



# Second Quarter Fiscal Year 2017 Earnings Call

November 9, 2016

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



# Safe Harbor Statement



This presentation contains “forward-looking statements” regarding future events or financial performance of the Company, within the meaning of the Safe Harbor provisions of the Private Securities Litigation Reform Act of 1995. These statements relate to, among other things, a collection of reserved accounts receivable, shipment of finished goods, benefits from our cost reduction initiatives, improved operating leverage and organizational efficiency, strengthened distribution channels, new product development and the success of our Signature Series product, compliance with government regulations, increased sales in Russia, implementation of the Capstone Energy Finance business, growth of our aftermarket service business, growth and diversification of our end markets, performance in light of macroeconomic headwinds, and attaining profitability. 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 Form 10-K, Form 10-Q and other recent 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 today. 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 conference call or to reflect the occurrence of unanticipated events.



# Capstone Strategic Plan



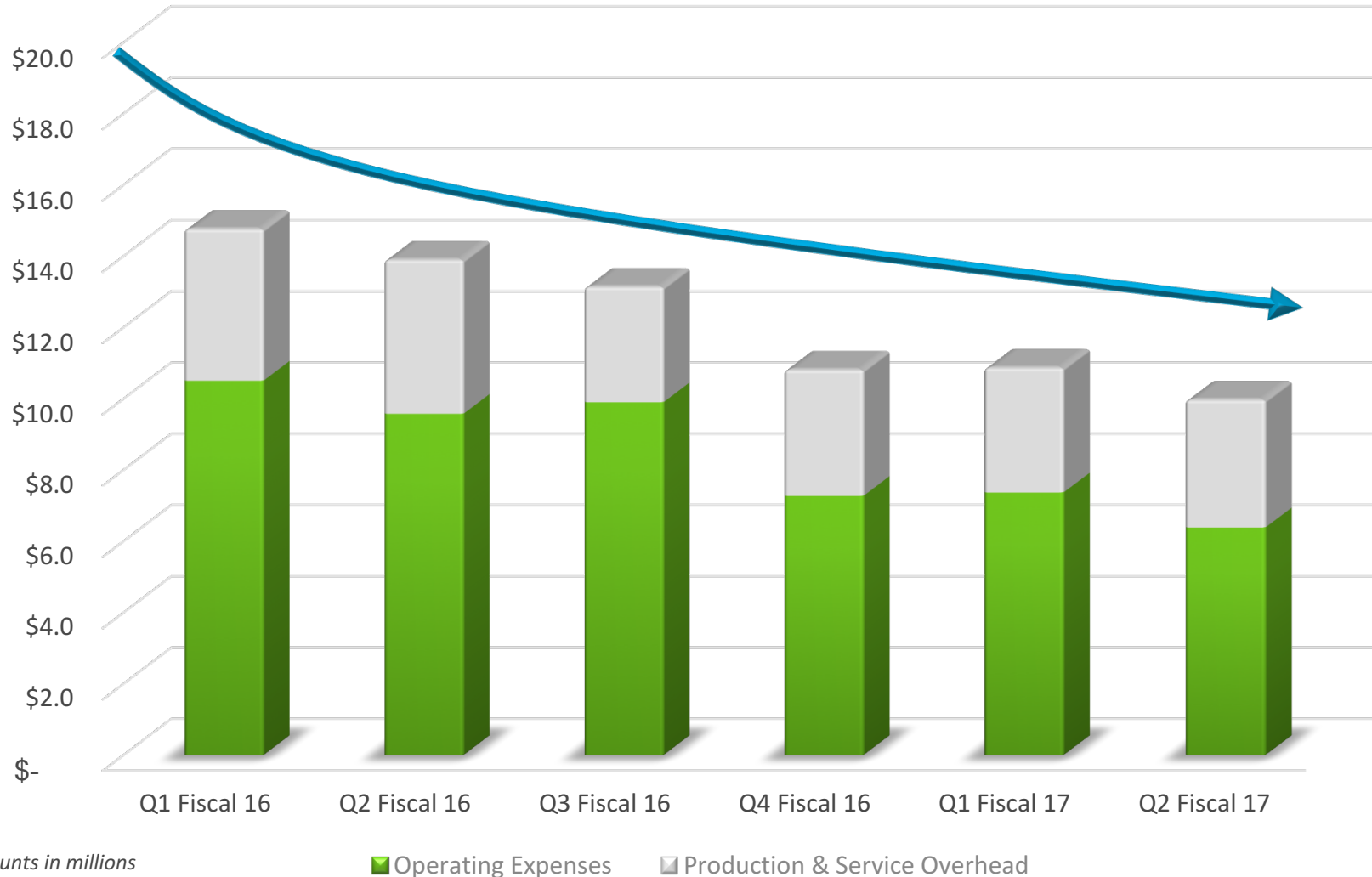
## Three-Pronged Capstone Business Profitability Plan

