

# Q4 2018 Earnings Call

February 26, 2019

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 February 26, 2019 for a reconciliation of certain non-GAAP measures presented in this presentation.

# Highlights

- Achieved targeted $40M customer diversification in 2018
- Debt reduced 18% in 2018 – credit line expanded and extended post year end
- 1st profitable year for Gearing
- Q4 Revenue and EBITDA in line with guidance
- Tower order book building despite steel tariffs
- 2019 Outlook confirmed – >30% revenue recovery

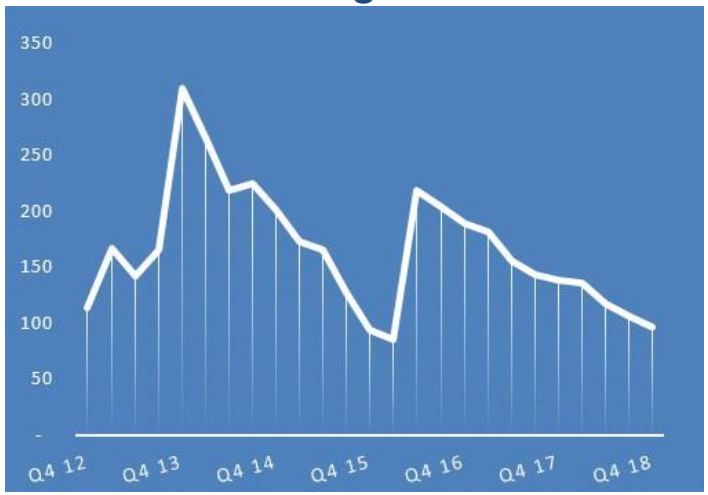
# Orders and Backlog ($ Millions)

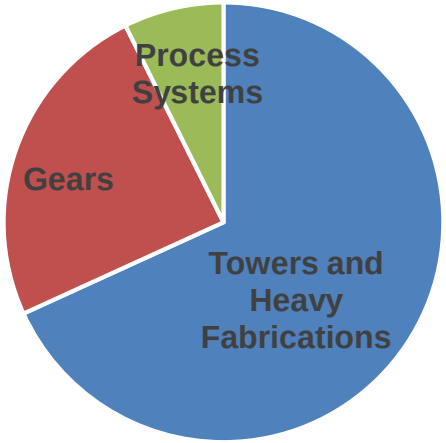
## Orders

| | Q4 17 | Q4 18 | FY 2017 | FY 2018 | YTD 2018 Book:Bill |
|---|---|---|---|---|---|
| Towers & Heavy Fabrications | $2.5 | **$2.4** | $34.9 | **$23.5** | **.34** |
| Gearing | 7.4 | **8.5** | 36.9 | **41.6** | **1.08** |
| Process Systems | 2.4 | **5.8** | 15.8 | **18.1** | **.99** |
| **Total** | 12.3 | **16.7** | 87.6 | **83.2** | **.66** |

- 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, aftermarket and other industrial strengthening

