



Turbine Corporation



Third Quarter Fiscal Year 2018 Earnings Call

February 5, 2018

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

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.

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Capstone Business Growth Trends



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AREAS OF GROWTH



Revenue

- Total revenue up 14% Y/Y
- Total revenue up 15% Q/Q
- Total Q3'18 vs. Q3'17 up 13%
- Record A/P&S levels
- Product net new orders up Q/Q



Margin Expansion

- Gross margin up Y/Y and Q/Q
- Gross margin up 18 basis pts. Y/Y
- Product margin up Y/Y and Q/Q
- Record A/P&S margin at 42%



Expense Control

- OpEx down Y/Y and Q/Q
- OpEx down 14% Y/Y
- Warranty down Y/Y and Q/Q
- Warranty down 91% Y/Y
- Completed facility consolidation



Adjusted EBITDA

- Q3 adjusted EBITDA & EBITDA positive
- Adjusted EBITDA improved 71% Y/Y
- Net loss improved 91% Q/Q
- Q3 net loss (\$0.01) per share
- Adjusted EBITDA earnings \$0.01 per share
- Net loss improved 62% Y/Y



Strengthen Balance Sheet

- Total cash balance up Q/Q
- Cash usage excluding proceeds from equity transactions down 33% Y/Y
- Inventories down Q/Q and Y/Y
- Accounts payable down Q/Q
- Finished goods down Q/Q and Y/Y
- Inventory turns up Q/Q
- Work in process down Q/Q and Y/Y

Q3FY18 Business Highlights



- 2017 proved to be a devastating year for many due to the severe hurricane season. Several countries and states experienced power outages and had been without power from days to months. Capstone reported that the majority of its customers' installations in Texas, Florida, Puerto Rico, Dominican Republic and the U.S. Virgin Islands not only survived the storms but were fully operational providing critical power; in some cases providing the power needed to pump water. This result is similar to how well Capstone microturbines performed back in late October 2012 when Hurricane Sandy devastated the states of New York and New Jersey and a then estimated 93 out of 95 microturbines, remained fully operational.
- The company continues to see improvement in the European market, with IBT Europe, GmbH, one of Capstone's Italian distributors, securing an order for a C1000 Signature Series microturbine to provide combined cooling, heat and power (CCHP) for a large cured meat company in Veneto, Italy.
- Capstone received a follow-on 2-megawatt (MW) Factory Protection Plan (FPP) order in the Hawaiian hospitality market. The multi-year contract was secured by Capstone's Hawaiian distributor, Critchfield Pacific, for a global resort hotel chain on the island of Maui. This adds to the established multi-year contract for the same resort hotel chain at a large property on the Hawaiian island of Kauai.
- Capstone confirmed shipment of two C1000 and four C800 Signature Series microturbines, totaling 5.2 MWs to its exclusive distributor for the Mid-Atlantic and Southeastern United States, E-Finity Distributed Generation. The natural gas-fueled microturbines are for a 5.2 MW U.S. pipeline project that will provide power along a new U.S. shale gas pipeline currently under construction.
- Capstone secured an order for two C200 microturbines to provide combined heat and power (CHP) for a Jamaican hotel. The propane-fueled microturbines will provide electrical power to the site loads, and the thermal energy from the microturbines exhaust will be utilized via an absorption chiller to provide chilled water to the building's heating, ventilation and air conditioning (HVAC) system. Additionally, the microturbines reduce the customer's dependence on the local utility grid, which can be unstable, unreliable and very susceptible to severe weather events such as hurricanes.
- Capstone continued to see a steady increase in domestic sales revenue as Cal MicroTurbine, one of Capstone's distributors for California, confirmed two separate orders. The first order received was for a C600 Signature Series microturbine to power an oil and gas facility in California. The second order was for two C1000 Signature Series microturbines to power an oil and gas site in California.
- Capstone completed its consolidation into a single manufacturing facility located in Van Nuys, California. This consolidation is another key element in Capstone's multi-point strategic plan to reduce expenses once the facility has been subleased. The Van Nuys location also serves as Capstone's corporate headquarters.

