

Q3 2018 Earnings Call

October 30, 2018

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 October 30, 2018 for a reconciliation of certain non-GAAP measures presented in this presentation.

Highlights – Q3

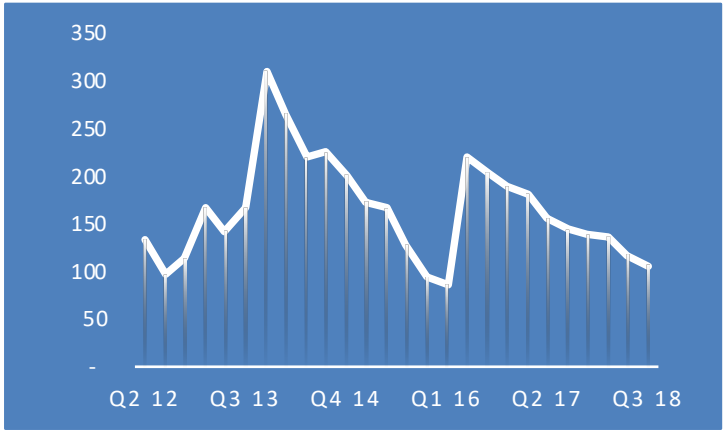
- Orders up 12% - customer diversification efforts on track
- $31.4M revenue and $.2M EBITDA - in line with guidance
- Tariffs and tight steel market remain a headwind for towers in Q4
- Gearing segment reaches profitability milestone
- Order book building for strong 2019

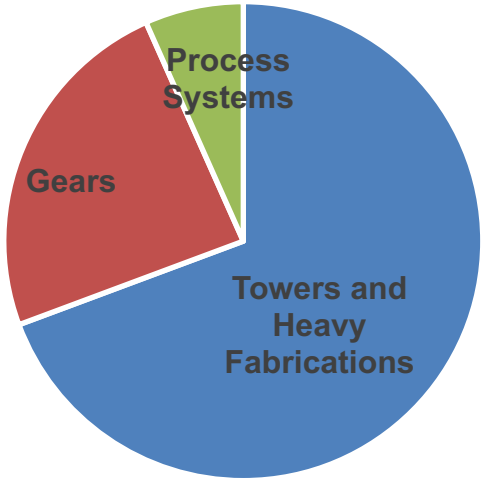
Orders and Backlog ($ Millions)

Orders

	Q3 17	Q3 18	YTD 9/30/17	YTD 9/30/18	YTD 2018 Book:Bill
Towers & Heavy Fabrications	$1.8	**$3.8**	$32.3	**$21.1**	**.36**
Gearing	10.6	**11.5**	29.5	**33.0**	**1.21**
Process Systems	5.3	**4.4**	13.4	**12.4**	**.98**
Total	17.7	**19.7**	75.2	**66.5**	**.68**

