing new product orders from **11 different countries and 13 distributors**

4. Increase Service Absorption

- **Increased Service/OpEx absorption percentage driving towards targeted 100% absorption** (*See Appendix, Slide 12)
  - ➢ Increased remanufacturing of spare parts in UK and USA
  - ➢ Higher FPP attachment rates in oil and gas vertical
  - ➢ Sell air bearings into adjacent products and technologies (*See Appendix, Slide 13)

- Q1 experienced higher than normal scheduled and unscheduled maintenance activities resulting in an elevated cost of goods and a lower quarterly gross margin

- Impacts on our aftermarket business are short-term in nature and will strengthen and normalize over the second half of fiscal 2019

- During the quarter we continued our strategic focus to increase the remanufacturing of spare parts in the US and the UK and increase FPP attachment rates in the oil and gas market

Q1FY2019 vs. Q1FY2018 Financial Results

(In millions, except per share data)	Q1FY19	Q1FY18
Microturbine Product	$13.6	$12.6
Accessories, Parts & Service	$7.6	$6.6
Total Revenue	$21.2	$19.2
Gross Margin	$1.8	$2.2
Gross Margin Percent	9%	11%
R&D Expenses	$0.9	$1.1
SG&A Expenses	$5.7	$5.0
Total Operating Expenses	$6.6	$6.1
Net Loss	$(4.9)	$(4.1)
Adjusted EBITDA*	$(3.9)	$(3.4)
Basic Net Loss Per Share	$(0.08)	$(0.10)
Adjusted EBITDA* Basic Net Earnings (Loss) Per Share	$(0.06)	$(0.08)

*See Appendix, Slide 14

10% Year-Over-Year Revenue Growth

Q1 FY19/Q4 FY18 Balance Sheet

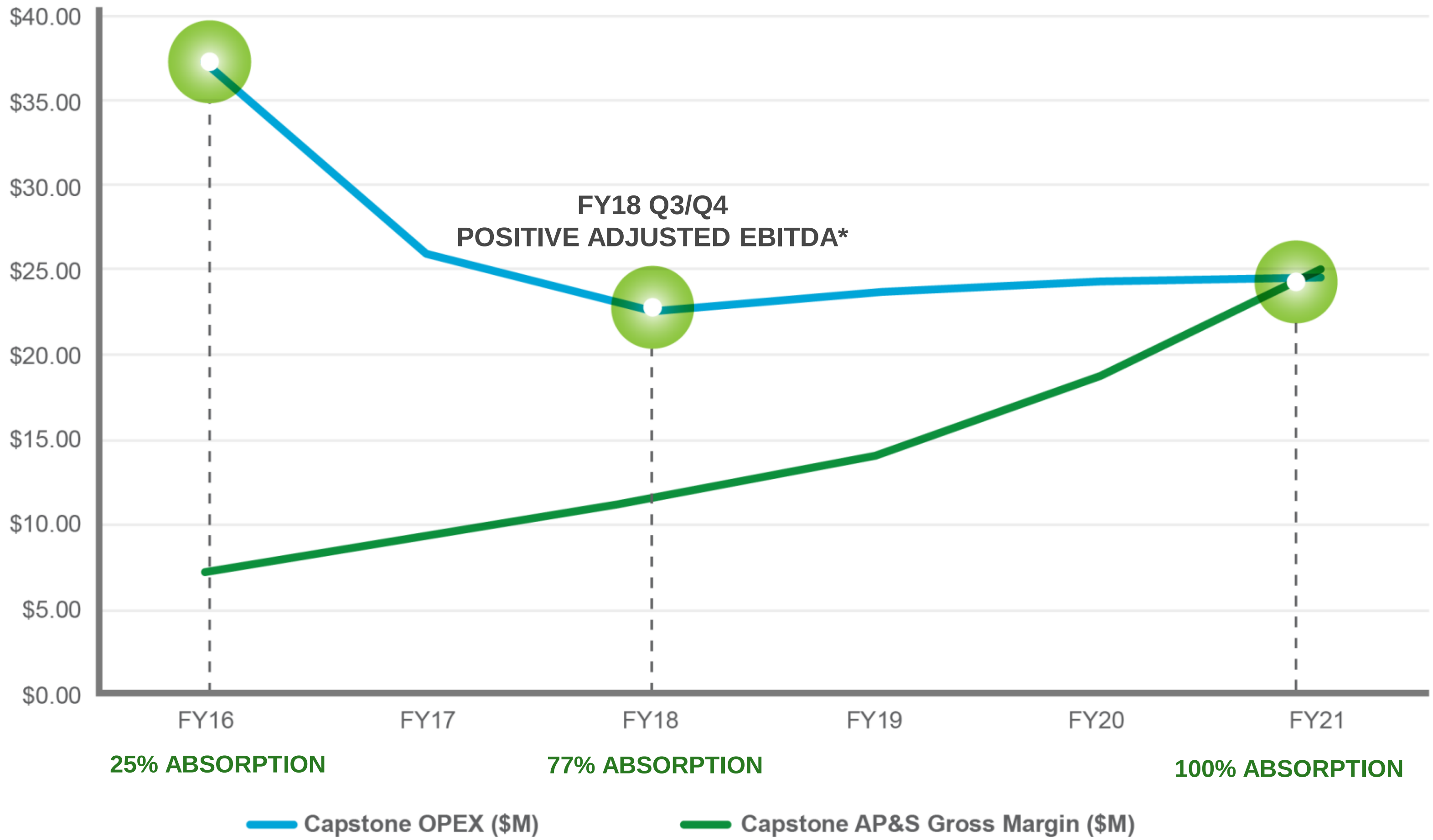
(In millions)	June 30, 2018	March 31, 2018
Cash & Cash Equivalents, Including Restricted Cash	$19.6	$19.4
Cash (used in) Provided by Operating Activities (*Approx. $3.2 million for an unexpected supplier prepayment obligation and for one-time Leadership Incentive Bonus Program).	$(6.0)*	$0.5
Accounts Receivable, Net of Allowances	$15.9	$16.0
Total Inventories	$17.2	$16.7
Accounts Payable & Accrued Expenses	$13.6	$13.5

