

# Q2 2017 Earnings Call

August 1, 2017

Broadwind® ENERGY

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- This presentation contains non-GAAP financial information. We believe that certain non-GAAP financial measures may provide users of this financial information with meaningful comparisons between current results and results in prior operating periods. We believe that these non-GAAP financial measures can provide additional meaningful reflection of underlying trends of the business because they provide a comparison of historical information that excludes certain infrequently occurring or non-operational items that impact the overall comparability. Non-GAAP financial measures should be viewed in addition to, and not as an alternative to, our reported results prepared in accordance with GAAP. Please see our earnings release dated August 1, 2017 for a reconciliation of certain non-GAAP measures presented in this presentation.

# Highlights

- Jason Bonfigt named Chief Financial Officer and Treasurer
- Q2 results consistent with guidance
- Q2 revenue flat compared to prior year – lower tower sales volumes offset by added Red Wolf sales
- Tower manufacturing productivity gains and cost efficiencies drive higher segment earnings despite lower near-term demand
- BWEN markets mixed:

| BWEN Markets | Trend | Comments |
|---|---|---|
| Towers | ↓ | lull after PTC qualification, medium term strong |
| Gears | ↑ ↑ | oil & gas recovery, mining trending higher |
| Gas Turbines | ↘ | down modestly |
| CNG | ↔ | remains weak |

- Diversification/growth strategy gaining traction

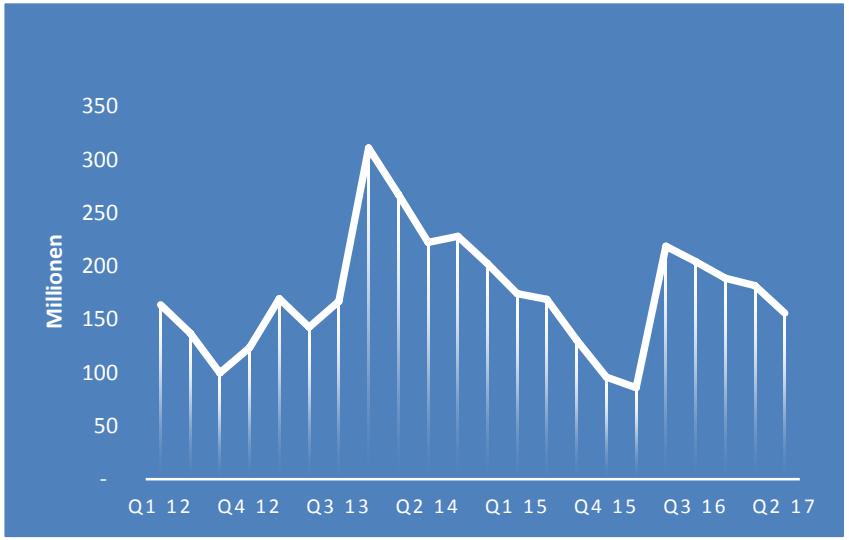
# Orders and Backlog

## Orders – $M

| | Q2 2016 | Q2 2017 | YTD 2016 | YTD 2017 | YTD 2017 Book: Bill |
|---|---|---|---|---|---|
| Towers & Weldments | 170.6 | 1.5 | 206.1 | 30.6 | .37 |
| Gearing | 5.6 | 11.6 | 9.1 | 19.0 | 1.91 |
| Process Systems | n/a | 4.4 | n/a | 8.1 | 1.29 |
| **Total** | **176.2** | **17.6** | **215.2** | **57.6** | **.58** |