Backlog $107M

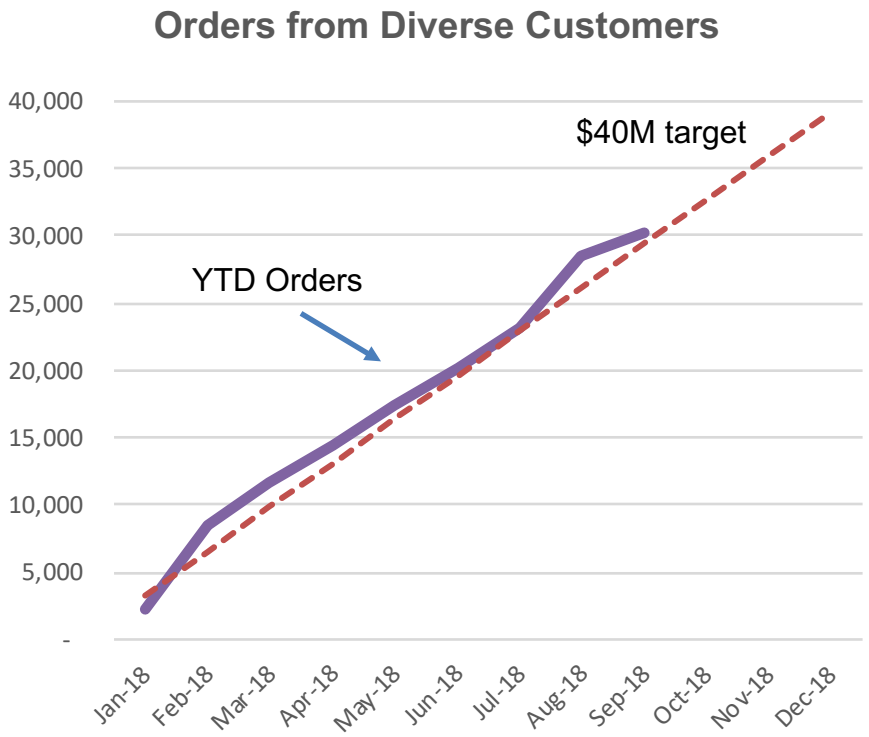


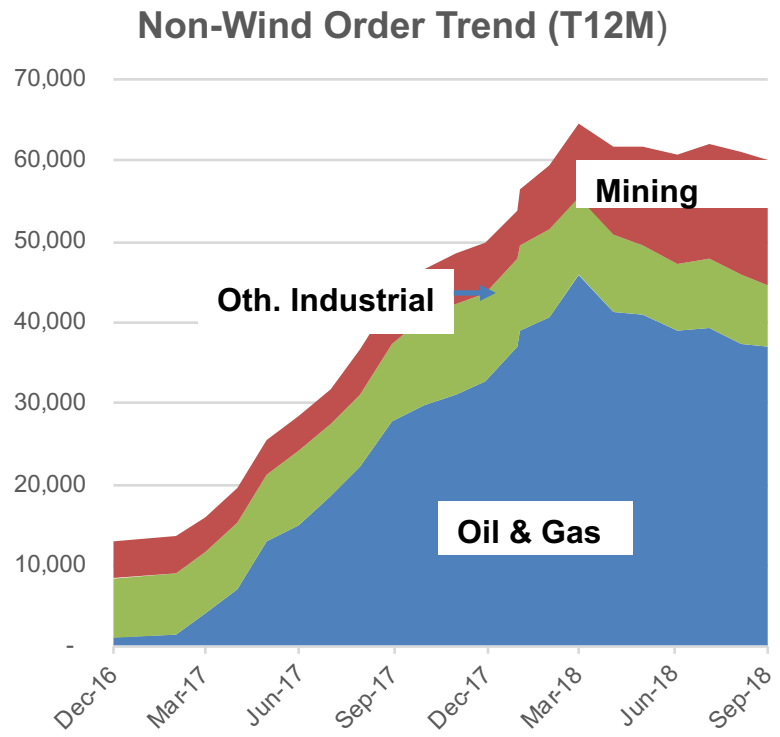


Sept YTD:

- Tower orders depressed by steel price spike
- Rising demand for heavy fabrications for mining, construction, other
- Strong Gearing orders from oil & gas, mining, wind customers
- Process Systems: weaker demand for components for new gas turbines

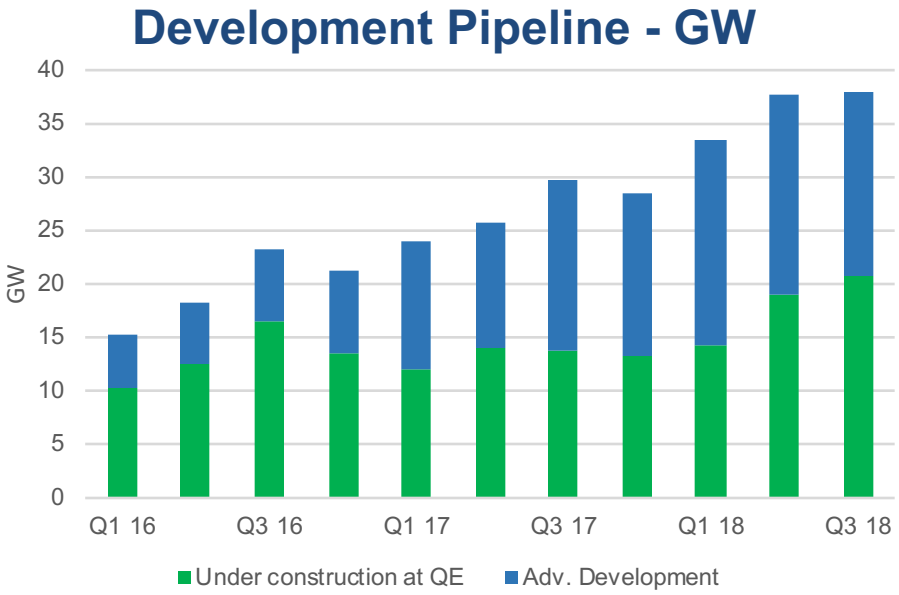
Successful Diversification of BWEN Customer Base

