



# Management Presentation

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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, 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, benefits and competitive advantage associated with our 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, increase in revenue and 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.



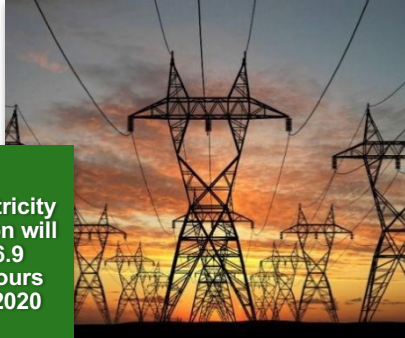
# Distributed Generation Megatrend



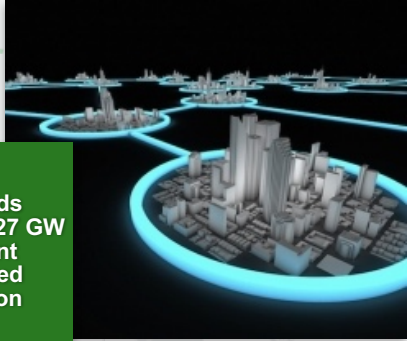
Driven by attractive economics and resiliency, power users are increasingly searching for ways to reduce their dependence on grid power. Capstone is able to solve this problem by providing a highly reliable and efficient power source to solve power demand issues for users across numerous industries.



Annual distributed generation power additions will grow to 200 GW in 2020 from 150 GW currently



Global electricity consumption will rise to 26.9 terawatt-hours (TWh) by 2020



Microgrids account for 27 GW of current distributed generation



\$205B will be invested in global distributed power generation annually by 2020 - 42% of total power additions



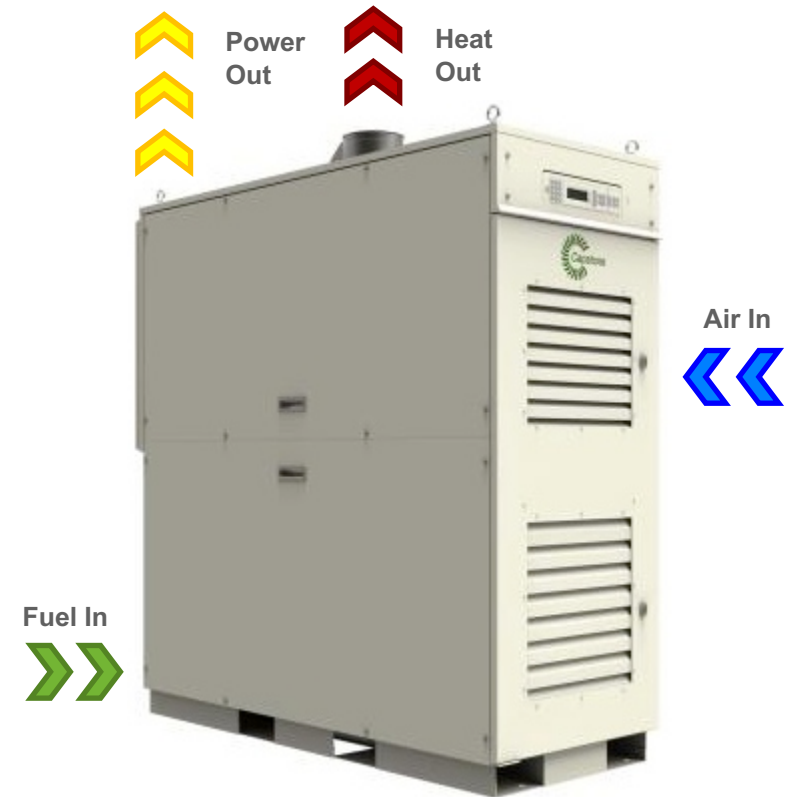
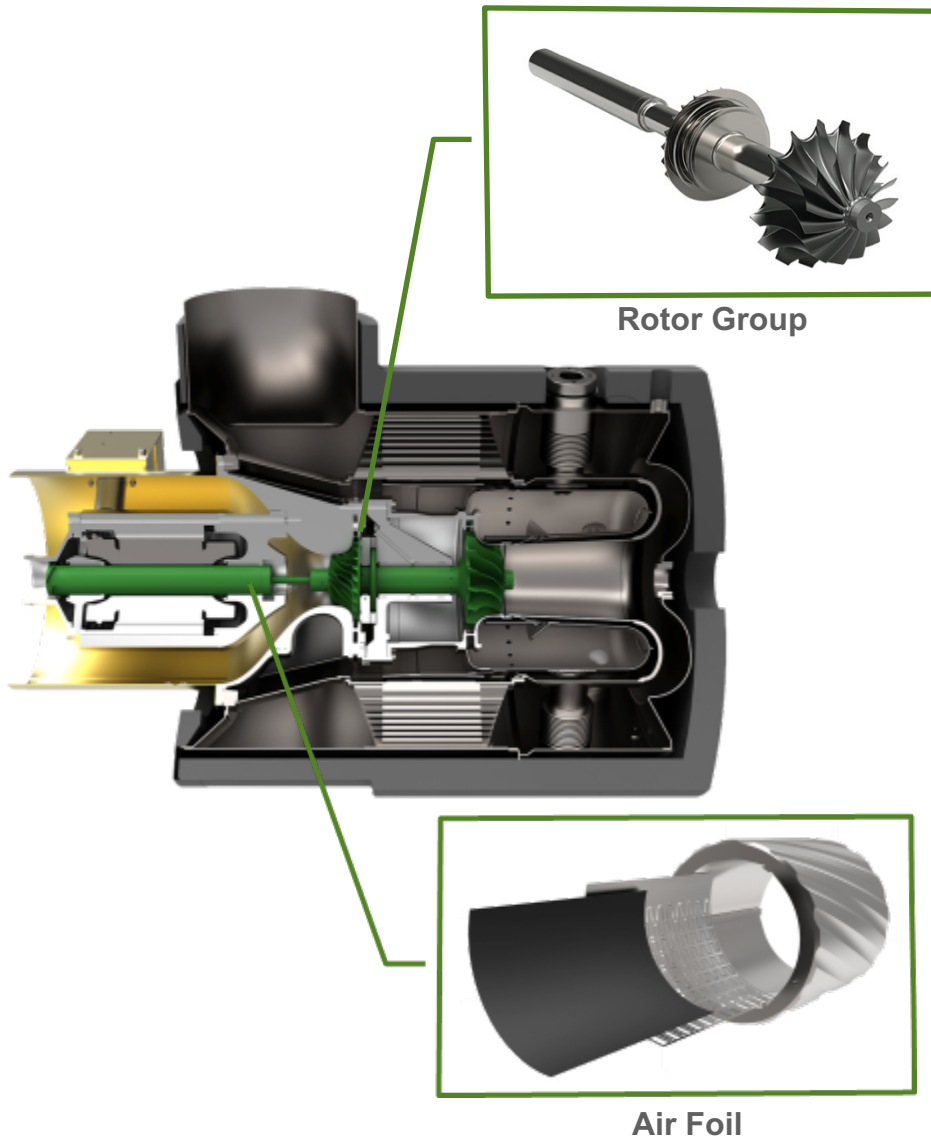
65% of global electricity consumption will be located in emerging markets (Asia, Africa & Middle East) by 2020