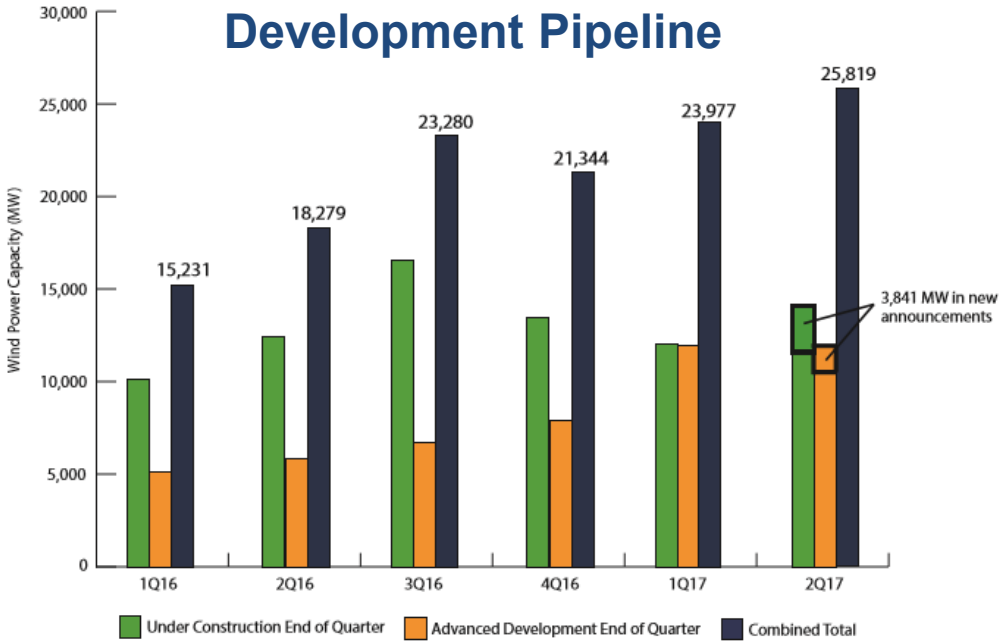
- No tower orders in Q2 – soft near-term demand
- Strong Gearing orders from oil & gas and industrial customers
- Process Systems includes Red Wolf and CNG

## Backlog – $M

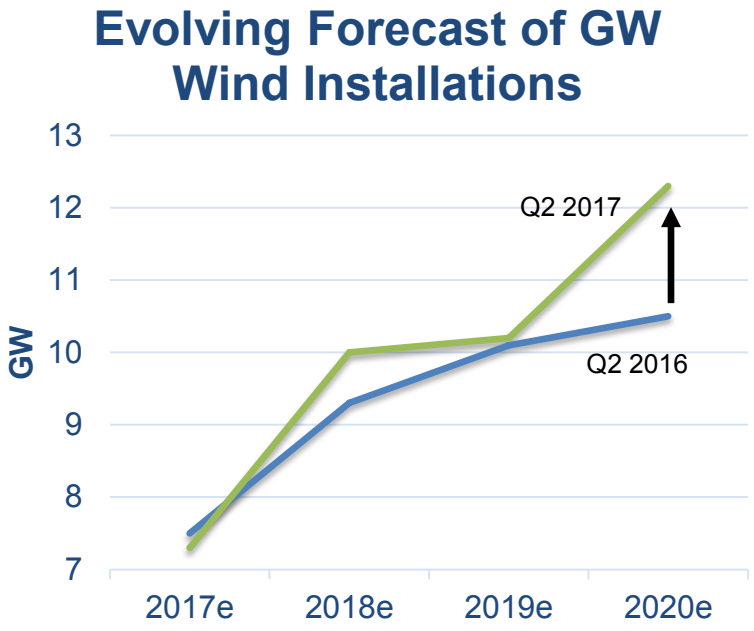



- 6/30/17 backlog $156M
- Industry slowdown in new order intake after PTC qualification boom

