



Third Quarter Fiscal Year 2017 Earnings Call February 9, 2017

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.



Financial Highlights of Fiscal 2017 Third Quarter



- Total revenue increased 35% to \$20.2 million for the third quarter of fiscal 2017 from \$15.0 million for the second quarter of fiscal 2017.
- FPP Service revenue for the quarter was approximately \$3.7 million with a 35% gross margin.
- Operating expenses continued to drop and were down \$300,000 or 5% from the prior quarter and \$3.8M or 38% from the same period a year ago.
- Cash usage, excluding net proceeds from equity issuances, decreased 56% over the prior quarter.
- Cash and cash equivalents, including restricted cash, increased \$3.3 million in the third quarter to \$19.4 million as of December 31, 2016
- Inventories dropped \$2.5 million quarter over quarter as the company reduced on-hand finished goods inventory.
- Accounts payable and accrued expenses were \$12.1 million compared with \$21.4 million at the end of the third quarter fiscal 2016.
- The company booked new net product orders of approximately \$11.5 million during the third quarter, for a 0.9:1 book-to-bill ratio, compared with \$8.9 million of product net orders received and booked during the prior quarter, which was a 1.1:1 book-to-bill ratio.
- FPP long-term service contract backlog has grown approximately 19% over the last 12 months and achieved record levels of approximately \$77.2 million, despite lower product sales as our energy efficiency customers are entering into service agreements at a higher rate than oil and gas end users.
- Russian business continues to go well as BPC was up to 16% of our revenue during the quarter, compared to 1% for the same period a year ago.



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 CHP or Energy Efficiency Markets. Drive FPP and Extended 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 Backlog business has grown 19% over the last 12 months to \$77.2M.



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.



Q3FY17 Financial Results



	Q3FY17	Q2FY17	Q3FY16
Product Revenue	\$12,817	\$8,203	\$14,797
Accessories & Parts Revenue	\$3,723	\$3,315	\$3,442
Service Revenue	\$3,645	\$3,480	\$3,220
Total Revenue	\$20,185	\$14,998	\$21,459
Gross Margin (Loss)	\$(3,999)	\$670	\$4,051
Gross Margin (percent)	-20%	5%	19%
R&D Expenses	\$1,282	\$1,350	\$2,905
SG&A Expenses	\$4,848	\$5,036	\$7,002
Total Operating Expenses	\$6,130	\$6,386	\$9,907
Net Loss	\$(8,909)	\$(5,865)	\$(6,015)
Less Warrant Liability Benefit	\$1,777	—	—
Adjusted Net Loss	\$(10,686)	\$(5,865)	\$(6,015)
Basic Loss Per Share	\$(0.26)	\$(0.19)	\$(0.34)
Adjustment to Basic Loss per Share for Warrant Liability Benefit*	\$0.05	—	—
Adjusted Basic Loss Per Share*	\$(0.31)	\$(0.19)	\$(0.34)

*See Appendix, Slide 15



Q3FY17 Financial Results



(In thousands)	December 31, 2016	September 30, 2016	December 31, 2015
Cash & Cash Equivalents, Including Restricted Cash	\$19,370	\$16,112	\$18,470
Cash (used in) provided by Operating Activities	\$(5,583)	\$(7,824)	\$2,564
Accounts Receivable, Net of Allowances	\$13,213	\$12,750	\$13,851
Inventories	\$16,681	\$19,227	\$22,718
Accounts Payable & Accrued Expenses	\$12,126	\$12,087	\$21,351
Total Product Backlog	\$107,800	\$109,100	\$102,300
Total FPP Service Contract Backlog	\$77,200	\$72,700	\$64,700



How Capstone is Close to EBITDA Breakeven



1

Quarterly operating expenses are the lowest since March 2003 and down 38% versus same period a year ago – *and we continue to do more!*

2

Aftermarket service recurring revenue continues to expand and margin is at 35% on the way to a target of 50%.
FPP Backlog business up 19% in last 12 months.