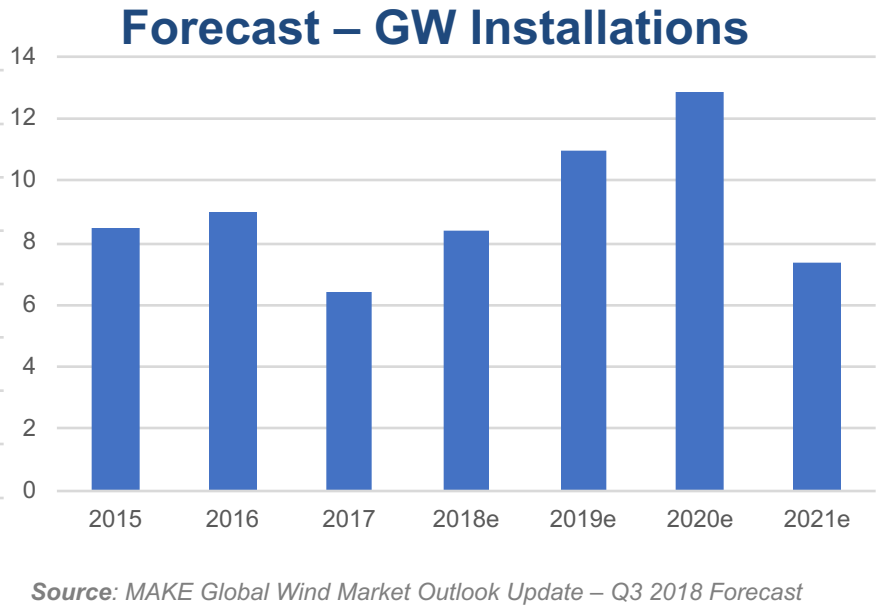




- Diversification of customer base on track to meet $40M target for 2018
- Oil and gas, mining and other industrial has grown to >$60M annual intake for BWEN

Market Outlook – US Wind (GW)



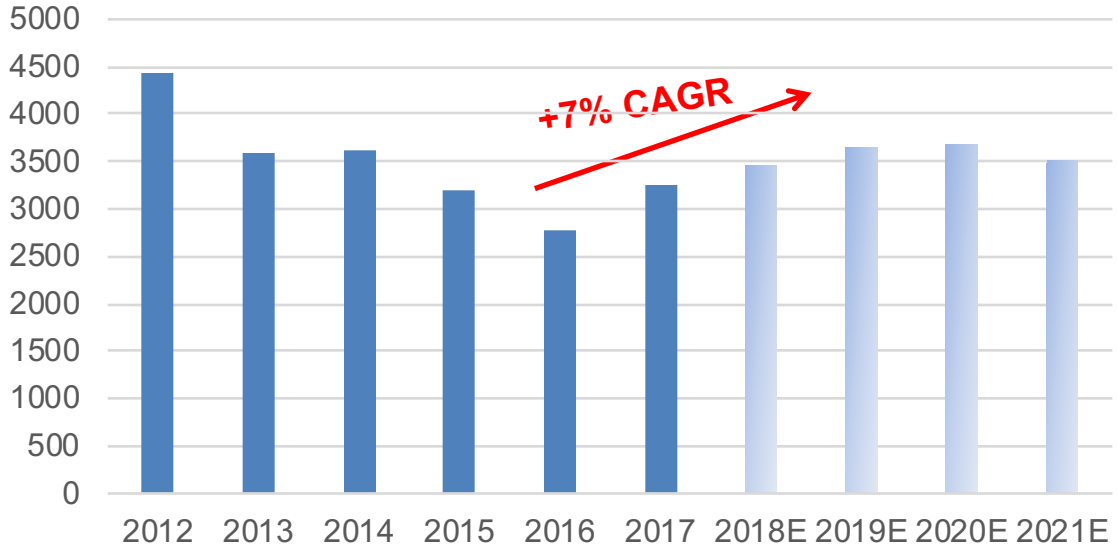


Source: AWEA Q3 2018 Market Report

***Source**: MAKE Global Wind Market Outlook Update – Q3 2018 Forecast*

- Adv. Development means turbines ordered or utility owned projects or PPA in place
- Project pipeline remains strong in support of 10+ GW outlook for 2019/20
- 2021 forecast 7.5 GW