# Wind Market Update



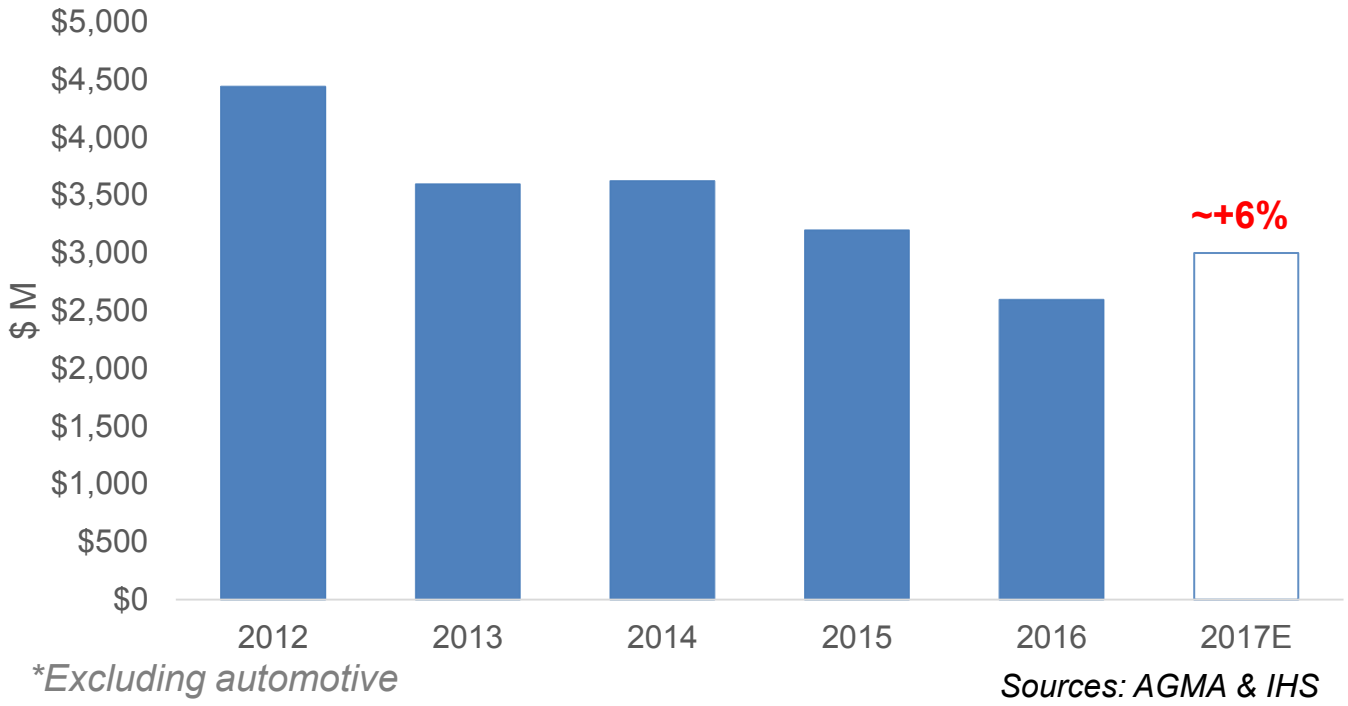

*Source: AWEA Q2 2017 Market Report*




*Source: MAKE Global Wind Market Outlook Update*

**4 year forecast upgraded 6% through 2020 but skewed to later years**

# U.S. Gearing Production

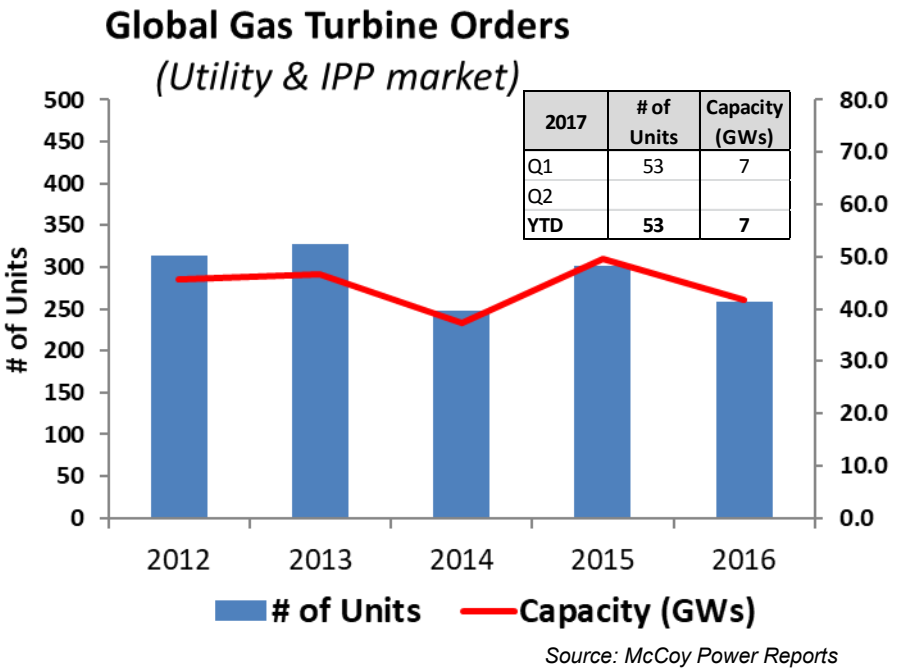



*Excluding automotive

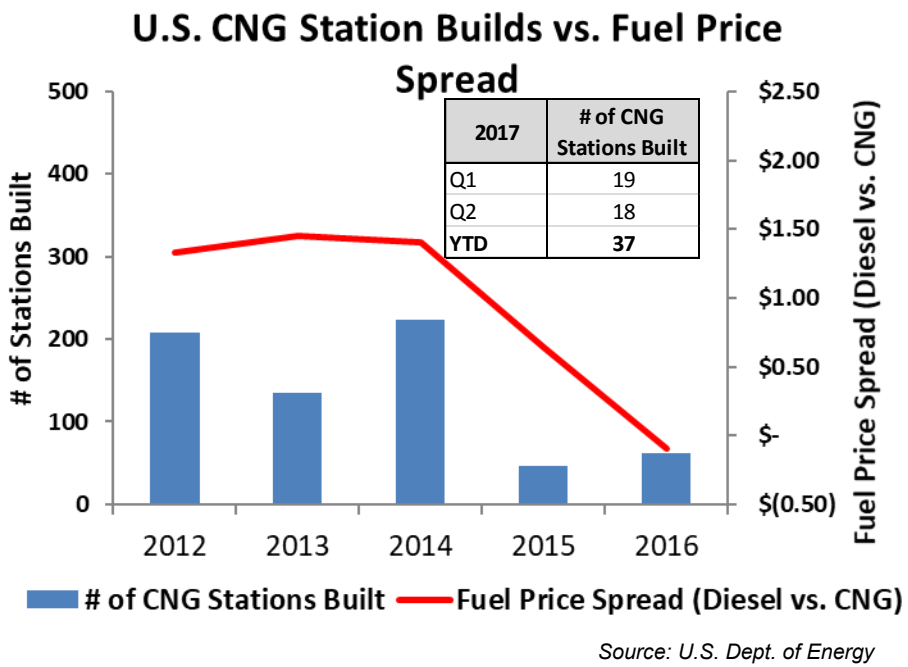
Sources: AGMA & IHS

- American Gear Manufacturers Association raised their forecast for second consecutive reporting period in April
- Outlook reflects recovery in U.S. oil & gas market and weaker USD
- Early signs of recovery in mining markets should support 2H order growth

# Natural Gas Market Indicators




Source: McCoy Power Reports




Source: U.S. Dept. of Energy

- Red Wolf starting to see recovery in orders for gas turbine aftermarket – expect stronger 2H order intake
- Declining price spread between diesel and natural gas has resulted in less CNG station builds
- BWEN Process Systems has gained some traction in virtual CNG pipeline business

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# BWEN Consolidated Financial Results