Q3FY18 vs. EBITDA Breakeven Model



<i>(In millions)</i>	Q3 FY2018 Results	Balanced CHP - O&G Model	Capstone Initiatives and Management Notes
Microturbine Product	\$14.6	\$15.0	Oil & Gas Shipments Up – No Hurricane Revenue YTD
Accessories, Parts & Service	\$8.2	\$10.0	Aftermarket Service Revenue at Record Level and Growing
Total Revenue	\$22.8	\$25.0	New Signature Series Products and New <i>Sell-to-Win</i> Program
Cost of Good Sold	\$17.8	\$19.5	New Signature Series Cost Reduction Program Underway
Gross Margin	\$5.0	\$5.0	Underspent on Service FIP Drives Down Q3 Warranty Expense
Gross Margin Percent	22%	20%	Accessories, Parts & Service Margins Expand to 41.6%
Total Operating Expenses	\$5.0	\$5.0	Lower Service Provider Costs & Russian Bad Debt Recovery
Adjusted EBITDA*	\$0.4	\$0	Management Achieved Positive EBITDA Breakeven Milestone

*See Appendix, Slide 15

Capstone Achieves Strategic Adjusted EBITDA Breakeven Goal

Q3FY18 vs. Q3FY17 Financial Results



<i>(In millions, except per share data)</i>	Q3FY18	Q3FY17
Microturbine Product	\$14.6	\$12.8
Accessories, Parts & Service	\$8.2	\$7.4
Total Revenue	\$22.8	\$20.2
Gross Margin	\$5.0	(\$4.0)
Gross Margin Percent	22%	(20%)
R&D Expenses	\$1.0	\$1.3
SG&A Expenses	\$4.0	\$4.8
Total Operating Expenses	\$5.0	\$6.1
Net Loss	\$(0.3)	\$(10.7)
Adjusted EBITDA*	\$0.4	\$(9.6)
Basic Loss Per Share	\$(0.01)	\$(0.31)
Adjusted EBITDA* Basic Earnings (Loss) Per Share	\$0.01	\$(0.28)

*See Appendix, Slide 15

Management Initiatives Deliver Dramatic Y/Y Improvements

Q3FY18 Financial Results



<i>(In millions)</i>	December 31, 2017	September 30, 2017
Cash & Cash Equivalents, Including Restricted Cash	\$16.5	\$15.2
Cash (used in) in Operating Activities	\$(3.3)	\$(5.1)
Accounts Receivable, Net of Allowances	\$16.1	\$13.2
Total Inventories	\$15.3	\$17.3
Accounts Payable & Accrued Expenses	\$12.8	\$14.1

9 Months - YTD FY18 vs. YTD FY17



<i>(In millions, except per share data)</i>	YTD FY18	YTD FY17
Microturbine Product	\$39.4	\$33.1
Accessories, Parts & Service	\$22.4	\$21.1
Total Revenue	\$61.8	\$54.2
Gross Margin	\$10.2	(\$0.3)
Gross Margin Percent	17%	(1%)
R&D Expenses	\$3.3	\$4.3
SG&A Expenses	\$13.8	\$15.6
Total Operating Expenses	\$17.1	\$19.9
Net Loss	\$(8.1)	\$(21.1)
Adjusted EBITDA*	\$(5.3)	\$(18.4)
Basic Loss Per Share	\$(0.18)	\$(0.68)
Adjusted EBITDA* Basic Loss Per Share	\$(0.12)	\$(0.60)

*See Appendix, Slide 15

YTD FY18 Adjusted EBITDA Improved \$13.1M or 71% over YTD FY17

Q3FY18 vs. New Target Business Model



<i>(In millions)</i>	Q3 FY2018 Results	Management's New Target Model	Capstone Initiatives and Management Strategies
Microturbine Product	\$14.6	\$25.0	Crude Oil Strengthening, USD Weakening, Hurricane Activity
Accessories, Parts & Service	\$8.2	\$15.0	Higher FPP and Accessory Revenue on CHP Market Growth
Total Revenue	\$22.8	\$40.0	New Signature Series Products and New <i>Sell-to-Win</i> program
Cost of Good Sold	\$17.8	\$26.3	Lower Signature Series Cost – Higher Purchase Volumes
Gross Margin	\$5.0	\$13.7	Growing Product Sales & FPP - Lower Warranty and FPP COGS
Gross Margin Percent	22%	34%	Aftermarket Business Margin Expanding from 42% to 50%
Total Operating Expenses	\$5.0	\$6.0	OpEx up on Increased Marketing Spend and Sales Commissions
Adjusted EBITDA*	\$0.4	\$7.7	Minimal Tax Impact with Approx. \$678M in Federal NOLs