Source: GE - Rise of Distributed - 2014

## Capstone Has Competitive Advantage Over Incumbent Technology



# What is a Microturbine?



| CHP/TYPE      | EFFICIENCY |            |
|---------------|------------|------------|
|               | ELECTRIC   | TOTAL      |
| Hot Water     | 33.0%      | 85.0%      |
| Steam         | 33.0%      | 60.0-95.0% |
| Chilled Water | 33.0%      | 85.0%      |



# Competitive Advantages



## Features

## Benefits



Inverter based with one moving part

Factory guaranteed low operating costs



Patented air bearing technology

No lubricants or coolants needed - unmanned projects



Stand alone or grid connect

Supports aging utility infrastructure



Fuel availability

Operates on gaseous, renewable and liquid fuels



High power density

Compact footprint, small modular design



Low emissions

No exhaust aftertreatment



Free clean waste heat

Thermal energy for cogeneration/trigeneration



Remote monitoring

View performance and diagnostics 24/7



Scalable to match demand

Multiple applications and industries



# What Do These Companies Have in Common?





# Global Market Verticals



## Energy Efficiency



Generate on-site power capture thermal energy from the clean exhaust in CHP and CCHP applications.

Hotels  
Large Residential Complexes  
Retail Buildings  
Office Buildings



## Oil, Gas & Other Natural Resources



Produce on-site power for all phases of oil and gas production in both onshore and offshore applications.

Drilling Operations  
Flare Gas Reduction  
Gas Compression  
Mining  
Water Conversion



## Renewable Energy



Cleanly and efficiently generate onsite power operating on biogas and other waste products to create high-efficiency renewable power and heat.

Farm Digesters  
Landfills  
Solid Waste Management  
Wastewater Treatment  
Food Waste



## Critical Power Supply



Mission critical businesses have an uninterruptible power source with the world's only microturbine-powered UPS solution.

Data Centers  
Telecom  
Power Rentals  
Hospitals



## Transportation



Operate in conjunction with battery packs to provide onboard battery charging and vehicle range extension.

Commercial Trucks  
Heavy-duty Vehicles  
Supercars  
Transit Buses  
Delivery Vehicles



## Marine



Provide onboard power, vessel range extension and utilize thermal energy for onboard heating and cooling.

Work Boats  
Cargo Ships  
Commercial Vessels  
Tour Boats



# Examples of New England Area Installations



## Energy Efficiency Healthcare



### Hospital Massachusetts

The C1000 system provides heat and power to the Boston-based hospital 24/7/365. The system will soon approach 40,000 run-time hours.