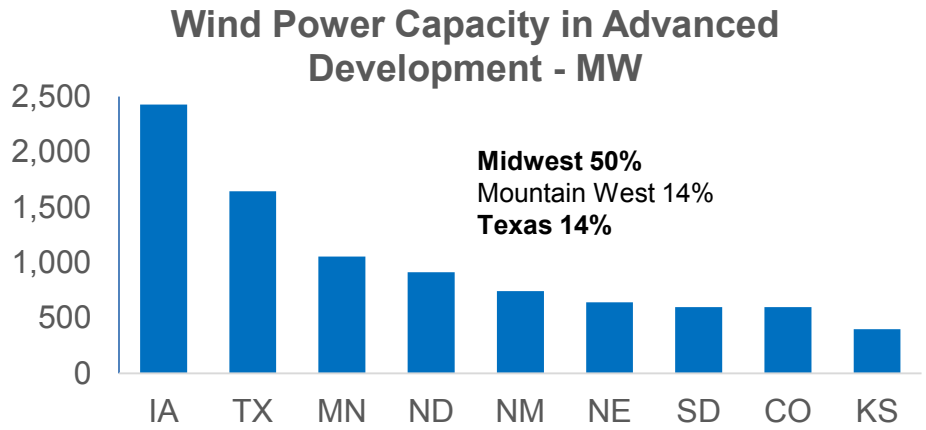
| | Q2 16 | Q2 17 | YTD 16 | YTD 17 |
|---|---|---|---|---|
| **Total Sales** | $ 43.4 | $ 43.4 | $ 90.1 | $ 99.4 |
| **Gross Profit** | 4.1 | 3.9 | 8.1 | 10.2 |
| ***Gross Profit %*** | *9.5%* | ***8.9%*** | *9.0%* | ***10.3%*** |
| **Total Operating Expense** | 4.0 | 4.4 | 8.1 | 9.2 |
| **Income from Operations** | 0.2 | (0.5) | (0.0) | 1.1 |
| ***% of Sales*** | *0.4%* | ***(1.2%)*** | *(6.0%)* | ***1.1%*** |
| **Adj. EBITDA** | 2.1 | 2.0 | 3.9 | 5.9 |
| ***% of Sales*** | *4.9%* | ***4.5%*** | *4.3%* | ***5.9%*** |
| **EPS, Continuing** | (0.00) | (0.05) | (0.0) | 0.38 |
| *$M except as noted otherwise* | | | | |

- Q2 17 sales even with Q1 17; Towers and Weldments - 10%, Gearing +13%, Process Systems added 7%
- Gross Margin, profit and EBITDA all slightly lower due mainly to Process Systems operating loss
- EPS loss of $.05 due to addition of amortization expenses associated with acquisition of Red Wolf

# Towers and Weldments

| | Q2 2016 | Q2 2017 | YTD 2016 | YTD 2017 |
|---|---|---|---|---|
| Orders ($M) | 170.6 | **1.5** | 206.1 | **30.6** |
| Towers Sold (#) | 108 | **88** | 226 | **221** |
| Revenue ($M) | 38.0 | **34.3** | 80.0 | **83.2** |
| Operating Income ($M) | 2.7 | **2.8** | 6.0 | **8.6** |
| -% of Sales | 7.2% | **8.2%** | 7.5% | **10.4%** |
| EBITDA* ($M) | 3.9 | **3.9** | 8.1 | **10.9** |
| - % of Sales | 10.2% | **11.2%** | 10.2% | **13.1%** |

* Reconciliation to non-GAAP measure included in Appendix




Source: AWEA 2Q 2017 Market Report

## Q2 Results

- Orders down significantly – Q2 16 included multi-year framework agreement
- Towers sold -19% vs. Q2 16 – slowdown in new orders after PTC qualification boom in Q4 16
- Operating income slightly higher on lower revenue – improved production mix, high labor productivity and successful cost reduction initiatives
- YTD EBITDA margin 13.1%