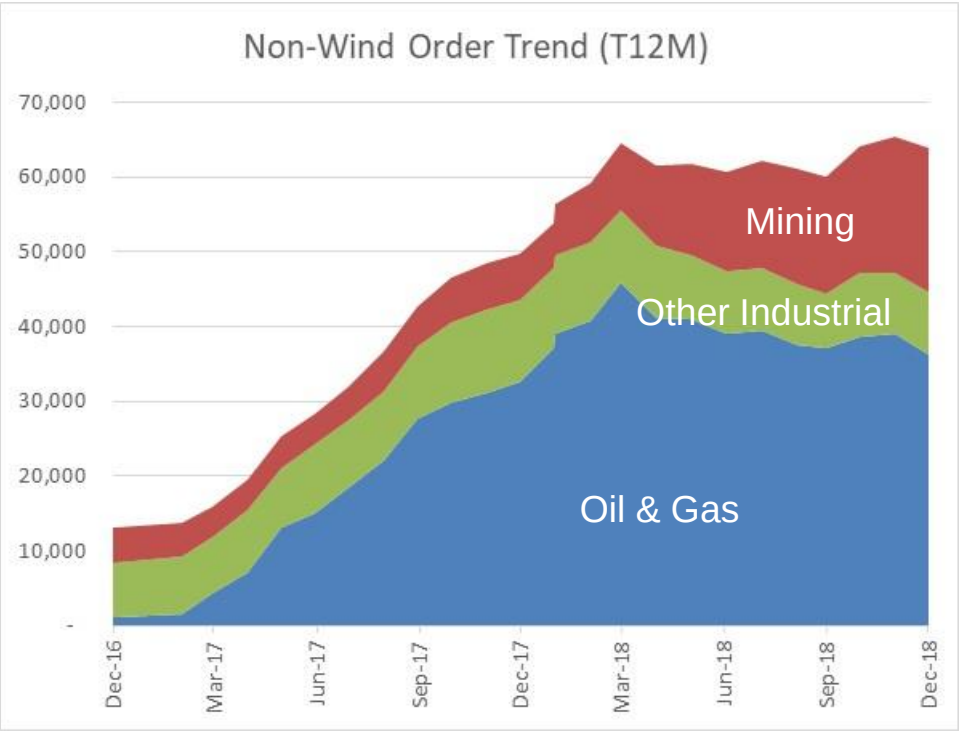
## Backlog $96M



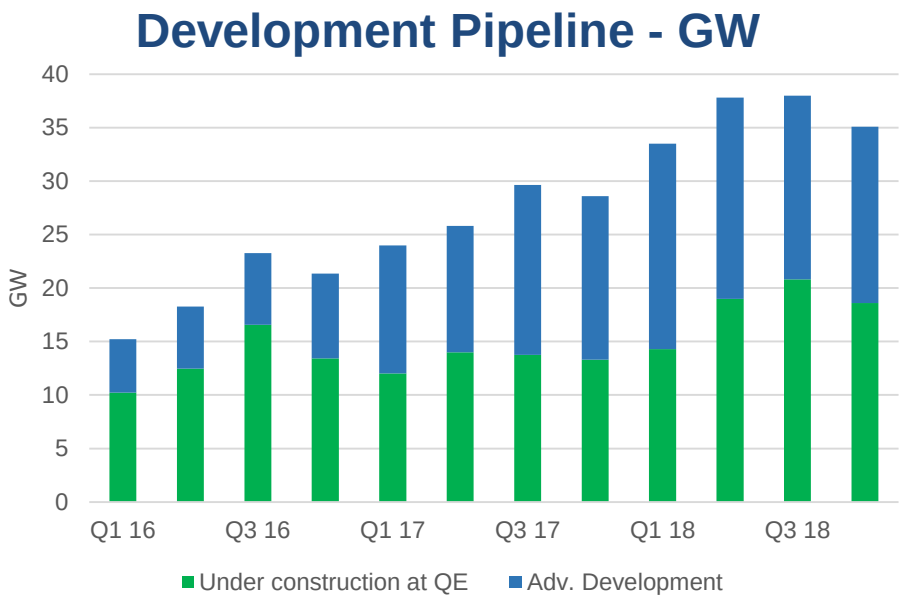
# Successful Diversification of BWEN Customer Base

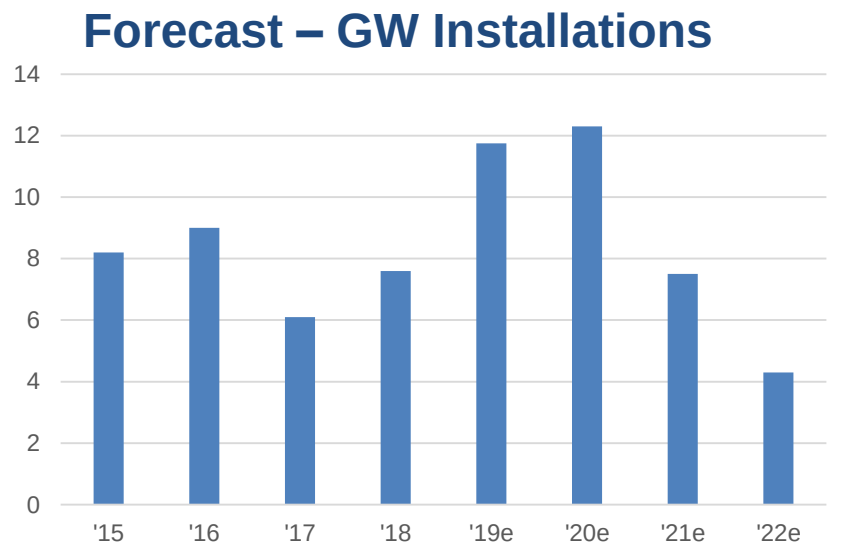



- Diversification of customer base met $40M target for 2018
- Oil and gas, mining and other industrial has grown to >$60M annual intake for BWEN