(1) C1000  
1MW Electricity

Commissioned: 2011



## Energy Efficiency Technology



### Software Company Natick, Massachusetts

Four C65 systems power and cool the new headquarters/data center at this computer software company. System is under FPP through 2023.

(4) C65  
260kW Electricity  
100-Ton Absorption Chiller

Commissioned: 2014



## Critical Power Microgrid



### Utility Software Bloomington, Minnesota

A C600S system forms the backbone of the microgrid at their new headquarters and data center.

(1) C600S  
600kW Electricity  
200-Ton Absorption Chiller

Commissioned: 2017



## Critical Power Data Center



### Data Center Southfield, Michigan

Two C1000 power packages provide power and backup capacity to the growing data center.

(2) C1000 | PP\*  
2MW Electricity

Projected ROI: 3 yrs

Commissioned: 2016



## Critical Power Utility Power/Microgrid



### Island Power Off the Coast of Maine

Four liquid-fueled microturbines are the primary power source for the remote island. The technology was funded by the U.S. Government.

(4) C65  
260kW Electricity

Commissioned: 2016



## Renewable Energy Dairy Plant



### Food Processing Franklin, Massachusetts

Ten combined heat and power (CHP) microturbines utilize digester gas from dairy processing as fuel and captures the hot water in order to heat the digester.

(10) C65  
650kW Electricity

Commissioned: 2014

\*PP – Prime Power

Case Studies can be found on [www.capstoneturbine.com/case-studies](http://www.capstoneturbine.com/case-studies)

Projected ROI estimates are at time of sale



# Examples of Mid-Atlantic Area Installations



## Energy Efficiency Hospitality



### Luxury Hotel Philadelphia, Pennsylvania

Three C65 ICHP units in a combined heat and power (CHP) application provide 100% of the hotel's domestic hot water and 30% of their electrical needs.

**(3) C65 ICHP | GC\***  
195kW Electricity

Projected ROI: 3 yrs

Commissioned: 10/09



## Energy Efficiency Manufacturing



### Boat Manufacturer New Gretna, New Jersey

Six microturbines produce 40% of the facility's on-site electrical energy, providing power and 100% of the heating and chilled water.

**(6) C65 ICHP | GC\***  
390kW Electricity  
(3) 30-Ton Absorption Chillers  
Projected ROI: 7 yrs

Commissioned: 12/12



## Energy Efficiency Manufacturing



### Manufacturer Harrisburg, Pennsylvania

A dual-mode combined cooling, heat and power (CCHP) C1000 provides backup power to the facility manufacturing processes.

**(1) C1000 | DM\***  
1MW Electricity  
300-Ton Absorption Chiller | Heat Exchanger  
Projected ROI: 5.9 yrs

Commissioned: 1/14



## Oil & Gas Onshore O&G



### Compressor Station West Virginia

The natural gas-fueled microturbine is the primary power source generating electricity 24/7. The system was the first C600S commissioned in the world.

**(1) C600S | PP\***  
600kW Electricity

Commissioned: 10/16



## Oil & Gas Onshore O&G



### Gas Gathering Facility West Pennsylvania

Six skid mounted microturbines operate on high Btu wellhead gas. Skid system arrives fully commissioned, reducing installation and startup.

**(6) C65 | DM\***  
390kW Electricity

Commissioned: 4/15



## Critical Power Data Center



### Bank with Data Center Harrisburg, Pennsylvania

A C800 dual-mode system provides combined cooling, heat and power (CCHP) for the LEED gold-certified facility and data center.

**(1) C800 | DM\***  
800kW Electricity  
250-Ton Absorption Chiller | Heat Exchanger  
Projected ROI: 5 yrs

Commissioned: 10/13

\*PP– Prime Power

\*GC– Grid Connect

\*DM – Dual Mode System (Emergency backup power feature)

Case Studies can be found on [www.capstoneturbine.com/case-studies](http://www.capstoneturbine.com/case-studies) | Projected ROI estimates are at time of sale



# Examples of New York Metro Area Installations



## Energy Efficiency Residential



### Residential Complex Bronx, New York

Natural gas-fueled combined heat and power (CHP) microturbine provides primary power and hot water to the multi-family residential complex.

(1) C1000 | DM\*  
1MW Electricity

Projected ROI: 3.5 yrs

Commissioned: 9/16



## Energy Efficiency Healthcare



### Residential Healthcare Wyckoff, New Jersey

Assisted living facility with 292-bed capacity. Four natural gas-fueled microturbines provide combined cooling, heat and power (CCHP) to residents.