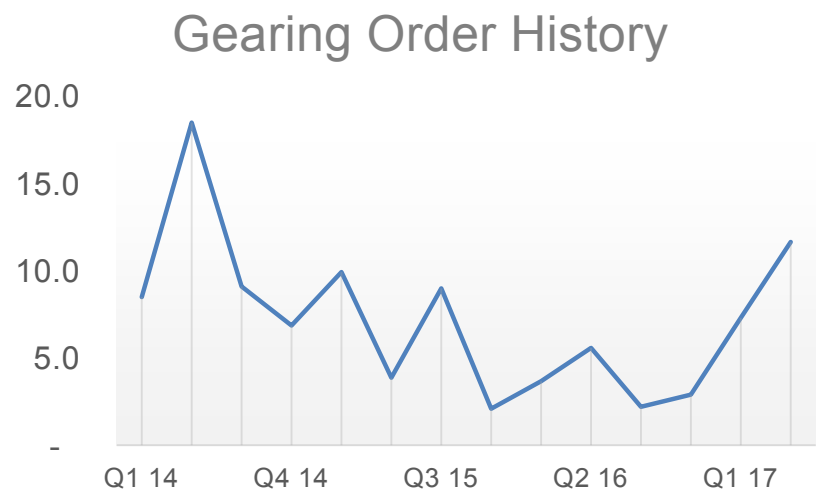
## 2017 Objectives

- Aggressive cost management in response to soft demand
- Complete capital investments to provide better production flexibility
- Diversify Tower customer base

# Gearing

| | Q2 2016 | Q2 2017 | YTD 2016 | YTD 2017 |
|---|---|---|---|---|
| Orders ($M) | 5.6 | 11.6 | 9.1 | 19.0 |
| Revenue ($M) | 5.4 | 6.1 | 10.2 | 9.9 |
| Operating Loss ($M) | (1.2) | (0.6) | (2.4) | (2.2) |
| EBITDA* ($M) | (0.5) | 0.0 | (1.0) | (0.9) |

* Reconciliation to non-GAAP measure included in Appendix




## Q2 Results

- Orders up significantly – oil & gas and industrial
- Revenue up 13% - strong sales to oil & gas customers
- Operating loss cut in half – increased volume, productivity and absence of severance
- EBITDA positive

## 2017 Objectives

- Leverage expanded sales resources to improve capacity utilization
- Continue cross-training to improve labor productivity
- Continue aggressive cost management
- Positive EBITDA for 2017—trending to positive Operating Income
- Continue rationalization of manufacturing footprint

# Process Systems

| | Q2 2016 | Q2 2017 | YTD 2016 | YTD 2017 |
|---|---|---|---|---|
| Orders ($M) | n/a | 4.4 | n/a | 8.1 |
| Revenue ($M) | n/a | 3.0 | n/a | 6.3 |
| Operating Loss ($M) | n/a | (1.1) | n/a | (1.9) |
| EBITDA* ($M) | n/a | (0.6) | n/a | (1.1) |

* Reconciliation to non-GAAP measure included in Appendix



## Q2 Results

- Process Systems includes Abilene-based CNG, and Red Wolf as of Feb 1, 2017
- Q2 Orders predominantly Red Wolf $4.1M
- Revenue reflects $1M customer imposed shipping curtailments at quarter-end
- No CNG units completed in Q2

## 2017 Objectives

- Seamless integration of Red Wolf into BWEN
- Build momentum on CNG business
- Grow Red Wolf business by expanding customer base and entering new markets

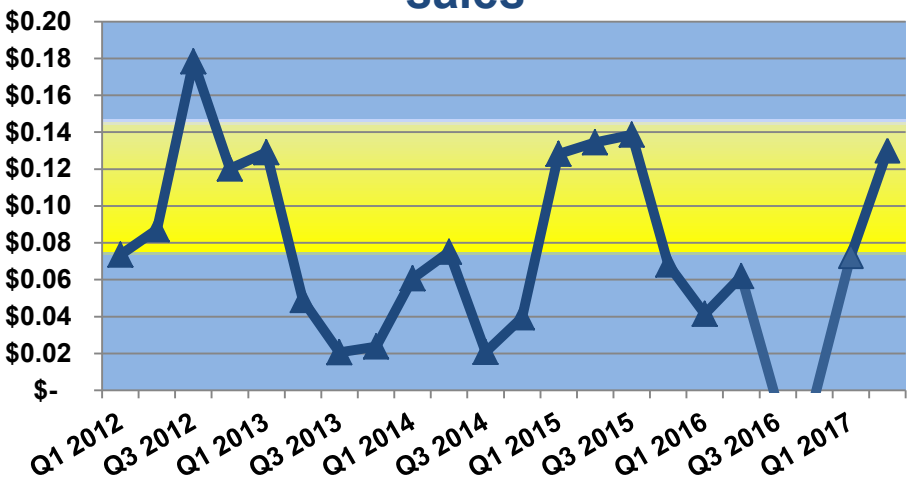
# Operating Working Capital (OWC)