3

Product revenue is rebounding with improved geographical diversification and growth in the energy efficiency market, which are key to achieving our diversification goals.

4

Recovering oil prices and rebounding Russia business driving future revenue growth and recovery of bad debt from BPC. \$1.5M recovered and \$6.5M remaining as of Dec. 31, 2016.

5

New Signature Series exceeding customer expectations and new Capstone Energy Finance business poised to spur additional growth with repeat customers.

Dramatically lower operating costs combined with an expanding service business, makes the company less reliant on unpredictable product shipments to generate positive EBITDA.



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
Total Revenue	\$40,000	\$25,000	\$40,000
Cost of Good Sold	\$30,000	\$19,200	\$26,250
Gross Margin	\$10,000	\$5,800	\$13,750
Gross Margin (percent)	25%	23%	34%
Research & Development Expense	\$2,900	\$1,300	\$1,500
Selling, General & Administrative Expense	\$7,100	\$4,500	\$5,200
Total Operating Expenses	\$10,000	\$5,800	\$6,700
EBITDA	\$0	\$0	\$7,050
EBITDA (margin)	—	—	18%

Projected Operating Expenses Down 42%

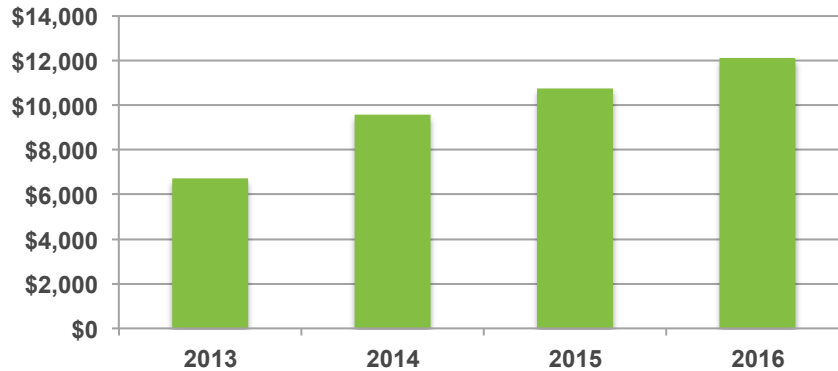


2. Aftermarket Service Growth



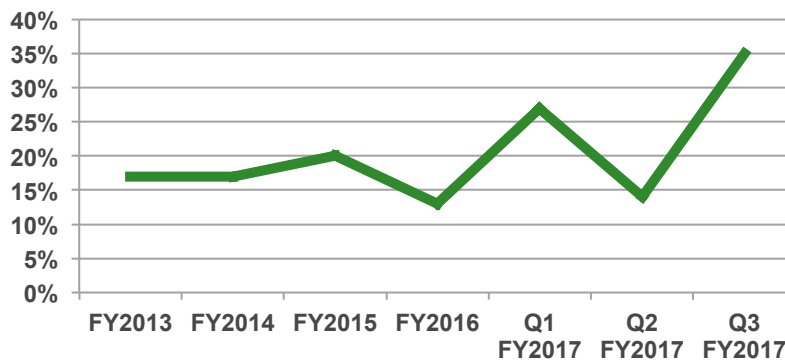
Service Revenue

(Amounts in thousands)