- 1) Reduce target breakeven from \$160M annually at a 25% GM to \$100M annually at a 25% GM by reducing business expenses by approximately 35% from Q1 FY2016 levels
- 2) Develop new product & service revenue growth opportunities
- 3) New Capstone Energy Finance business to capture lost orders





# Cost Reduction Program



**Business Expenses Down 29% From Q1 FY16**

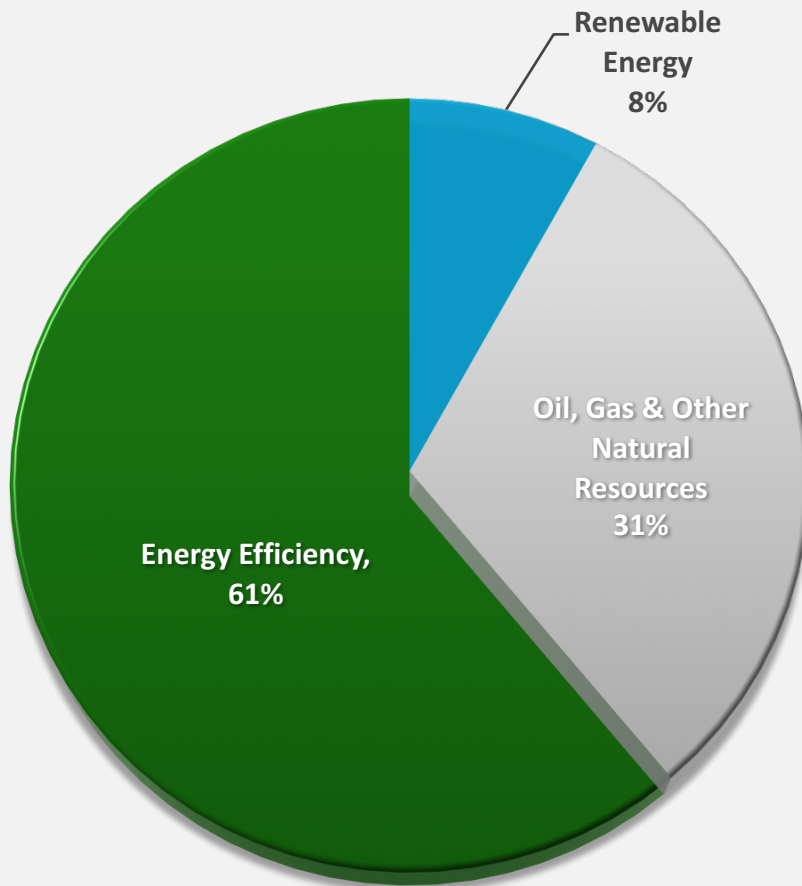




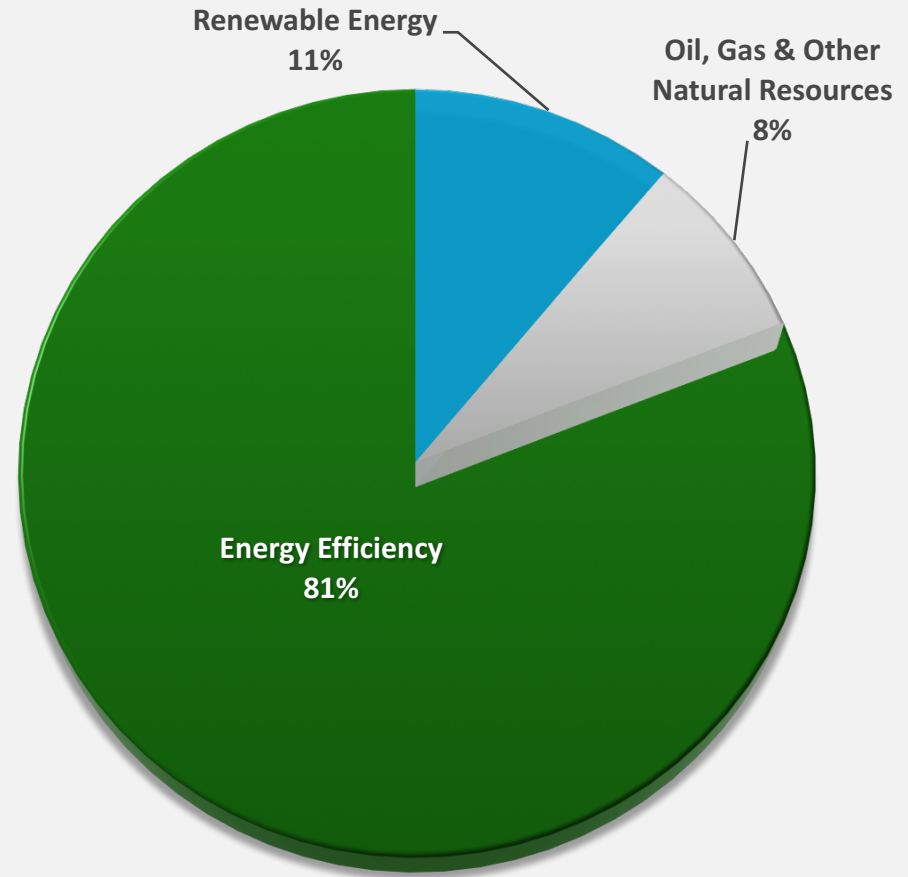
# Product Shipments by Vertical Market



**Six Months – FY17**



**Q2 – FY17**



**Record Energy Efficiency as a Percentage of Sales**



# New C1000 Signature Series



- 1.0MW Electrical Output
- 1.5MW CHP Heat Recovery
- Integrated Heat Recovery
- Two Stage Air Filtration
- Improved Enclosure Design
- Lower System Noise Level



February 2016 - First C600 Signature Series Delivery  
Minneapolis, MN

- Relocated Engine Exhaust Stack
- 12 Year Marine Grade Paint
- Higher Inlet Fuel Temperature
- New System Control Platform