Market Outlook - U.S. Gearing Production ($ millions)



*Excluding automotive

Sources: *AGMA & IHS*

- Demand for gearing produced in US is expected to rise ~ 7% p.a. through 2019 then flatten
- Fastest growing markets include oil and gas, material handling and power equipment

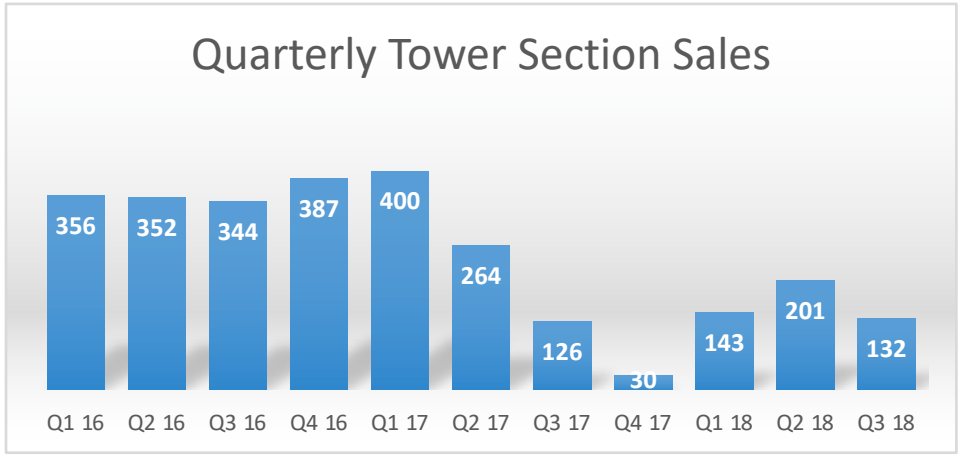
2018 Priorities

- Continue focus on customer diversification
- Complete manufacturing footprint reduction
- Restructure systems to support changing sales mix
- Continuous improvement to offset margin compression
- Manage through raw materials escalation risk
- Ensure steel supply to support strong 2019 production

Towers and Heavy Fabrications

	Q3 2017	Q3 2018	YTD 2017	YTD 2018
Orders ($M)	$1.8	**$3.8**	$32.3	**$21.1**
Sections Sold (#)	126	**132**	790	**476**
Revenue ($M)	16.0	**17.3**	99.2	**58.1**
Operating Inc/(Loss) ($M)	(1.5)	**(0.8)**	7.2	**(1.5)**
-% of Sales	*(9.2%)*	***(4.4%)***	*7.2%*	***(2.6%)***
EBITDA* ($M)	(0.2)	**0.6**	10.8	**2.7**
- % of Sales	*(1.0%)*	***3.7%***	*10.9%*	***4.6%***

* Reconciliation to non-GAAP measure included in Appendix



Q3 Results

- Segment orders up from PY - increased mining and industrial demand
- Q3 18 tower sections sold up slightly but down YTD
- Operating loss narrowed to $.8M – higher production volumes, better plant utilization, reduced overhead and operating expenses

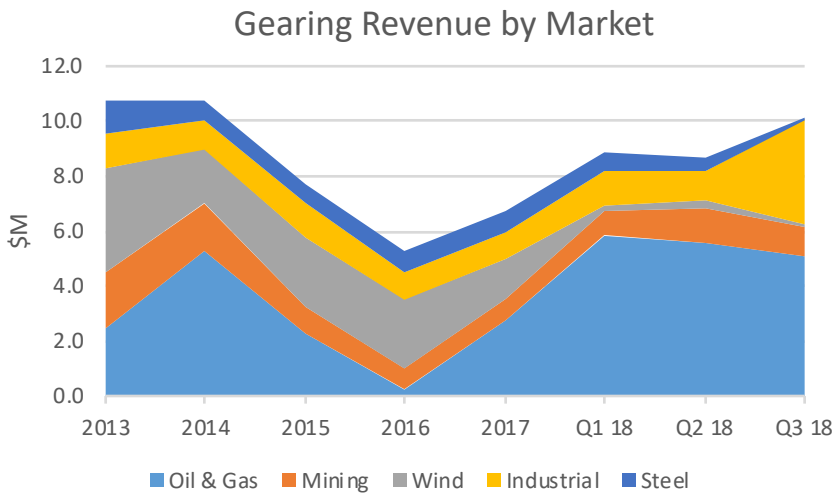
Priorities

- Diversify tower customer base and grow heavy fabrications business
- Cost out to offset margin pressure
- Build capabilities and customer base for heavy fabrications