(4) C65 | DM\*  
Absorption Chiller  
260kW Electricity

Commissioned: 8/08



## Energy Efficiency Retail



### Retail Wine Store New York, New York

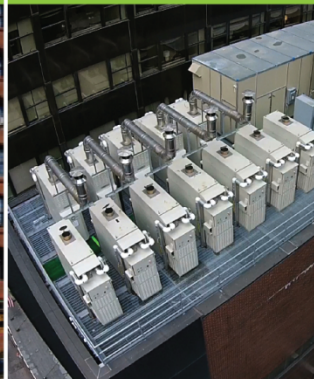
2011 AEE Energy Project winner. Exhaust heat from two microturbines is used to provide 40 tons of chilling year round.

(2) C65 ICHP | GC\*  
40-Ton Absorption Chiller  
130kW Electricity  
Projected ROI: 4 yrs

Commissioned: 12/05



## Energy Efficiency Hospitality



### Luxury Hotel New York, New York

Twelve integrated combined heat and power (ICHP) microturbine array supplies electricity and hot water to the building and also feeds an absorption chiller.

(12) C65 ICHP  
200-Ton York Absorption Chiller  
780kW Electricity  
Projected ROI: 4.5 yrs

Commissioned: 10/13



## Renewable Energy Waste Water Treatment



### WWTP New York, New York

Two microturbines fueled by digester gas and natural gas blend provide power and heat to the waste water treatment plant (WWTP).

(2) C65 ICHP  
130kW Electricity

Projected ROI: 6 yrs

Commissioned: 9/14



## Energy Efficiency Residential



### Residential Complex New York, New York

Four microturbines provide combined heat and power (CHP) to multi-family high rise building. Also feeds into an integrated heating loop for winter months.

(4) C65 ICHP | GC\*  
260kW Electricity

Projected ROI: 4 yrs

Commissioned: 12/10

\*DM – Dual Mode System (Emergency backup power feature)

\*GC – Grid Connect System

Case Studies can be found on [www.capstoneturbine.com/case-studies](http://www.capstoneturbine.com/case-studies)

Projected ROI estimates are at time of sale



# Capstone Strategic Plan



## Three-Pronged Capstone Business Profitability Plan



**Reduce Breakeven from \$160M at 25% GM to \$100M at 25% GM**

**Action:** Reduce business expenses 35% from Q1 FY2016 levels.

**Result:** Achieved 38% reduction in operating expenses in Q3 from the same period last year. Dropped from \$9.9M to \$6.1M - which is a 14 year low.

**Status:** GOAL ACHIEVED

**Comments:** Management plans to focus on continued cost reductions.



**Develop New CHP Focused Products & Accelerate Aftermarket Business**

**Action:** Launch new product focused on Energy Efficiency Markets. Drive FPP and Warranty revenue growth.

**Result:** Launched new Signature Series product in December 2015 and new FPP and Extended Warranty products.

**Status:** GOAL ACHIEVED

**Comments:** New Signature Series is performing well in the field. FPP Contract Backlog has grown 19% over the last 12 months to \$77.2M at Q3FY17.



**Finance Solutions to Capture Orders that were Lost from Lack of Capital**

**Action:** Develop a 30% JV with a high net worth individual to provide PPAs to customers who have lack of capital.

**Result:** Launched Capstone Energy Finance JV in November 2015 and developed \$40M in highly qualified projects.

**Status:** IN PROCESS

**Comments:** Added Sky Solar for additional capital beyond first \$10M. Initial PPAs anticipated in the coming quarters.



# 1. Previous, New and Future Quarterly Business Models



| (In thousands)                            | Previous Business Model | New Business Model | Future Business Model |
|-------------------------------------------|-------------------------|--------------------|-----------------------|
| Microturbine Product Revenue              | \$35,000                | \$15,000           | \$25,000              |
| Accessories, Parts & Service Revenue      | \$5,000                 | \$10,000           | \$15,000              |
| <b>Total Revenue</b>                      | <b>\$40,000</b>         | <b>\$25,000</b>    | <b>\$40,000</b>       |
| Cost of Good Sold                         | \$30,000                | \$19,200           | \$26,250              |
| <b>Gross Margin</b>                       | <b>\$10,000</b>         | <b>\$5,800</b>     | <b>\$13,750</b>       |
| <b>Gross Margin (percent)</b>             | <b>25%</b>              | <b>23%</b>         | <b>34%</b>            |
| Research & Development Expense            | \$2,900                 | \$1,300            | \$1,500               |
| Selling, General & Administrative Expense | \$7,100                 | \$4,500            | \$5,200               |
| <b>Total Operating Expenses</b>           | <b>\$10,000</b>         | <b>\$5,800</b>     | <b>\$6,700</b>        |
| <b>EBITDA</b>                             | <b>\$0</b>              | <b>\$0</b>         | <b>\$7,050</b>        |
| <b>EBITDA (margin)</b>                    | <b>—</b>                | <b>—</b>           | <b>18%</b>            |