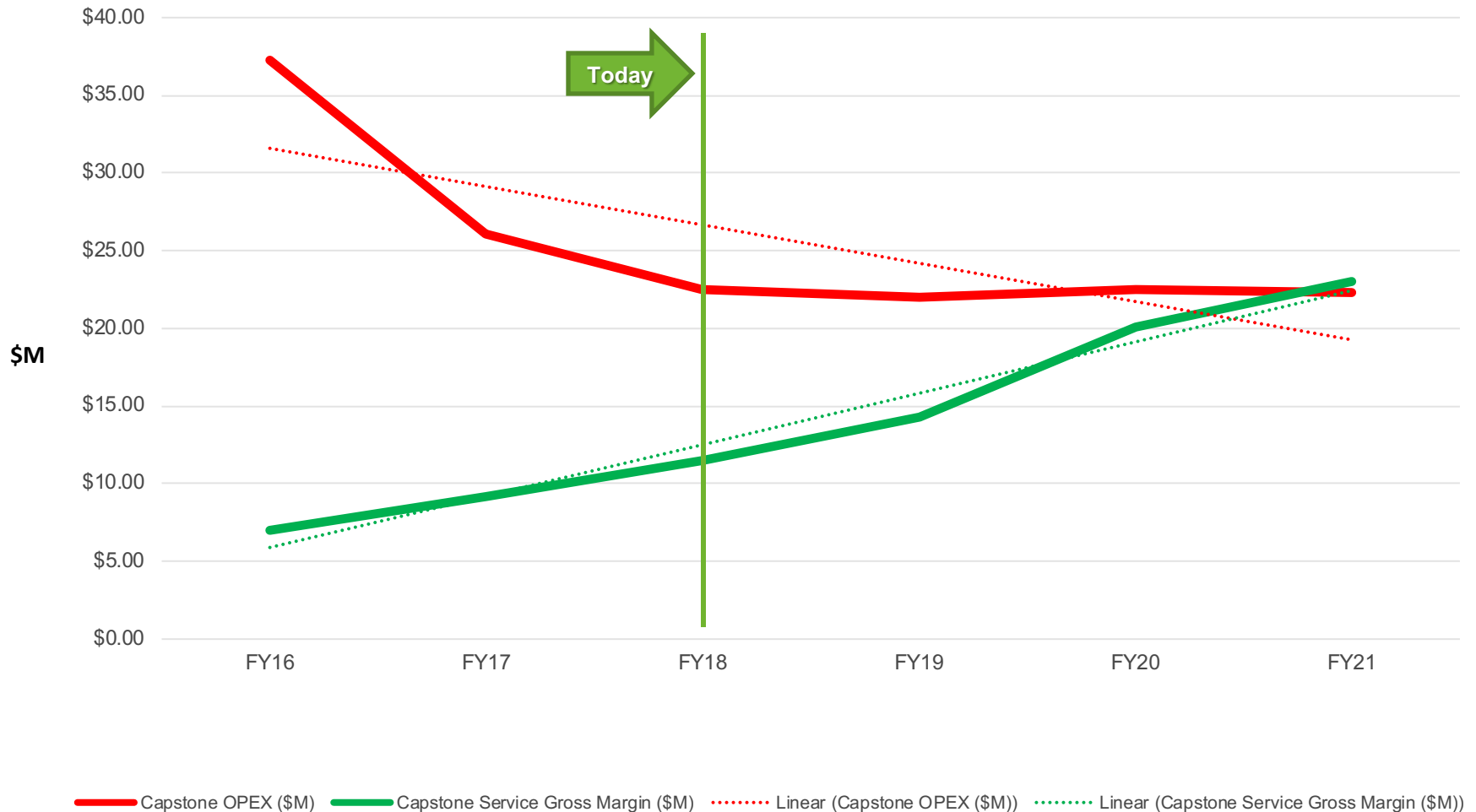
*See Appendix, Slide 15

Adjusted EBITDA Grows from 1% Today to 19% in New Target Model

100% Absorption Forecast



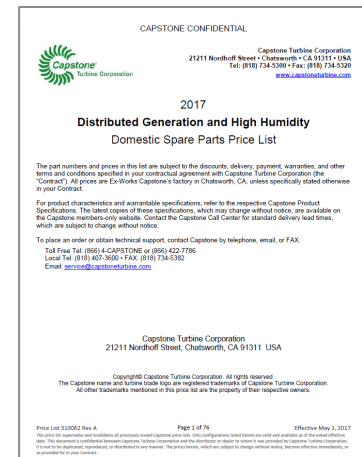
Service/OPEX Absorption Timeline



Aftermarket Business Grows to Absorb 100% of OpEx Over Next Two Years

Revenue Growth Initiatives

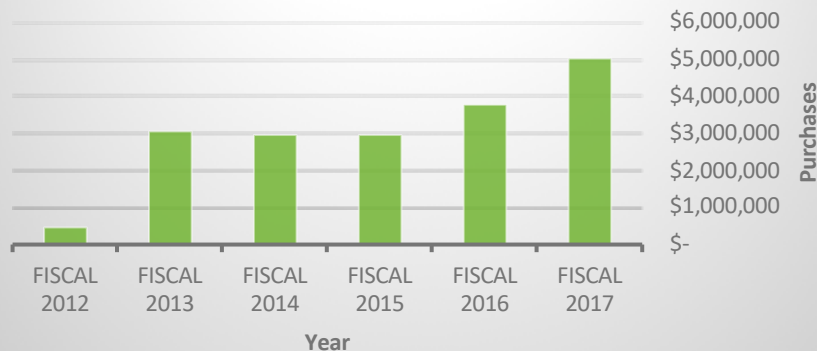
- New Signature Series product focused on CHP market
- Launched new “*Sell-to-Win*” ICHP bundled solutions
 - **C200S/C1000S Series ICHP bundle** - microturbine, heat recovery module (HRM) and pre-paid FPP service contract
 - **C65 ICHP bundle** - microturbine, HRM and pre-paid FPP service contract