Gearing

	Q3 2017	Q3 2018	YTD 2017	YTD 2018
Orders ($M)	$10.6	**$11.5**	$29.5	**$33.0**
Revenue ($M)	7.6	**10.1**	17.5	**27.5**
Operating (Loss)/ Income ($M)	(0.4)	**0.3**	(2.6)	**(0.9)**
EBITDA* ($M)	0.3	**1.0**	(0.6)	**1.0**

* Reconciliation to non-GAAP measure included in Appendix



Q3 Results

- Orders up due primarily to timing of demand from wind customers
- Revenue up 33% compared to Q3 17
- EBITDA $1M – increased plant utilization and productivity
- Achieved profitability milestone

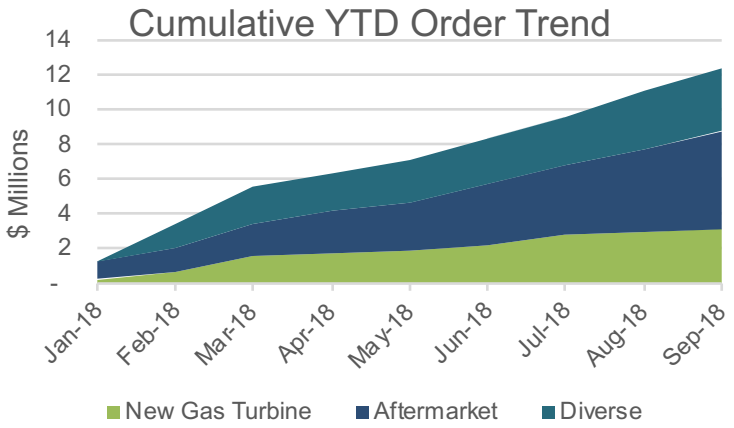
Priorities

- Continue diversification of customer base
- Achieve consistent operating pattern
- Grow and optimize Gearbox production
- Generate positive operating income

Process Systems

	Q3 2017	Q3 2018	YTD 2017	YTD 2018
Orders ($M)	$5.3	**$4.4**	$13.4	**$12.4**
Revenue ($M)	6.1	**4.2**	12.3	**12.7**
Operating income/(Loss) ($M)	0.1	**(0.9)**	(1.8)	**(7.6)**
EBITDA* ($M)	0.6	**(0.3)**	(0.5)	**(0.8)**

* Reconciliation to non-GAAP measure included in Appendix



Q3 Results

- Process Systems includes Abilene-based CNG and fabrications, and Red Wolf as of Feb 1, 2017
- Operating loss $.9M – lower sales volume partially offset by improved utilization in Abilene production facility

Priorities

- Leverage increasing aftermarket opportunities in the NGT market
- Progress Red Wolf customer diversification
- Expand share with existing customers
- Exit CNG

BWEN Consolidated Financial Results

	Q3 17	Q3 18	YTD 17	YTD 18
Total Sales	$29.6	**$31.4**	$129.0	**$98.2**
Gross Profit	1.0	**1.5**	11.3	**3.6**
Gross Profit %	*3.4%*	***4.7%***	*8.7%*	***3.6%***
Recurring Operating Expense	4.2	**4.1**	13.4	**12.6**
Red Wolf earn-out and goodwill one-time items	(1.4)	**-**	(1.4)	**3.9**
Total Operating Expenses	2.8	**4.1**	12.0	**16.5**
Operating (Loss)	(1.8)	**(2.6)**	(0.7)	**(12.9)**
% of sales	*(6.2%)*	***(8.3%)***	*(0.6%)*	***(13.1%)***
Adj. EBITDA	0.9	**0.2**	6.7	**0.7**
% of sales	*2.9%*	***0.6%***	*5.2%*	***0.7%***
EPS, Continuing	(.14)	(.05)	.25	**(.76)**
$M except as noted otherwise				