# Market Outlook – US Wind (GW)



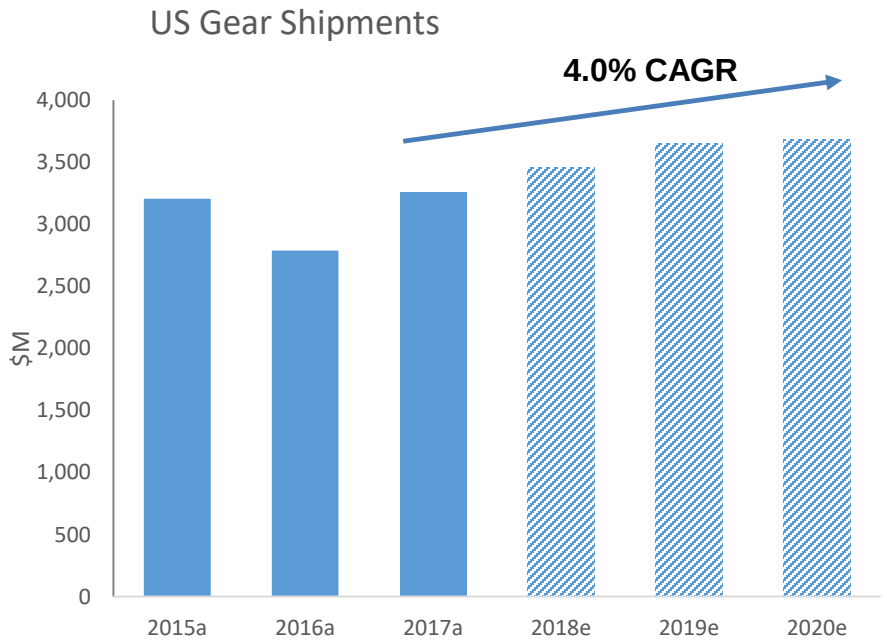




*Source: AWEA Q4 2018 Market Report*

***Source**: MAKE Global Wind Market Outlook Update – Q1 2019 Forecast*

- Adv. Development means turbines ordered or utility owned projects or PPA in place
- 2018 additions 7.6GW, 78% in Q4, ~ 10% short of forecast
- Development pipeline declined as usual with Q4 completions, but remains strong in support of 2019-21 projects
- 2021 forecast upgraded to near 7.5GW and subsequent outlook improved
- 6.6 GW of projects were safe harbored in 2018

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




**Excluding automotive*

***Sources:*** *AGMA & IHS*

| | % market | 2015-2018 CAGR | 2018-2021 CAGR |
|---|---|---|---|
| Turbines & Power | 10% | -1.5% | -2% |
| Oil & Gas | 6% | +13% | +9% |
| Mining & Constuction | 6% | +3% | -1% |
| Other Industrial | 39% | +8% | flat |

*Source: IHS Markit Q4 2018*
*Markets excluded: farm machinery, aerospace, railroad, shipbuilding and machine tools*

- Demand for gearing produced in US is expected to rise ~ 4% p.a. through 2020
- Imports are increasingly an issue due to strong USD and steel tariffs
- Demand for power and mining is expected to flatten or decline modestly