**Focus Product on Energy Efficiency/CHP Market**



# New Sources of Revenue



## ***Completed:***

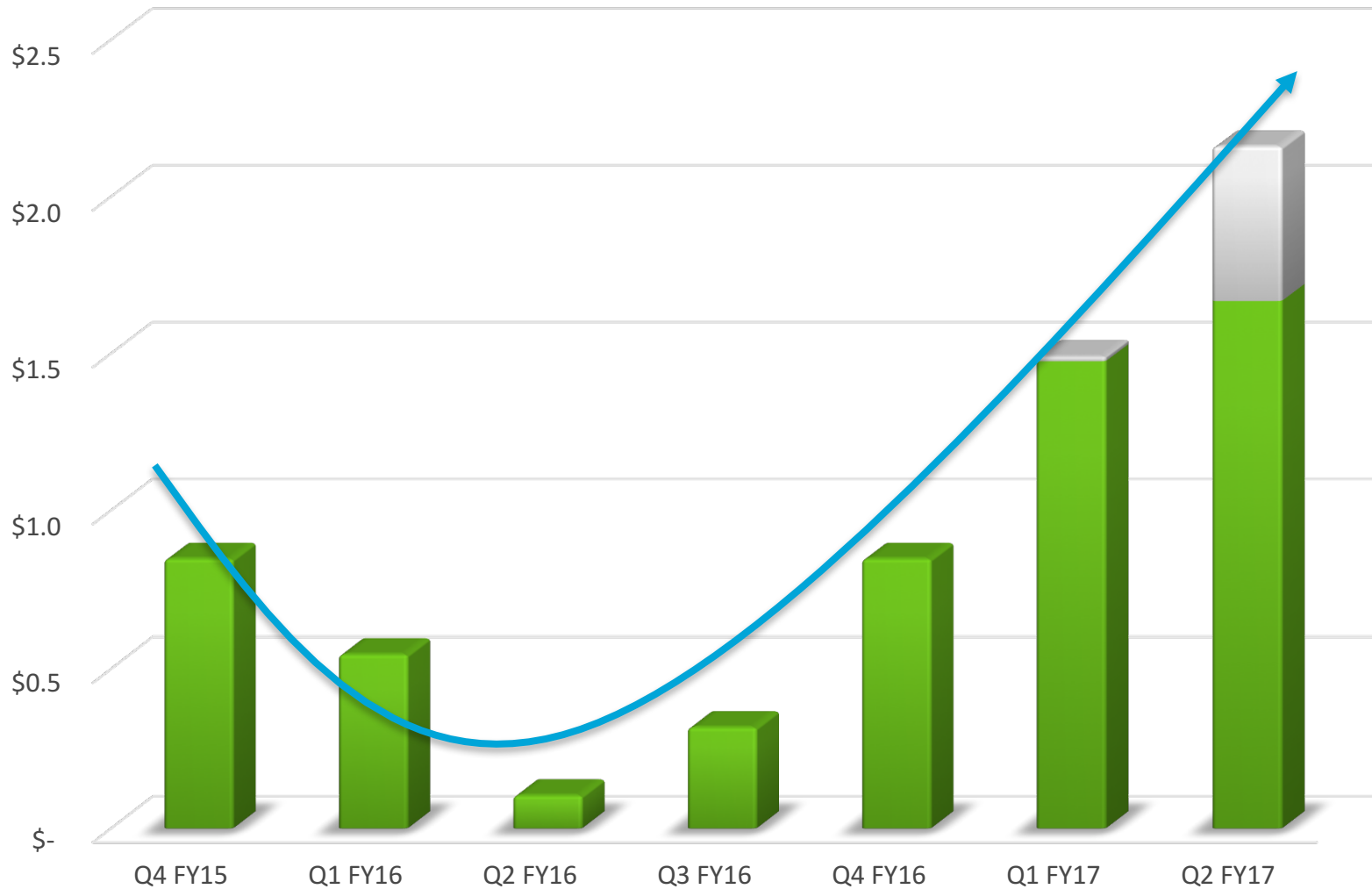
- Enhanced top selling C1000 product line with better performance and integrated ICHP for CHP market
- Continued growth from Service Business with improved Factory Protection Plan (FPP) program and new extended Warranty product
- Increased accessory sales with new heat recovery module (HRM) for C1000 Signature Series
- Improved market vertical diversification with more focus on CHP and Renewables
- Rebuild Russian business by continuing to support BPC and adding additional distributors in Russia and Commonwealth of Independent States (CIS)
- Sell new Signature Series upgrade kits for non-Signature Series products

## ***In Process:***

- Improved geographic diversification with a heavier focus on growing the business in Asia, Australia, Europe, Russia, the Middle East and Africa
- Work with global distribution channel to add 100 new sales professionals and improve our key performance indicators (KPIs)