## OWC* Management

| | 12/31/16 | 3/31/17 | 6/30/17 |
|---|---|---|---|
| DSO | 22 | 39 | 45 |
| Inv. Turns | 8.2 | 7.7 | 7.4 |
| DPO | 33 | 36 | 34 |
| Cash Conv. (days) | 0 | 28 | 50 |

*Operating Working Capital = Trade A/R + Inventories – Trade Payables – Customer Deposits

## OWC* Historical Trend – cents/$ sales

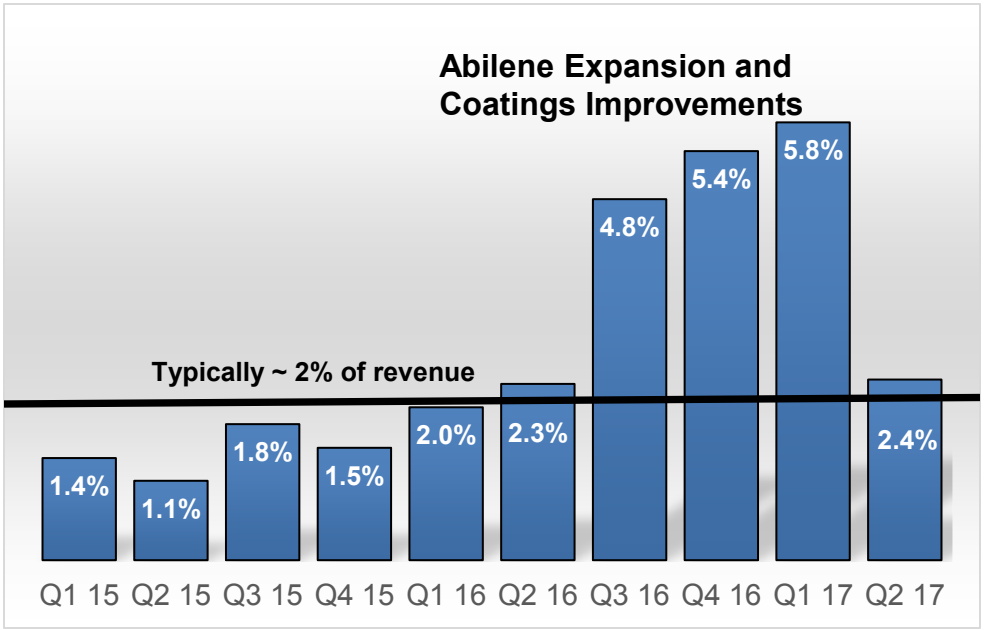



- Q2 OWC back in “normal” range -- $.13/ dollar sales
- OWC increase driven by roll-off of customer deposits and timing of receipts
- 2H 17 OWC expected to decrease as receivables and inventory decrease related to lower tower production, partially offset by Gearing and Red Wolf

# Balance Sheet and Capital Expenditures

| (In Millions) | 12/31/2016 | 3/31/2017 | 6/30/2017 |
|---|---|---|---|
| Cash Assets | $ 21.9 | $ 0.3 | **$ 0.2** |
| Accounts Receivable | 11.9 | 23.7 | **21.5** |
| Inventory | 21.2 | 25.8 | **21.3** |
| PPE | 54.6 | 56.0 | **57.4** |
| Other | 8.1 | 25.9 | **24.6** |
| ***Total Assets*** | *117.7* | *131.7* | **125.0** |
| Accounts Payable | 15.9 | 19.5 | **14.6** |
| Customer Deposits | 18.0 | 13.6 | **5.2** |
| Debt + Cap. Leases | 4.1 | 10.5 | **19.1** |
| Other | 11.1 | 13.0 | **11.5** |
| ***Total Liabilities*** | *49.1* | *56.6* | **50.4** |
| ***Equity*** | *68.6* | *75.1* | ***74.6*** |