Maintained Cash by Effectively Leveraging Credit Facility & ATM

APPENDIX

Capstone Absorption Strategy

Aftermarket Accessories, Parts and Service (AP&S)/OPEX Absorption Timeline vs. Net Loss Timeline

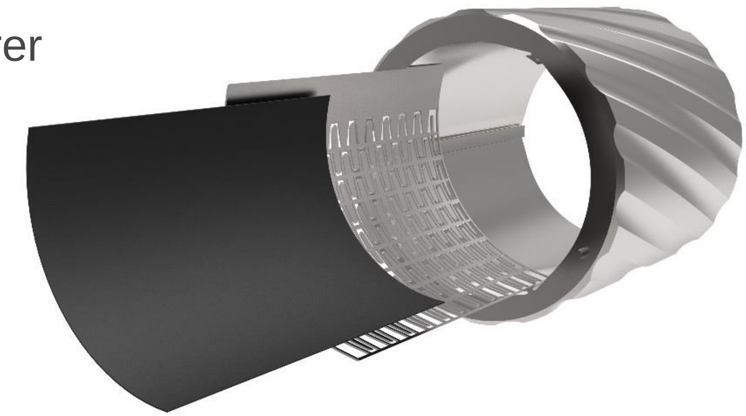


*See Appendix, Slide 14

Absorption Limits Downside and Allows Market-Based Pricing

New Air Bearing Business

- **Approach** – Offer existing Capstone air bearings plus engineering support to qualified non-competitive companies for integration into their products
- **Application** – Using existing Capstone air bearings requires customer product redesign and qualification
- Interested Companies Include:
  - ✓ Solar energy turbine company
  - ✓ Motor company, turbocharger manufacturer
  - ✓ ORC vapor compression company
  - ✓ Auxiliary power unit manufacturer
  - ✓ Fuel cell air compressor company
  - ✓ Air compressor
  - ✓ Turbine expander
  - ✓ Food processing blower
  - ✓ Downhole pump



- First Commercial Success Timeline with Praxair:
  - ✓ Feasibility discussions started 2009
  - ✓ First development parts order 2013
  - ✓ Second development parts order 2015
  - ✓ Production order for bearing sets 2018

Reconciliation of Non-GAAP Financial Measure

Reconciliation of Reported Net Loss to EBITDA and Adjusted EBITDA	Three months ended June 30,	
	2018	2017
Net loss, as reported	$ (4,897)	$ (4,092)
Interest expense	118	221
Provision for income taxes	4	—
Depreciation and amortization	287	304
EBITDA	(4,488)	(3,567)
Stock-based compensation	227	154
Restructuring charges	403	—
Adjusted EBITDA	$ (3,858)	$ (3,413)

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 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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