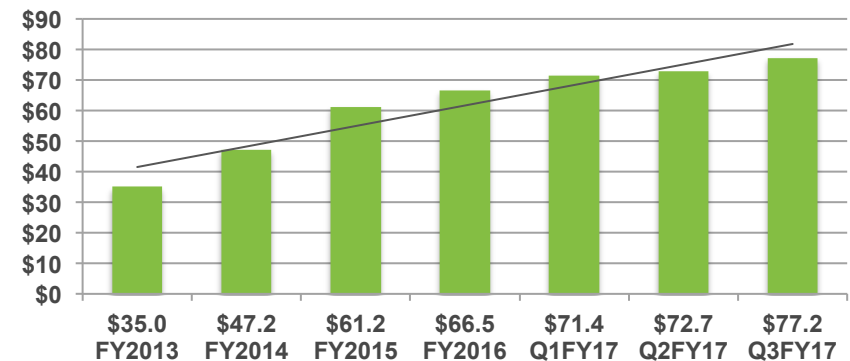


New Signature Series Product Lineup

Service Gross Margin



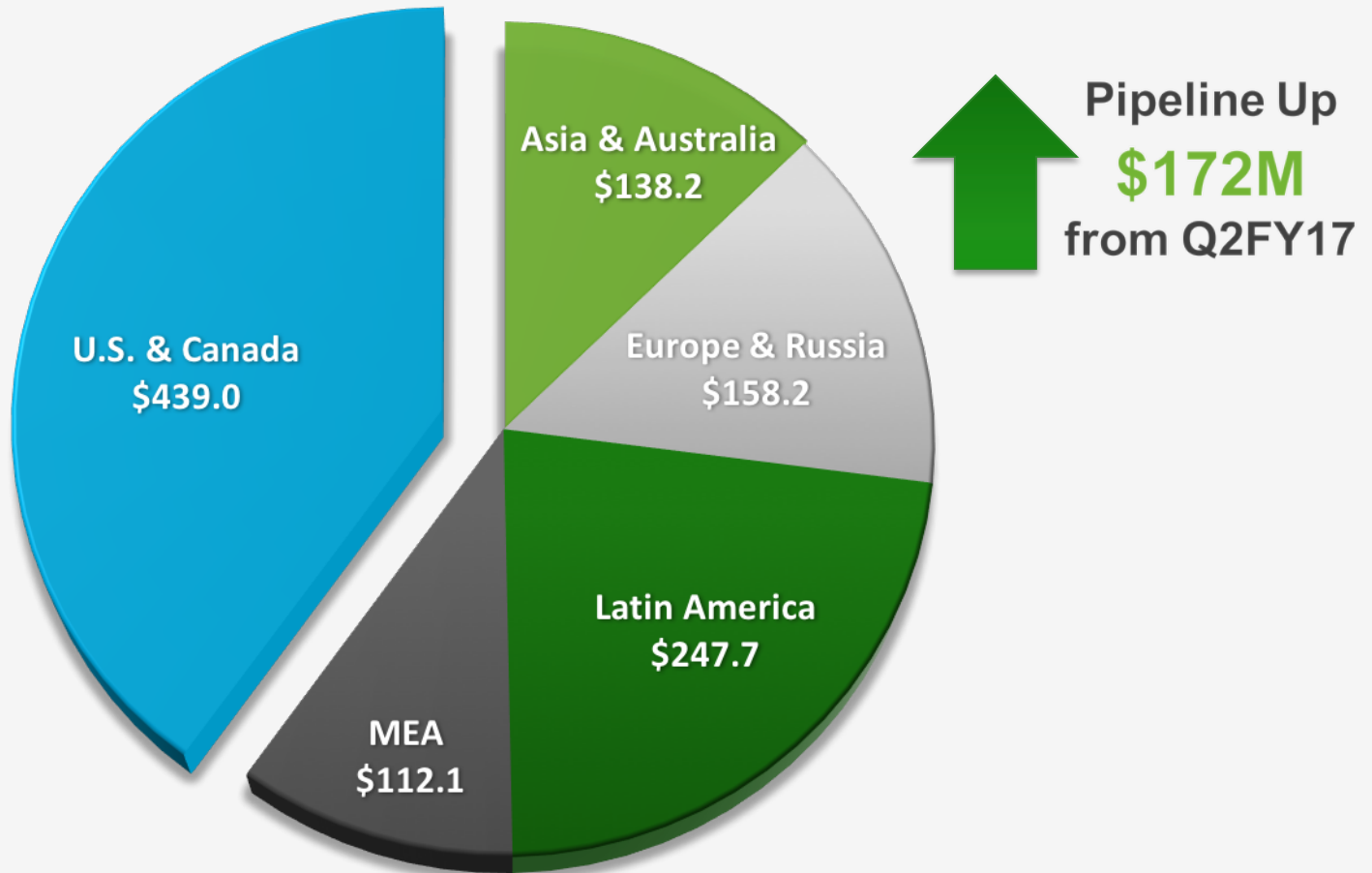
FPF Service Backlog (\$M)