**Growing High Margin Service Business Drives Profitability**

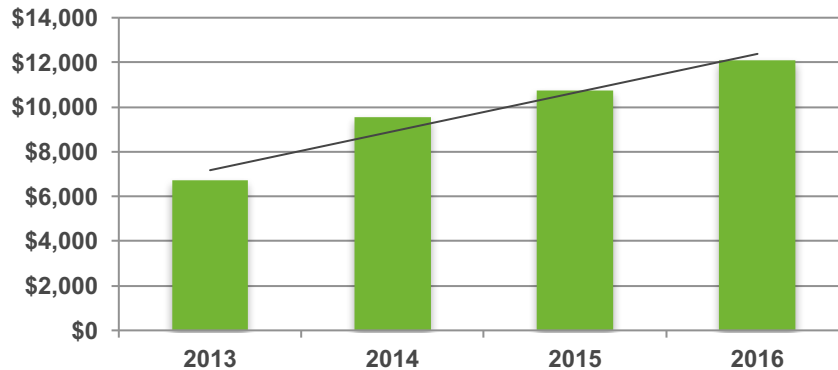


# 2. Aftermarket Service Growth



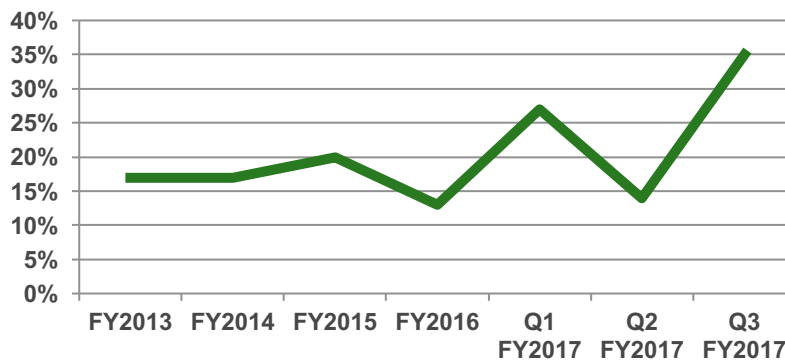
## Service Revenue

(Amounts in thousands)

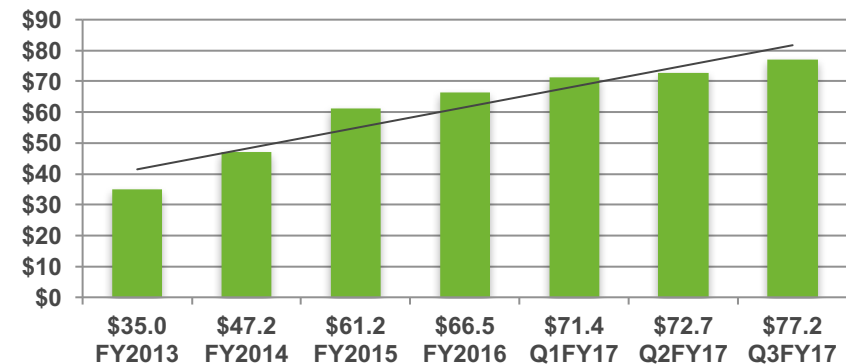


New Signature Series Product Lineup

## Service Gross Margin



## FPP Service Backlog (\$M)



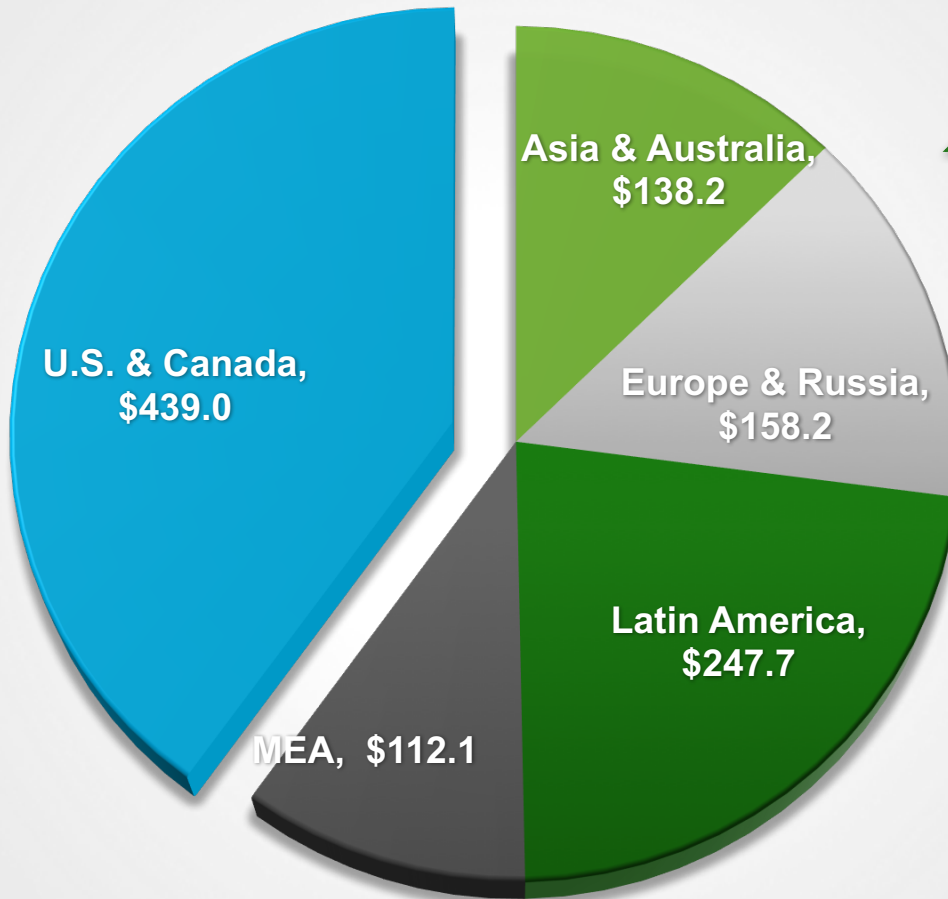
50% Service Gross Margins Initially Impacted by Early Stage Product Reliability