## Cap Ex- % of Revenue




- PrivateBank $25M line of credit had $13.7M drawn at quarter-end
- Capex declines as Abilene expansion and other tower plant improvements complete
- FY capex estimate ~$7M-8M

# 2017 Guidance and Priorities

- Q3 Guidance: Revenue $30M, EBITDA $1M, EPS ($.15 - .17)
- Q4 outlook highly uncertain due to changes in tower procurement and engineering practices

## Second Half Priorities

- Navigate through the impact of near-term tower inventory correction
- Progress growth/diversification strategy
  - Commission Abilene plant expansion
  - Add machining capabilities for weldments
  - Red Wolf market expansion initiatives
  - Controlled Gearing revenue growth to achieve profitability
  - Evaluate bolt-on acquisitions

# Appendix

| Consolidated | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2017 | 2016 | 2017 | 2016 |
| Net Income/(Loss) from continuing operations | $ (688) | $ 42 | $ 5,794 | $ (316) |
| Interest Expense | 217 | 152 | 356 | 306 |
| Income Tax Provision/(Benefit) | (16) | (8) | (5,034) | (16) |
| Depreciation and Amortization | 2,203 | 1,787 | 4,304 | 3,443 |
| Share-based Compensation and Other Stock Payments | 241 | 174 | 462 | 433 |
| Restructuring Expense | - | - | - | - |
| Adjusted EBITDA (Non-GAAP) | $ 1,957 | $ 2,147 | $ 5,882 | $ 3,850 |

| Towers and Weldments Segment | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2017 | 2016 | 2017 | 2016 |
| Net Income | $ 2,024 | $ 1,801 | $ 6,028 | $ 3,941 |
| Interest Expense/(Benefit) | 20 | 6 | 35 | 16 |
| Income Tax Provision/(Benefit) | 772 | 923 | 2,603 | 2,027 |
| Depreciation and Amortization | 1,070 | 1,094 | 2,162 | 2,060 |
| Share-based Compensation and Other Stock Payments | 58 | 37 | 115 | 75 |
| Adjusted EBITDA (Non-GAAP) | $ 3,944 | $ 3,861 | $ 10,943 | $ 8,119 |

| Gearing Segment | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2017 | 2016 | 2017 | 2016 |
| Net Loss | $ (638) | $ (1,194) | $ (2,175) | $ (2,401) |
| Interest Expense | 2 | 3 | 6 | 7 |
| Income Tax Provision/(Benefit) | 2 | 1 | 4 | 2 |
| Depreciation and Amortization | 612 | 641 | 1,238 | 1,280 |
| Share-based Compensation and Other Stock Payments | 23 | 25 | 41 | 72 |
| Adjusted EBITDA (Non-GAAP) | $ 1 | $ (524) | $ (886) | $ (1,040) |

| Process Systems | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2017 | 2016 | 2017 | 2016 |
| Net Income/(Loss) | $ (1,103) | $ - | $ (5,769) | $ - |
| Interest Expense | 1 | - | 3 | - |
| Income Tax Provision/(Benefit) | - | - | 3,841 | - |
| Depreciation and Amortization | 467 | - | 801 | - |
| Share-based Compensation and Other Stock Payments | 10 | - | 15 | - |
| Adjusted EBITDA (Non-GAAP) | $ (625) | $ - | $ (1,109) | $ - |

| Corporate and Other | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2017 | 2016 | 2017 | 2016 |
| Net Income/(Loss) | $ (971) | $ (565) | $ 7,710 | $ (1,856) |
| Interest Expense | 194 | 143 | 312 | 283 |
| Income Tax Provision/(Benefit) | (790) | (932) | (11,482) | (2,045) |
| Depreciation and Amortization | 54 | 52 | 103 | 103 |
| Share-based Compensation and Other Stock Payments | 150 | 112 | 291 | 286 |
| Adjusted EBITDA (Non-GAAP) | $ (1,363) | $ (1,190) | $ (3,066) | $ (3,229) |

# Broadwind Energy is a precision manufacturer of structures, equipment & components for clean tech and other specialized applications.






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