Improving Margin and Record FPP Backlog



3. Sales Pipeline by Region



Source: Capstone distributors via Salesforce
Amounts in millions

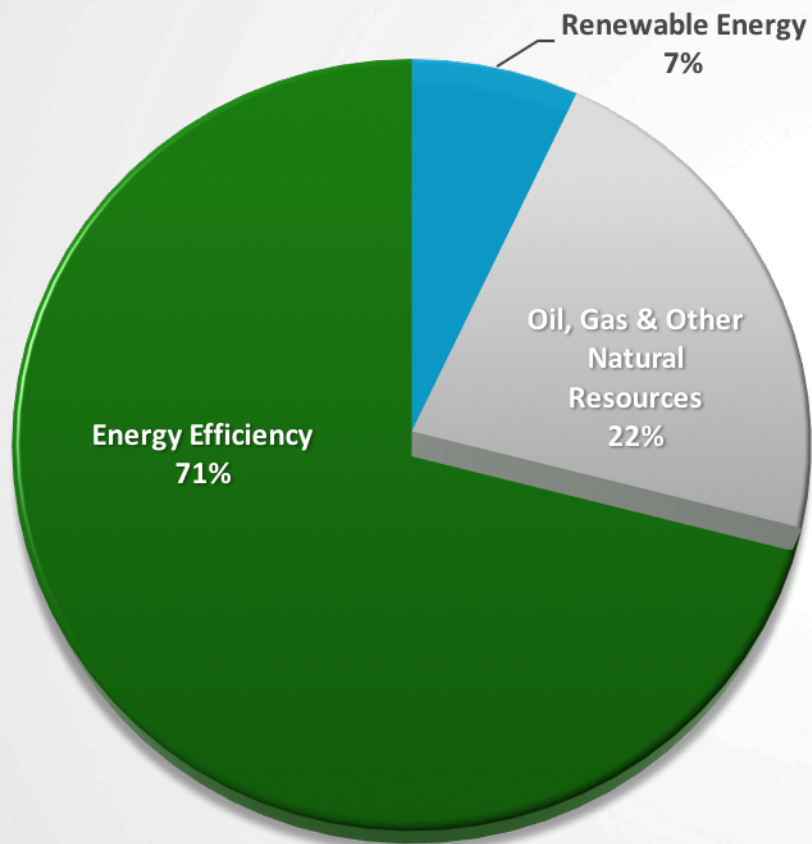
12 Month Diversified Project Pipeline of \$1.1 Billion