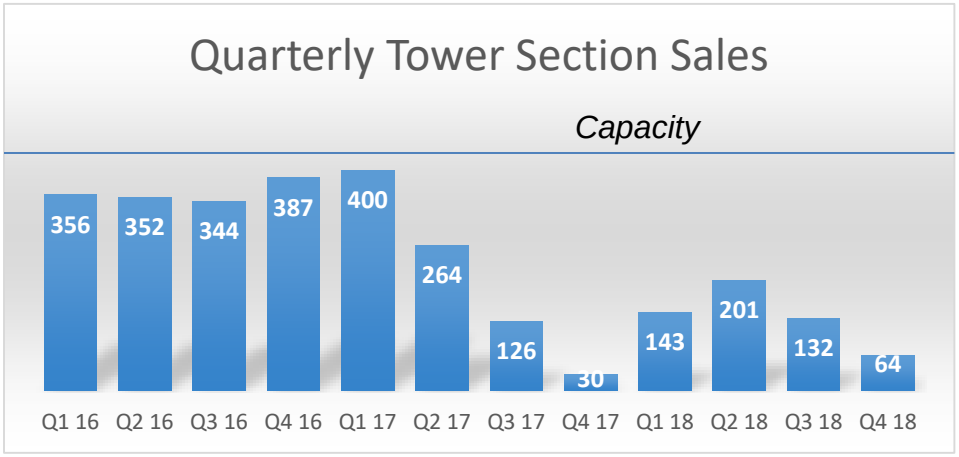
# 2019 Priorities

- Continue focus on customer diversification - $60M target
- Restructure systems to support changing sales mix
- Continuous improvement to offset margin compression
- Adjust steel procurement strategy to support strong 2019 production
- Reduce average cash conversion cycle by ~20%

# Towers and Heavy Fabrications

| | Q4 2017 | Q4 2018 | FY 2017 | FY 2018 |
|---|---|---|---|---|
| Orders ($M) | $2.5 | **$2.4** | $34.9 | **$23.5** |
| Sections Sold (#) | 30 | **64** | 820 | **540** |
| Revenue ($M) | 4.2 | **10.7** | 103.4 | **68.8** |
| Operating Inc/(Loss) ($M) | (4.5) | **(2.8)** | 2.7 | **(4.3)** |
| -% of Sales | *(107.8%)* | ***(26.3%)*** | *2.6%* | ***(6.3%)*** |
| EBITDA* ($M) | (3.0) | **(1.3)** | 7.8 | **1.4** |
| - % of Sales | *(71.4%)* | ***(12.1%)*** | *7.5%* | ***2.0%*** |

* Reconciliation to non-GAAP measure included in Appendix




## Q4 Results

- Mining and industrial demand continues to be strong, Tower quoting activities increasing
- Q4 18 tower sections sold up slightly but down FY
- Operating loss narrowed comparatively– higher production volumes, better plant utilization

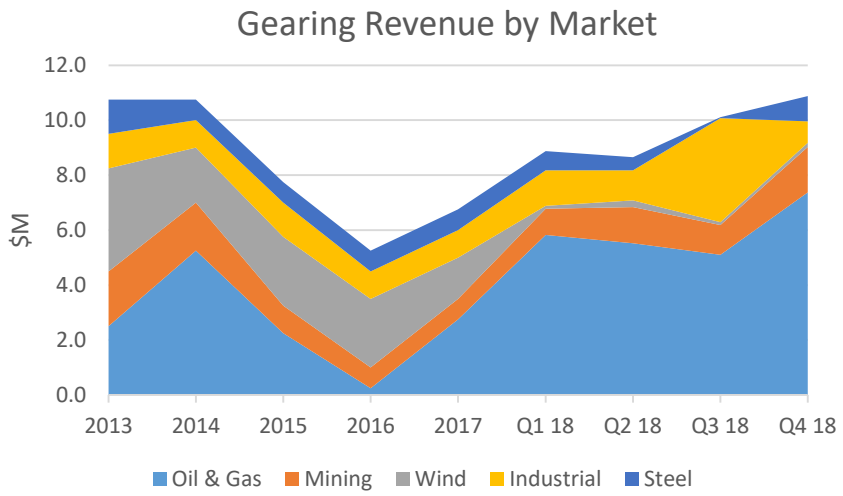
## Priorities

- Diversify tower customer base and grow heavy fabrications business
- Cost out to offset margin pressure
- Build capabilities and customer base for heavy fabrications
- Balance trade-off between near-term tower demand spike and longer term diversification focus

# Gearing

| | Q4 2017 | Q4 2018 | FY 2017 | FY 2018 |
|---|---|---|---|---|
| Orders ($M) | $7.4 | **$8.5** | $36.9 | **$41.6** |
| Revenue ($M) | 8.5 | **10.9** | 26.0 | **38.4** |
| Operating (Loss)/ Income ($M) | (0.1) | **1.0** | (2.6) | **.1** |
| EBITDA* ($M) | 0.6 | **1.6** | 0.0 | **2.6** |