 - “*Sell-to-Win*” drives CHP product, HRM and FPP service contract revenue
 - “*Sell-to-Win*” program positively impacts working capital and cash flow
- Launched special program for all future 5 & 9-year FPP service contracts that are 100% pre-paid
- Launched program to sell “Signature Series” upgrade kits for older non “Signature Series” systems
- New spare parts price increase (5% domestic, 3% international)
- New creative plan to increase the FPP service contract attachment rates
- Focus on Distributor KPIs and spare parts stocking levels



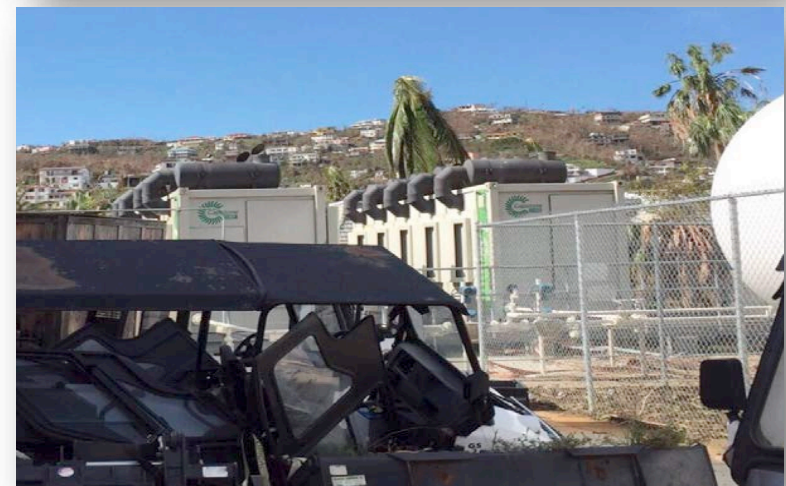
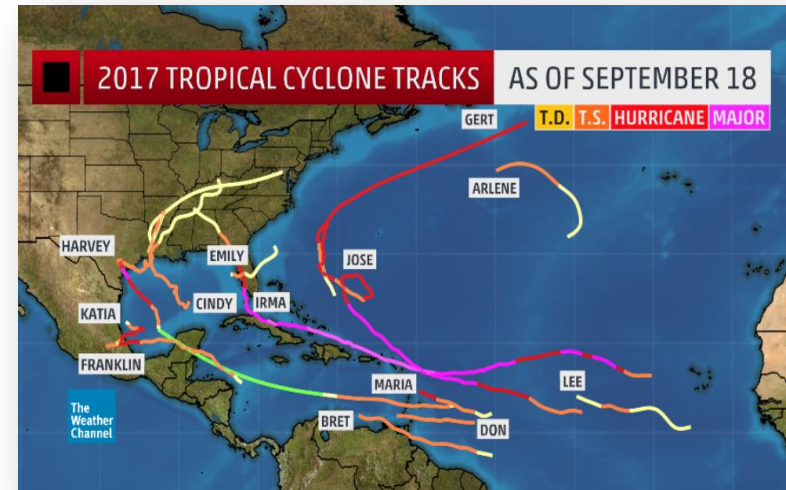
Impact of Hurricanes