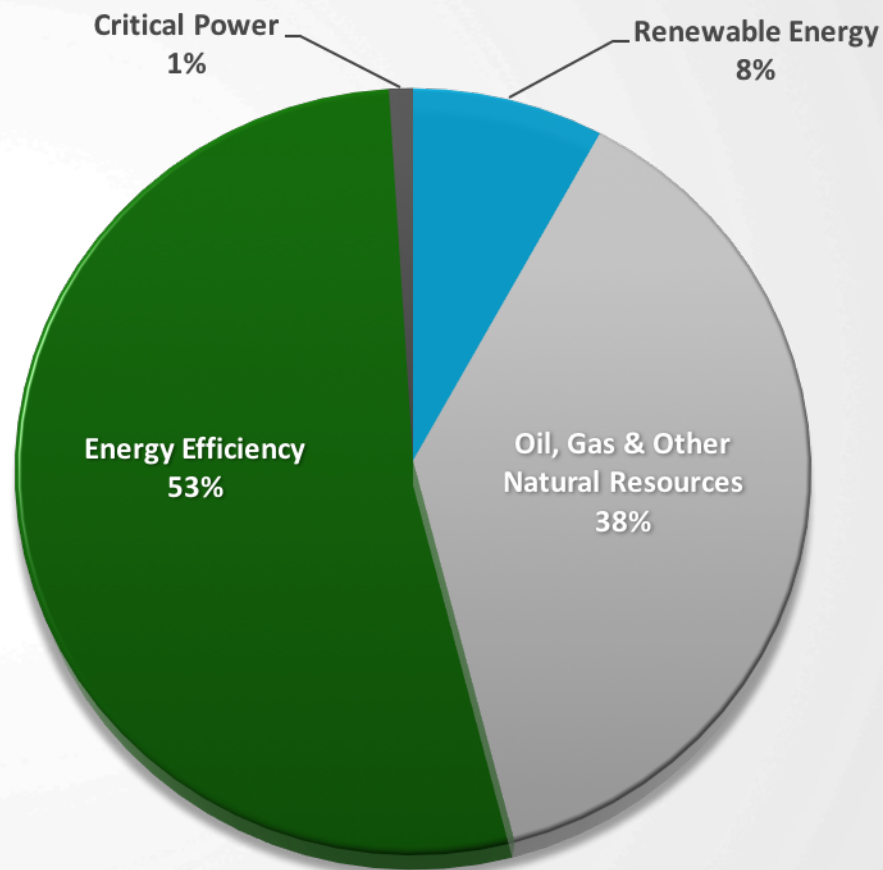
3. Product Shipments by Vertical Market



Q3 FY16



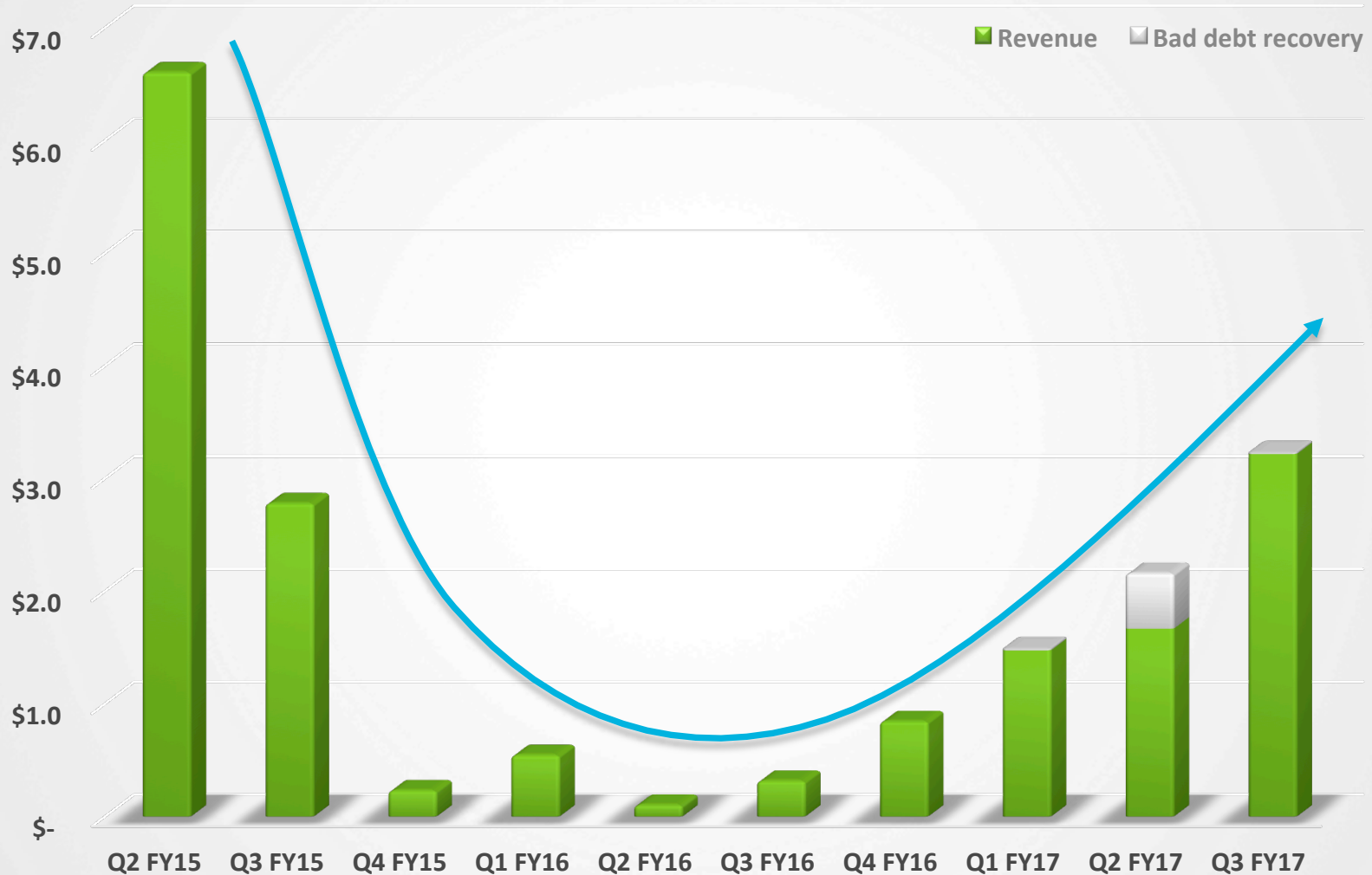
Q3 FY17



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



4. BPC Sales Recovery



BPC Business Analysis
Amounts in millions

Rebounding Russian Business - \$1.5M in Bad Debt Recovery to Date



5. New C1000 Signature Series



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



California Oil Producer, Commissioned December 2016

The associated gas-fueled unit operates using the onsite associated gas to relieve the flaring requirement for the offshore platform.



Cervinia, Italy, Commissioned November 2016

Produces power and superheated water at over 80% efficiency for a local district heating facility in Northwest Italy. The 1MW unit works in dual mode, which allows customers to operate independently of, or with, the grid in a load sharing capacity.

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