# BPC Sales Recovery



BPC Business Analysis  
Amounts in millions

■ Revenue ■ Bad debt recovery

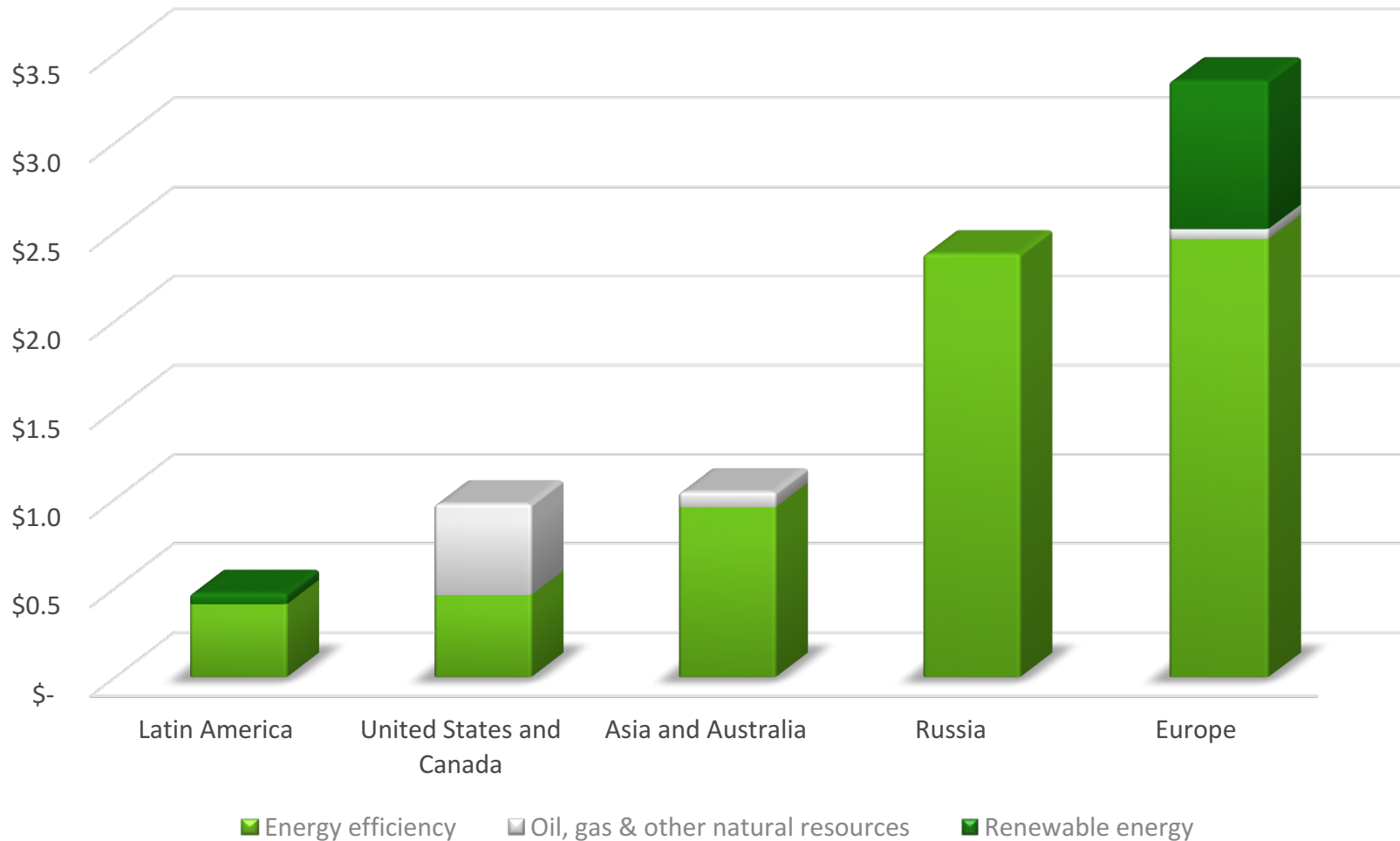




# Product Shipments by Market



Q2 – FY17



Amounts in millions

Recovery of the Russian Market



# Recent Order Momentum



November 7, 2016

*"Capstone Secures C800S Order to Upgrade Artificial Casing Manufacturer in Mexico"*

November 3, 2016

*"Capstone C800S Microturbine to Power Large Pharmaceutical Company in California"*

October 14, 2016

*"Capstone's New Russian Distributor Powers Far Eastern Federal District Railway Station"*

October 12, 2016

*"Capstone's Russian Distributor Secures Another 3MW as Business Rebounds"*

August 22, 2016

*"Capstone's Russian Distributor, BPC Engineering, Secures Another C1000 Signature Series Project"*