- Q3 18 sales up YoY due to customer and end market diversification in Gearing and the Towers and Heavy Fabrications segments
- Gross profit up YoY due to improved productivity and plant utilization in Gearing. Strong cost management and productivity in Towers and Fabrications.
- Operating loss increased in Q3 18 due primarily to absence of the $1.4M reversal of Red Wolf earn-out reserve recorded in prior year
- $.14/share non-cash gain associated with the extinguishment of the NMTC transaction

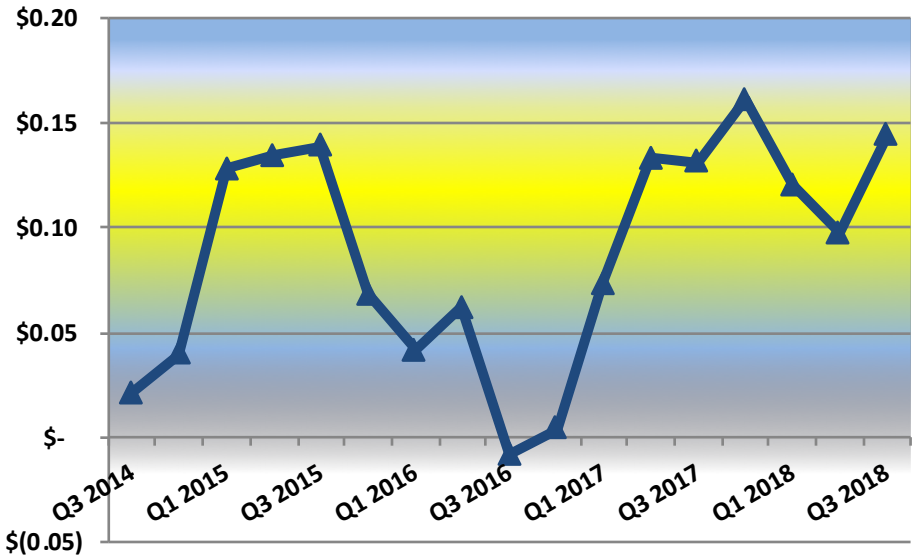
Operating Working Capital (OWC)

OWC* Management

	12/31/17	6/30/18	9/30/18
DSO	70	44	49
Inv. Turns	5.0	6.7	5.1
DPO	44	41	44
Cash Conv. (days)	48	36	54
OWC $M	11.4	14.3	18.2

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

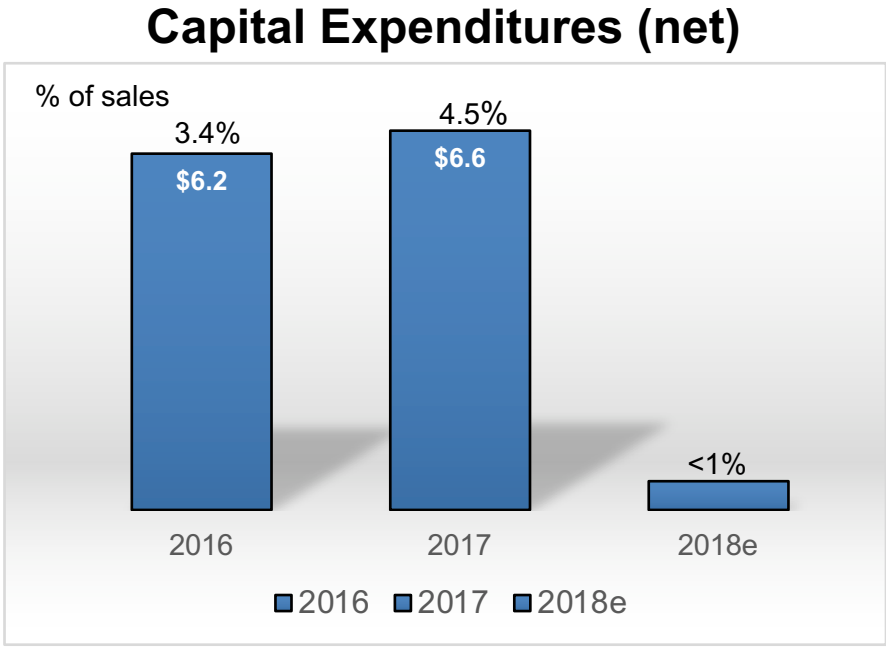
OWC* Historical Trend – cents/$ sales



- Cash conversion increased to 54 days due primarily to timing of customer receipts/deposits
- OWC expected to decline as deposits are received to support production