New Product Focus on Energy Efficiency/CHP Market



APPENDIX

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



Warrant Liability Reconciliation



	Q3FY17			Q3FY16	
(in thousands except per share amounts)	Net Loss	EPS Basic	EPS Diluted	Net Loss	EPS Basic & Diluted
Net Loss & EPS as Reported (GAAP)	\$(8,909)	\$(0.26)	\$(0.28)	\$(6,015)	\$(0.34)
(Subtract) Add: Change in Warrant Liability	\$(1,777)	\$(0.05)	\$(0.05)	—	—
Net Loss & EPS Excluding Warrant Liability	\$(10,686)	\$(0.31)	\$(0.33)	\$(6,015)	\$(0.34)

	Nine Months FY17		Nine Months FY16	
(in thousands except per share amounts)	Net Loss	EPS Basic & Diluted	Net Loss	EPS Basic & Diluted
Net Loss & EPS as Reported (GAAP)	\$(19,291)	\$(0.63)	\$(19,872)	\$(1.17)
(Subtract) Add: Change in Warrant Liability	\$(1,777)	\$(0.06)	—	—
Net Loss & EPS Excluding Warrant Liability	\$(21,068)	\$(0.69)	\$(19,872)	\$(1.17)



NASDAQ: CPST

www.capstoneturbine.com