- Overwhelming majority of our microturbine installations in Texas, Florida, Puerto Rico, Dominican Republic and the U.S. Virgin Islands not only survived the storms but were fully operational providing critical power and in some cases providing the power needed to pump water.
- Similar results in late October 2012 when Hurricane Sandy devastated the states of New York and New Jersey. An estimated 93 out of 95 microturbines remained fully operational at that time.

RSP Systems – New York, NY



Five years removed from Hurricane Sandy, RSP Systems, Capstone's distributor for the greater New York area, is a top five revenue producer worldwide



Fully operational Capstone Microturbines on St. Thomas surrounded by debris from Hurricane Irma

On-site Distributed Generation Provides Money Savings, On-site Generation & Critical Emergency Backup Power



APPENDIX

Financial & Market Statistics Comparison



Selected Public Companies

(\$ in millions, except per share data)

Company	IPO (1)	Financial Statistics						Market Statistics		
		Revenue	Gross Margin	GM %	OPEX	EBITDA	Revenue Per Employee	Market Cap (2)	Cash (3)	Q/Q in Cash
Capstone Turbine Corporation ⁽⁴⁾	30	\$22.8	\$5.0	22%	\$5.0	\$0.1	\$0.14	\$33.4	\$16.5	\$1.3
Small-Cap Distribution Generation										
American Superconductor Corp. ⁽⁵⁾	31	11.0	0.3	2%	8.1	(4.0)	0.03	108.8	30.3	(7.3)
Ballard Power Systems ⁽⁶⁾	10	31.8	10.2	32%	11.1	0.3	0.07	657.3	60.1	(8.0)
FuelCell Energy ⁽⁷⁾	26	47.9	3.2	7%	11.3	(6.2)	0.08	126.4	87.4	13.6
Maxwell Technologies, Inc. ⁽⁸⁾	53	35.8	7.4	21%	20.7	(10.6)	0.10	215.2	52.8	33.6
Plug Power, Inc. ⁽⁸⁾	21	35.4	(19.4)	-55%	17.0	(31.3)	0.08	442.1	56.5	2.4
Avg. selected companies	28	\$32.4	\$0.3	1%	\$13.6	\$(10.4)	\$0.07	\$310.0	\$57.4	\$6.9

(1) Years since incorporation or first initial public offering

(2) Source: Nasdaq as of January 31, 2018

(3) Cash, cash equivalents and restricted cash

(4) Source: Capstone Turbine Corporation's February 2018 Form 10-Q filing

(5) Source: American Superconductor Corporation's November 2017 Form 10-Q filing

(6) Source: Ballard Power Systems third quarter financial report issued November 2017 on company's website

(7) Source: FuelCell Energy's January 2018 Form 10-K filing

(8) Source: Maxwell Technologies, Inc. and Plug Power, Inc. November 2017 Form 10-Q filings

Reconciliation of Non-GAAP Financial Measure



Reconciliation of Reported Net Loss to EBITDA and Adjusted EBITDA	Three months ended December 31,		Nine months ended December 31,	
	2017	2016	2017	2016
Net loss, as reported	\$ (323)	\$ (10,686)	\$ (8,083)	\$ (21,068)
Interest expense	170	129	489	392
Provision for income taxes	—	—	7	3
Depreciation and amortization	272	384	854	1,186
EBITDA	119	(10,173)	(6,733)	(19,487)
Stock-based compensation	102	173	409	653
Restructuring charges	58	—	277	—
Change in warrant valuation	84	—	741	—
Warrant issuance expenses	—	421	—	421
Adjusted EBITDA	\$ 363	\$ (9,579)	\$ (5,306)	\$ (18,413)

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, the change in warrant valuation, warrant issuance expenses and restructuring charges. Restructuring charges includes 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.



NASDAQ: CPST

www.capstoneturbine.com