## 3A. Sales Pipeline by Region



Q3 FY17



**Pipeline Up**  
**\$172M**  
from Q2FY17

Source: Capstone distributors via Salesforce as of December 31, 2016  
Amounts in millions

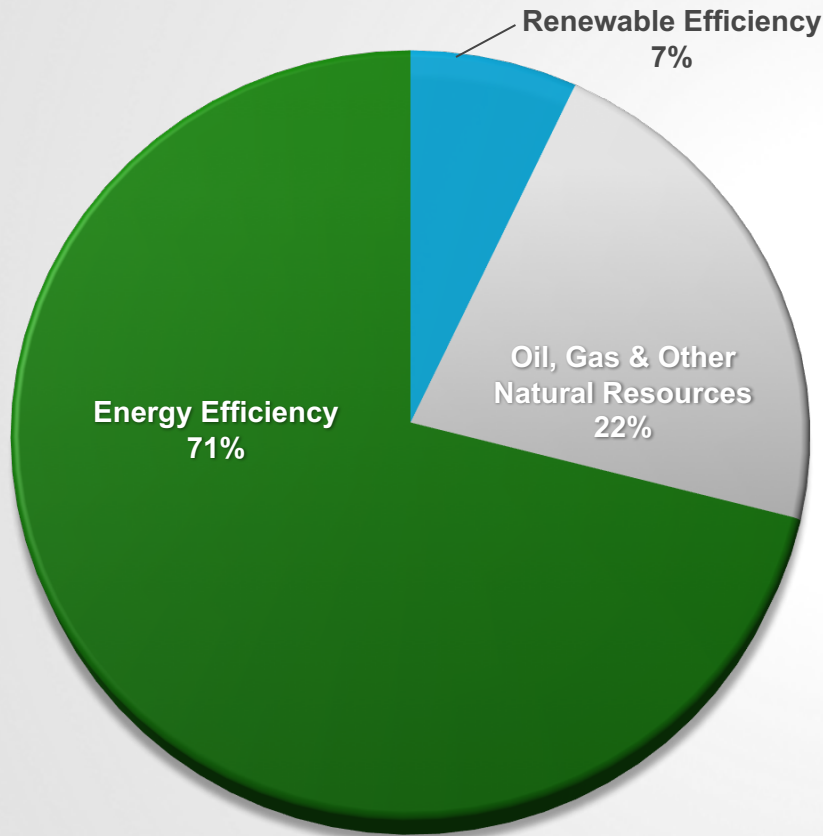
**12 Month Diversified Project Pipeline of \$1.1 Billion**