* Reconciliation to non-GAAP measure included in Appendix




## Q4 Results

- Orders up due primarily due to demand from wind and mining customers
- Revenue up 28% compared to Q4 17
- EBITDA $1.6M – increased plant utilization and productivity
- Achieved full year profitability milestone

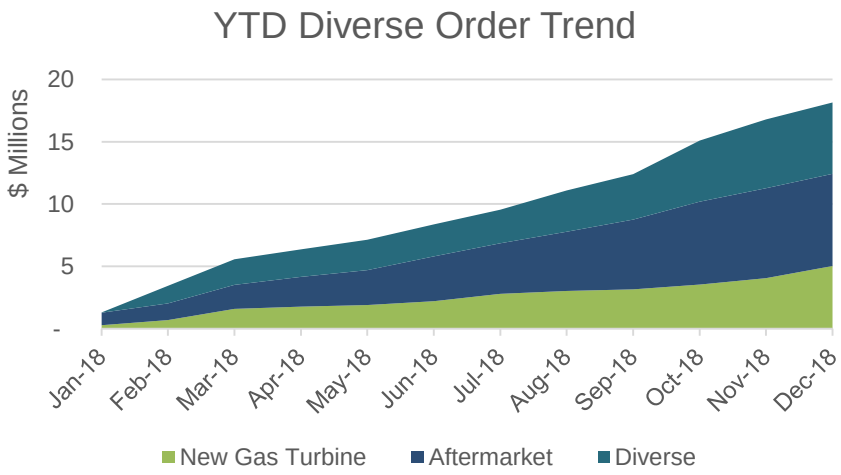
## Priorities

- Continue diversification of customer base
- Grow and optimize Gearbox production
- Continuous Improvement focused on maintenance and scheduling systems
- Optimize first article production process to accommodate increasing demand

# Process Systems

| | Q4 2017 | Q4 2018 | FY 2017 | FY 2018 |
|---|---|---|---|---|
| Orders ($M) | $2.4 | **$5.8** | $15.8 | **$18.2** |
| Revenue ($M) | 5.1 | **5.6** | 17.4 | **18.3** |
| Operating income/(Loss) ($M) | (.5) | **(8.9)** | (2.3) | **(16.4)** |
| EBITDA* ($M) | 0.0 | **(0.6)** | (.5) | **(1.4)** |

* Reconciliation to non-GAAP measure included in Appendix




## Q4 Results

- Higher sales levels due to other industrial customers partially offset by lower sales volume for gas turbine content
- Revenue run rate, although increasing, continues to be below expectations
- $7.6M non-cash impairment of customer intangible

## Priorities

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

# BWEN Consolidated Financial Results

| | Q4 17 | Q4 18 | FY 17 | FY 18 |
|---|---|---|---|---|
| Total Sales | $17.8 | **$27.2** | $146.8 | **$125.4** |
| Gross Profit | (3.1) | **(.5)** | 8.2 | **3.1** |
| *Gross Profit %* | *(17.4%)* | ***(1.8%)*** | *5.6%* | ***2.5%*** |
| Recurring Operating Expense | 4.3 | **4.1** | 17.7 | **16.6** |
| One-time items | (.7) | **7.6** | (2.1) | **11.5** |
| Total Operating Expenses | 3.6 | **11.7** | 15.6 | **28.1** |
| Operating (Loss) | (6.7) | **(12.2)** | (7.4) | **(25.1)** |
| *% of sales* | *(37.7%)* | ***(44.8%)*** | *(5.1%)* | ***(20.0%)*** |
| Adj. EBITDA | (4.0) | **(1.7)** | 2.8 | **(1.0)** |
| *% of sales* | *(22.5%)* | ***(6.3%)*** | *1.9%* | ***(.8%)*** |
| EPS, Continuing | (.46) | (.79) | (.21) | **(1.55)** |
| *$M except as noted otherwise* | | | | |

Q4 Comparison:

- Sales across each segment up YoY due to customer and end market diversification
- Gross profit up YoY due to improved productivity and plant utilization in Towers and Fabrications and Gearing.
- $.49/share non-cash impairment of Red Wolf Customer Intangible value