August 10, 2016

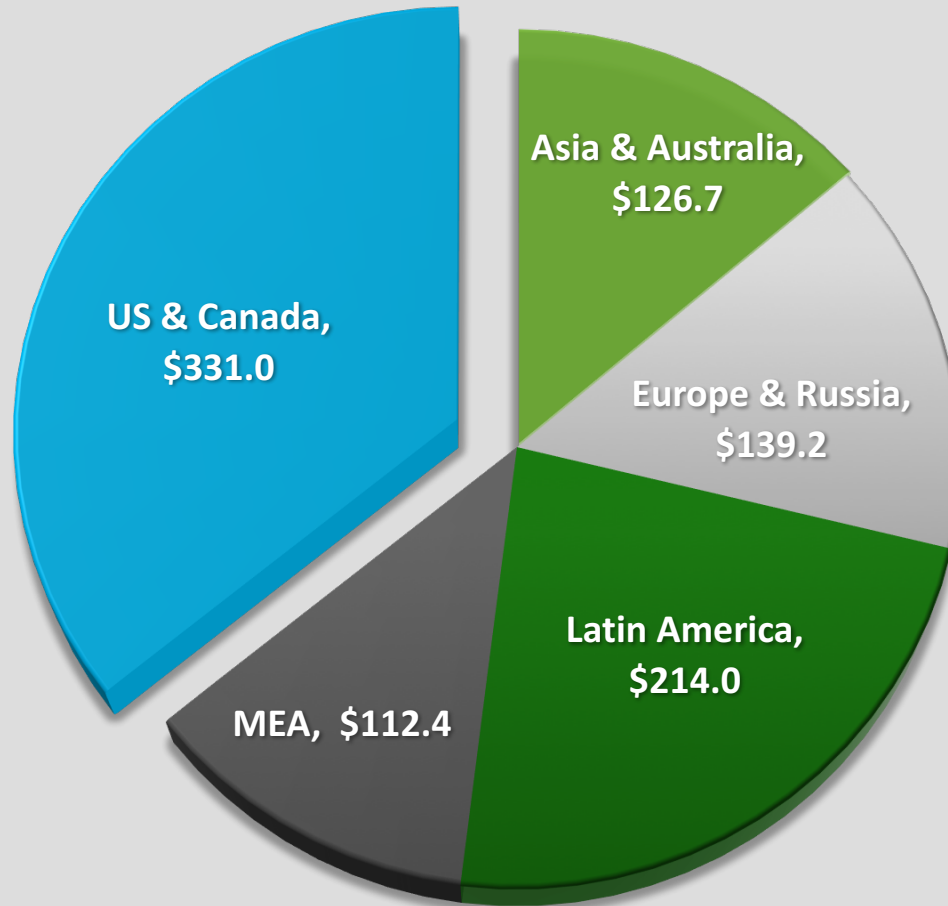
*"Capstone Distributor to Deliver 1.6MW Power Plant to Offshore Platform in California"*

August 8, 2016

*"Capstone C600 Signature Series Microturbine to Power Chinese Smart Microgrid"*



# Sales Pipeline by Region



Source: Capstone distributors via Salesforce  
Amounts in millions

**12 Month Pipeline of \$923.3M as of Q2 FY17**



# Aftermarket Service Growth



- Contributing to overall gross margin
- Record FPP contract backlog
- 9,000 unit install base provides scalability
- C200/C1000 reliability improving
- Lower product warranty expense
- Improved reliability decreases FPP costs and increases customer satisfaction
- New extended Warranty Product

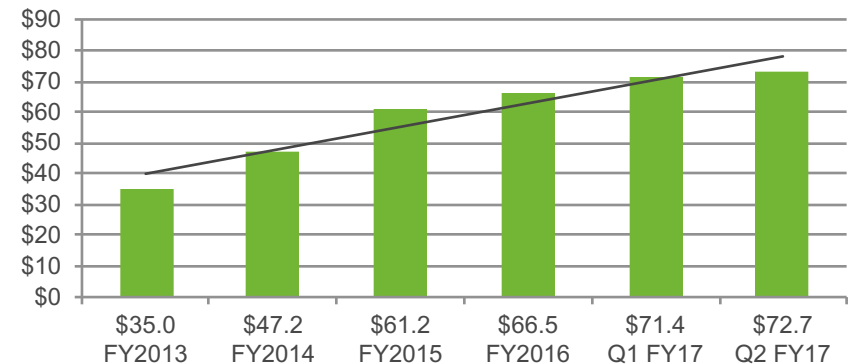
## Global Customer Footprint

- Supporting 86 Distributors/9 OEM partners in 73 countries
- 2 Capstone service centers globally
- 1,200+ units under FPP and growing
- Establishing regional remanufacturing centers to lower logistical costs and service
- Improved alignment with Sales and Aftermarket



C65 Turbine Nozzle

## FPP Contract Backlog (\$M)







# Capstone Energy Finance



- CEF offers PPA agreements exclusively for projects that utilize Capstone's proven microturbine technology to deliver low-cost, clean and reliable energy to a customer's site or facility.
- Near-term goal is to leverage up to \$10M in third party equity with reasonably priced debt with "blue chip" U.S. customers.



- Signed agreement with Sky Capital (subsidiary of Sky Solar Group) to provide up to \$150M in project financing.
- Distributors lost approximately \$42M in FY16 and over \$50M in FY15 due to lack of financing options.

**Clean Reliable Power Today with No Upfront Cost**



# Capstone Energy Finance Joint Venture Growth



- Two PPA contracts currently in negotiations.
- U.S. Distributor Training ongoing to identify better qualified leads.
- Added Dedicated Sales Resources.
- Significant progress on clearing legal and regulatory hurdles.
- Several International opportunities identified and under evaluation.