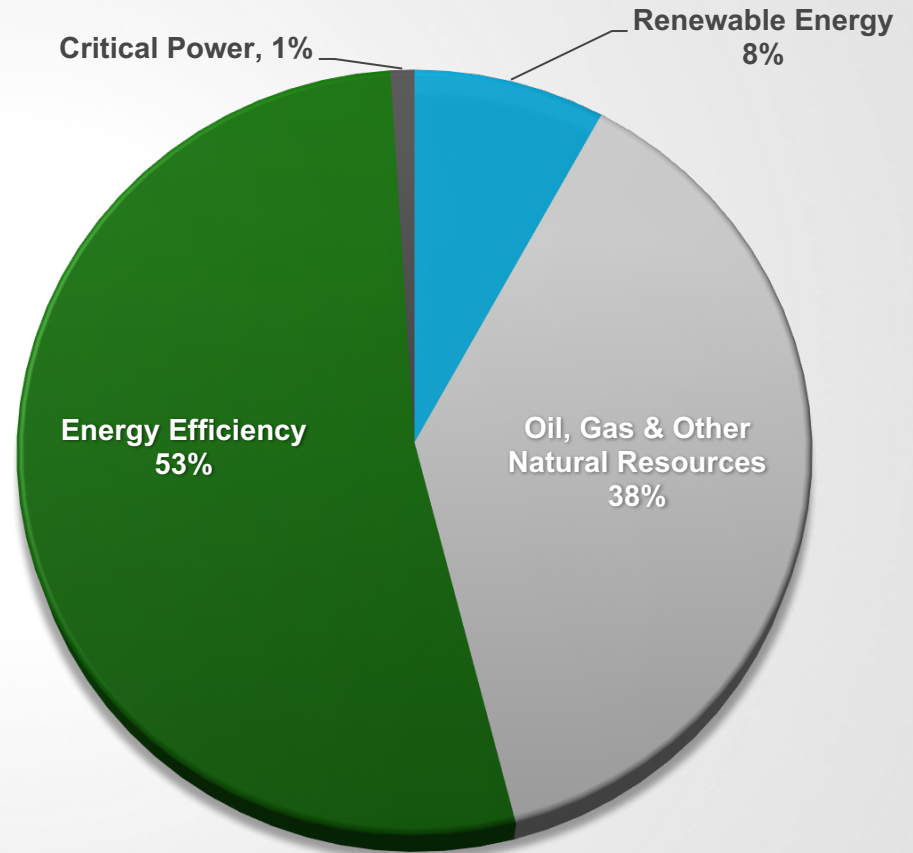
## 3B. Product Shipments by Vertical Market



Q3 FY16



Q3 FY17



**Record Energy Efficiency as a Percentage of Sales**  
**Goal is 40%-40%-20%**



# Appendix

## Additional Information

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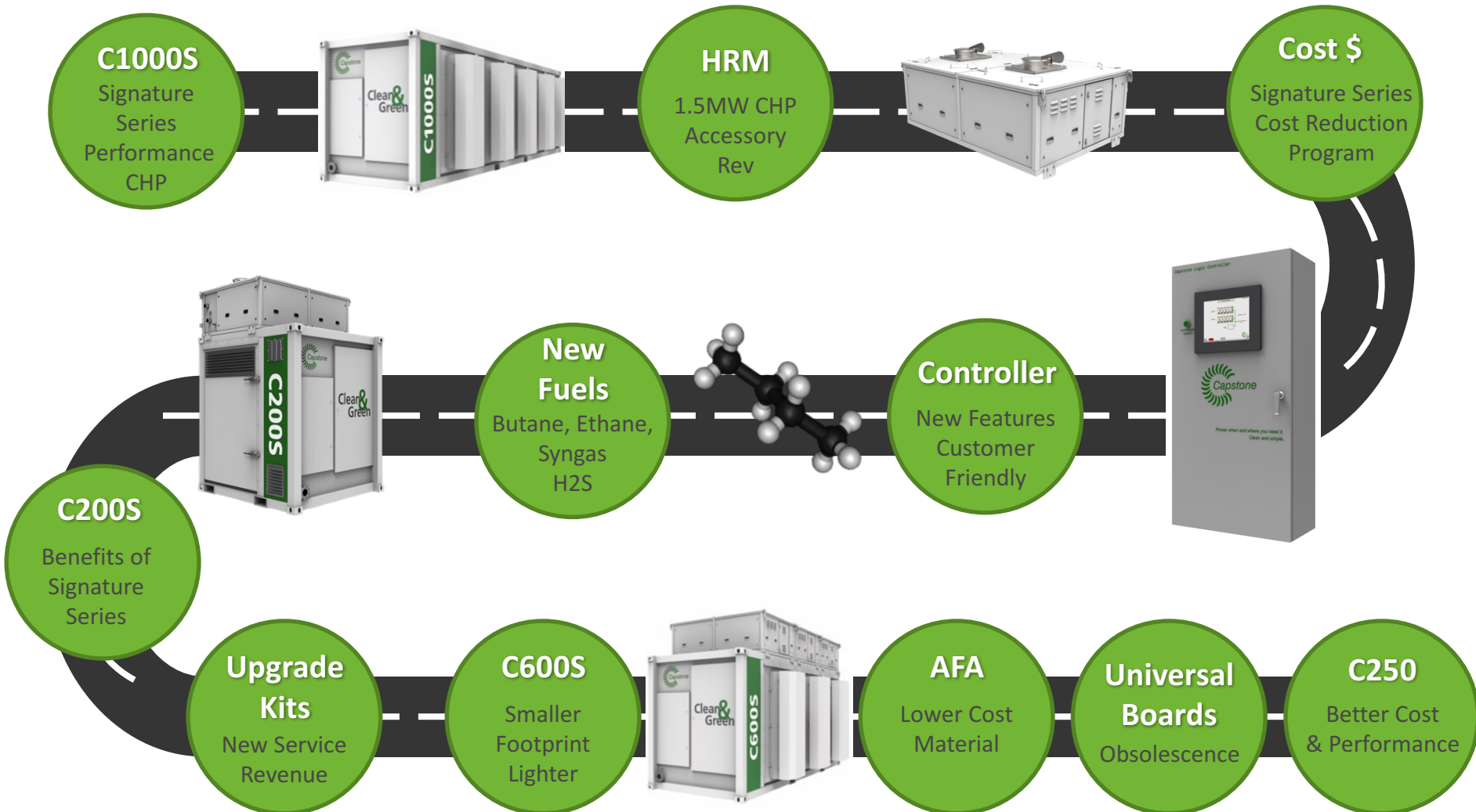
Reliable power when and where you need it.  
Clean and simple.