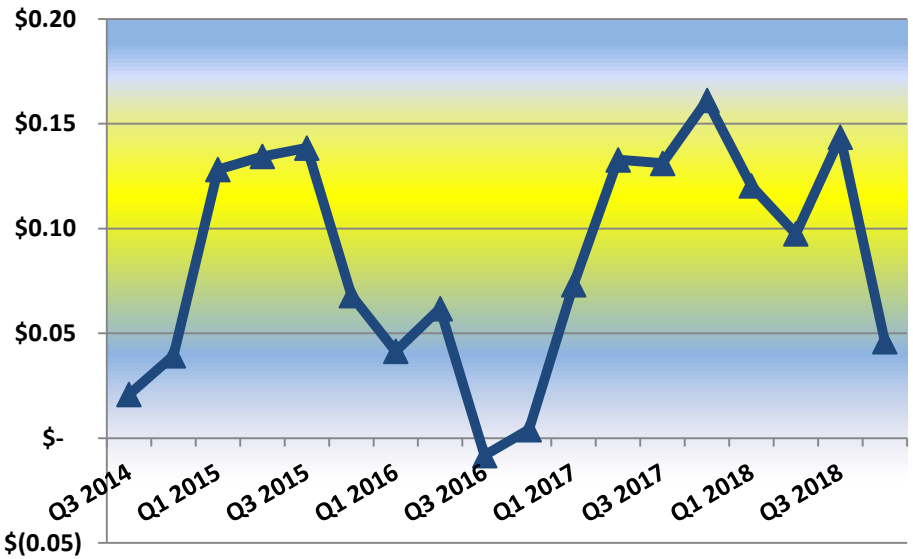
# Operating Working Capital (OWC)

## OWC* Management

| | 12/31/17 | 9/30/18 | 12/31/18 |
|---|---|---|---|
| DSO | 70 | 49 | 58 |
| Inv. Turns | 5.0 | 5.1 | 4.8 |
| DPO | 44 | 44 | 39 |
| Cash Conv. (days) | 48 | 54 | 17 |
| OWC $M | 11.4 | 18.2 | 5.0 |

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

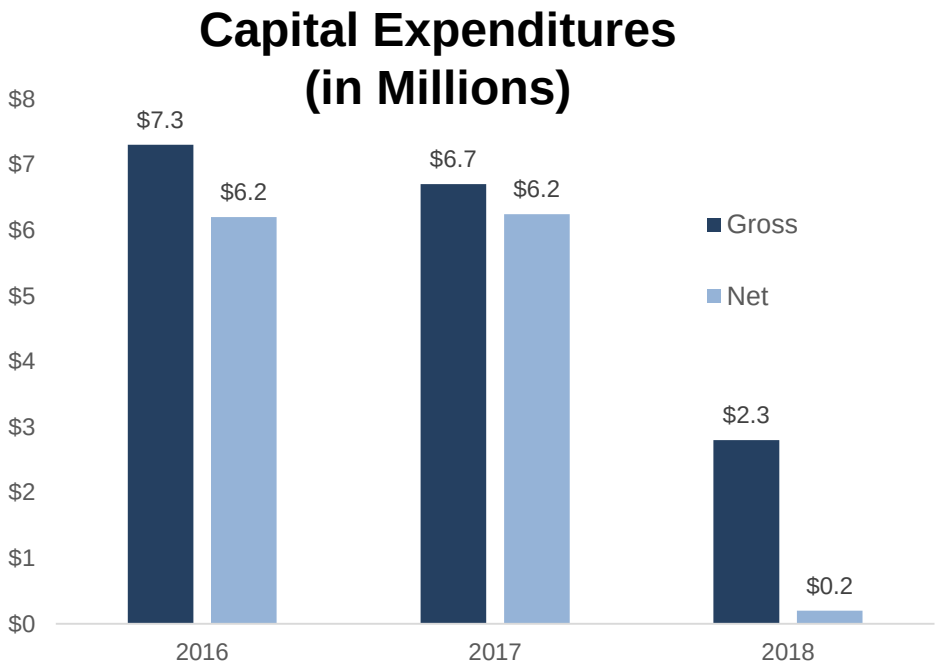
## OWC* Historical Trend – cents/$ sales