**Growing Pipeline of Well-Qualified Opportunities \$40M**



# Business Developments and Milestones Recently Achieved



- Partnered with Sky Capital, a wholly-owned subsidiary within the Sky Solar Group, for \$50 million in project capital (and an option for up to an additional \$100 million) to support the second phase of Capstone Energy Finance Joint Venture growth. As CEF currently has a pipeline of \$40 million in well-qualified projects, this added funding is expected to help expand our business beyond our original seed capital by providing financing options to global customers.
- Partnered with Acresia and Bridge Capital to formulate a product-financing program for Capstone distribution partners to provide much needed working capital and growth capital for well qualified partners.
- Continued to move ahead with our product development roadmap with a new-patented multi-staged lean pre-vaporizing, pre-mixing fuel injector providing ultra-low emissions that meet United States Environmental Protection Agency (EPA) Tier 4 requirements for power generation. Under this new program, exhaust emissions will be required to decrease by more than 90 percent.
- Developed new partnerships with the U.S. Department of Energy (DOE) to provide funding in the amount of \$335,000 for one year to Argonne National Laboratory to conduct hydrogen and synthetic fuel (“syngas”) testing on Capstone’s C65 and C200 microturbines at no cost to Capstone. In addition, Capstone continued progress on our flexible fuels program, with recent successful testing on butane.
- Recent launch of new products including the new C200, C600 and C800 Signature Series microturbine products featuring the same benefits as the recently launched C1000 Signature Series microturbine. In addition, the first C1000 Signature Series products were recently commissioned in the U.S. and Europe.
- Resumed growth in Russia through BPC Engineering as well as additional new distributors in Russia and the CIS states, including our first order from one of our new Russian distributors.



# Q2 FY17 vs. Q2 FY16



<i>(In millions)</i>	Q2 FY16	Q2 FY17
Revenue	\$17.9	\$15.0
Gross Margin	\$1.9	\$0.7
Gross Margin %	10.8%	4.5%
Operating Expenses	\$9.6	\$6.4
Loss from Operations	\$(7.9)	\$(5.9)

**Loss From Operations Decreased 25% Y/Y**





# Financial Highlights of Fiscal 2017 Second Quarter



- Net loss for the second quarter was \$5.9 million, compared with a net loss of \$7.9 million in last year's second quarter.
- Loss per share of \$0.19 compared to last year's second quarter loss of \$0.48 (split adjusted).
- Total revenue for the second quarter of fiscal 2017 was \$15.0 million compared with \$17.9 million in the year-ago second quarter.
- Gross margin of \$0.7 million was 5% compared to \$1.9 million or 11% in the year-ago fiscal second quarter.
- Operating expenses decreased 33% for the quarter to \$6.4 million compared with \$9.6 million in the year-ago second quarter.
- Bad debt recovery was \$0.5 million during the second quarter of fiscal 2017 primarily from BPC Engineering, the company's distributor in Russia. There were no significant bad debt charges or recoveries recorded during the second quarter of fiscal 2016.



New C600S Microturbine



# Q2 FY17 Balance Sheet Financial Highlights



- Cash and cash equivalents were \$16.1 million as of September 30, 2016, compared to cash and cash equivalents of \$15.6 million as of September 30, 2015. Each of these balances includes \$5 million of restricted cash related to our Wells Fargo credit facility.
- Inventories as of September 30, 2016 were \$19.2 million compared with \$31.0 million at the end of the year-ago second quarter, a decrease of \$11.8 million.
- Accounts payable and accrued expenses were \$12.1 million compared with \$25.1 million at the end of the second quarter fiscal 2016.
- As of September 30, 2016, borrowings on the Wells Fargo credit facility were \$6.2 million, a \$9.0 million decrease from borrowings as of September 30, 2015.
- Subsequent to the end of the quarter the company entered into a securities purchase agreement for gross proceeds of approximately \$7.5 million in an offering of a combination of common stock and warrants.
- The company booked product net orders of approximately \$8.9 million during the second quarter, for a 1.1:1 book-to-bill ratio, compared with \$8.4 million of product net orders received and booked during the year-ago second quarter, which was a 0.7:1 book-to-bill ratio.

**Significant Balance Sheet Improvements, Displaying Improving Health**



**NASDAQ: CPST**

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