# Research & Development



## Capstone Product Development Roadmap





# 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.

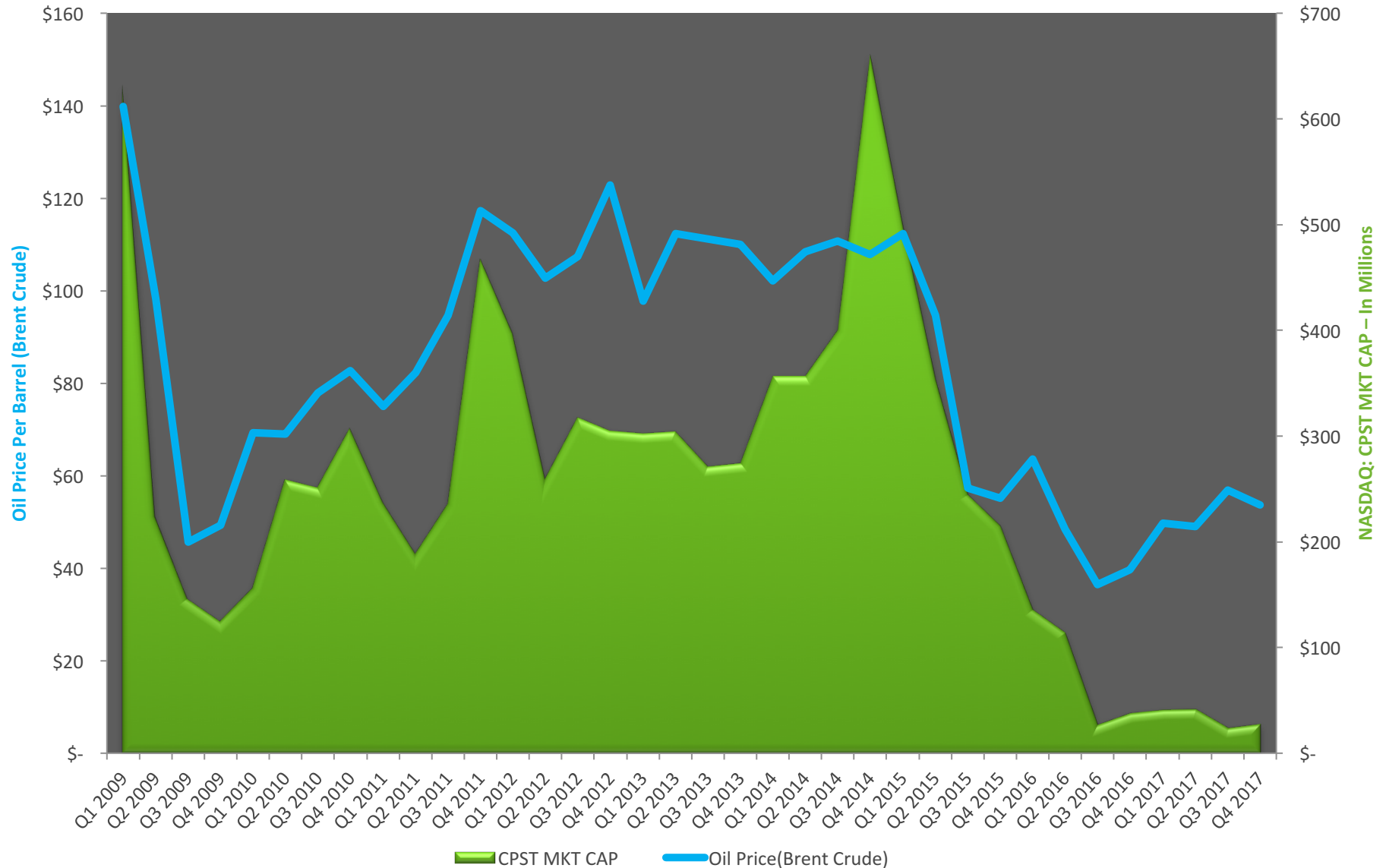


- Signed agreement with Sky Capital (subsidiary of Sky Solar Group) to provide up to \$150M in project financing.
- Distributors lost approximately \$42M in FY16 and over \$50M in FY15 due to lack of financing options.

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



# Market Cap of CPST vs. Oil Price (Brent Crude)





**NASDAQ: CPST**

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**[www.capstoneturbine.com](http://www.capstoneturbine.com)**