Balance Sheet and Capital Expenditures

	(In Millions) 12/31/2017	6/30/2018	9/30/2018
Cash Assets	$ 0.1	$ 0.1	**$ 0.1**
Accounts Receivable	13.6	17.9	**16.7**
Inventory	19.3	20.7	**23.5**
PPE	55.7	52.3	**50.7**
Other	23.7	17.7	**17.0**
Total Assets	*112.4*	*108.7*	***108.0***
Accounts Payable	11.8	15.7	**14.4**
Customer Deposits	9.8	8.7	**7.8**
Debt + Cap Leases	16.7	21.3	**23.2**
Other	8.1	7.0	**7.1**
Total Liabilities	*46.4*	*52.7*	***52.5***
Equity	*66.0*	*56.0*	***55.5***



- Cash receipts applied to reduce balance on credit line – minimize interest expense
- $25M credit line had $6M of additional availability at quarter-end
- Capital expenditures minimal in 2018– Abilene tower facility expansion complete in 2017
- 2019 capital expenditures ~2-3% of sales

Q3 Summary and Guidance

- Q3: As guided – Gearing progress offset by rescheduled tower production
- Q4: Tower production low point; $25-26M revenue, EBITDA ($1-2M)
- 2019: Average quarterly revenue >$40M, consistent positive EBITDA

Appendix

Consolidated	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Net (Loss)/Income from continuing operations	$ (750)	$ (2,049)	$ (11,644)	$ 3,745
Interest Expense	372	228	1,022	584
Income Tax Provision/(Benefit)	13	(22)	(20)	(5,056)
Depreciation and Amortization	2,284	2,267	6,990	6,571
Share-based Compensation and Other Stock Payments	370	439	1,214	900
Restructuring Costs	157	-	424	-
Impairment Charges	-	-	4,993	-
NMTC Extinguishment Gain	(2,249)	-	(2,249)	-
Adjusted EBITDA (Non-GAAP)	$ 197	$ 863	$ 730	$ 6,744

Towers and Heavy Fabrications Segment	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Net (Loss)/Income	$ (591)	$ (901)	$ (1,078)	$ 5,127
Interest Expense/(Benefit)	48	28	128	63
Income Tax (Benefit)/Provision	(214)	(600)	(587)	2,003
Depreciation and Amortization	1,237	1,121	3,773	3,283
Share-based Compensation and Other Stock Payments	152	197	465	312
Adjusted EBITDA (Non-GAAP)	$ 632	$ (155)	$ 2,701	$ 10,788

Gearing Segment	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Net Income/(Loss)	$ 344	$ (393)	$ (949)	$ (2,568)
Interest Expense	2	3	7	9
Income Tax Provision/(Benefit)	-	(7)	0	(2)
Depreciation and Amortization	566	610	1,742	1,847
Share-based Compensation and Other Stock Payments	77	72	220	113
Adjusted EBITDA (Non-GAAP)	$ 989	$ 285	$ 1,020	$ (601)

Appendix

Process Systems	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Net Income/(Loss)	$ (2,471)	$ 4,321	$ (7,092)	$ (1,449)
Interest Expense	1	1	2	4
Income Tax Provision/(Benefit)	1,552	(4,219)	(498)	(378)
Depreciation and Amortization	429	477	1,304	1,278
Share-based Compensation and Other Stock Payments	18	18	70	34
Restructuring Expense	157	-	424	-
Impairment Expense	-	-	4,993	-
Adjusted EBITDA (Non-GAAP)	$ (314)	$ 598	$ (797)	$ (511)

Corporate and Other	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Net(Loss)/Income	$ 1,968	$ (5,076)	$ (2,525)	$ 2,635
Interest Expense	321	196	885	508
Income Tax Provision/(Benefit)	(1,325)	4,804	1,065	(6,679)
Depreciation and Amortization	52	59	171	163
Share-based Compensation and Other Stock Payments	123	152	459	441
NMTC Extinguishment Gain	(2,249)	-	(2,249)	-
Adjusted EBITDA (Non-GAAP)	$ (1,110)	$ 135	$ (2,194)	$ (2,932)

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



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