- $13M reduction in operating working capital due to deposits received, which will support 2019 production
- On February 25, 2019, expanded line of credit, with CIBC, to $35M and extended for three years, offering flexibility for anticipated working capital growth and increased supply chain complexity
- Aggressively managing cash conversion cycle

# Balance Sheet and Capital Expenditures

| | In Millions | | |
|---|---|---|---|
| | 12/31/2017 | 9/30/2018 | 12/31/2018 |
| **Cash Assets** | $ 0.1 | $ 0.1 | **$ 1.2** |
| **Accounts Receivable** | 13.6 | 16.7 | **17.5** |
| **Inventory** | 19.3 | 23.5 | **22.7** |
| **PPE** | 55.7 | 50.7 | **49.1** |
| **Other** | 23.7 | 17.0 | **8.7** |
| ***Total Assets*** | *112.4* | *108.0* | ***99.2*** |
| **Accounts Payable** | 11.8 | 14.4 | **11.6** |
| **Customer Deposits** | 9.8 | 7.8 | **23.5** |
| **Debt + Cap Leases** | 16.7 | 23.2 | **14.9** |
| **Other** | 8.1 | 7.1 | **5.8** |
| ***Total Liabilities*** | *46.4* | *52.5* | ***55.8*** |
| ***Equity*** | *66.0* | *55.5* | ***43.4*** |




- $1M of cash on hand due to timing of customer payments
- $25M credit line had $10.3M of additional availability at quarter-end
- 2019 capital expenditures ~2-3% of sales

# Q4 Summary and Guidance

- Q4 2018: As guided – Gearing progress offset by rescheduled tower production
- 2019: Average quarterly revenue >$40M, consistent positive EBITDA
- Q1 2019: Gears segment continues to perform…rebuilding Towers, but margin pressures remain
    - Revenue $40M and EBITDA $1-1.5M

# Appendix

| Consolidated | Three Months Ended December 31, | | Twelve Months Ended December 31, | |
|---|---|---|---|---|
| | 2018 | 2017 | 2018 | 2017 |
| Net (Loss) from continuing operations | $ (12,358) | $ (6,928) | $ (24,000) | $ (3,184) |
| Interest Expense | 475 | 214 | 1,494 | 798 |
| Income Tax (Benefit)/Provision | (184) | 11 | (204) | (5,045) |
| Depreciation and Amortization | 2,193 | 2,427 | 9,183 | 8,999 |
| Share-based Compensation and Other Stock Payments | 290 | 323 | 1,504 | 1,223 |
| Restructuring Costs | 243 | - | 668 | - |
| Impairment Charges | 7,592 | - | 12,585 | - |
| NMTC Extinguishment Gain | - | - | (2,249) | - |
| Adjusted EBITDA (Non-GAAP) | $ (1,749) | $ (3,953) | $ (1,019) | $ 2,791 |

| Towers and Heavy Fabrications Segment | Three Months Ended December 31, | | Twelve Months Ended December 31, | |
|---|---|---|---|---|
| | 2018 | 2017 | 2018 | 2017 |
| Net (Loss)/Income | $ (2,195) | $ (4,207) | $ (3,273) | $ 919 |
| Interest Expense | 66 | 26 | 194 | 89 |
| Income Tax (Benefit)/Provision | (567) | (337) | (1,154) | 1,666 |
| Depreciation and Amortization | 1,213 | 1,355 | 4,986 | 4,638 |
| Share-based Compensation and Other Stock Payments | 139 | 127 | 606 | 440 |
| Adjusted EBITDA (Non-GAAP) | $ (1,344) | $ (3,036) | $ 1,359 | $ 7,752 |

| Gearing Segment | Three Months Ended December 31, | | Twelve Months Ended December 31, | |
|---|---|---|---|---|
| | 2018 | 2017 | 2018 | 2017 |
| Net Income/(Loss) | $ 915 | $ (70) | $ (34) | $ (2,638) |
| Interest Expense | 67 | 3 | 74 | 12 |
| Income Tax Provision/(Benefit) | 10 | (4) | 11 | (6) |
| Depreciation and Amortization | 513 | 583 | 2,255 | 2,430 |
| Share-based Compensation and Other Stock Payments | 66 | 64 | 286 | 178 |
| Adjusted EBITDA (Non-GAAP) | $ 1,571 | $ 576 | $ 2,592 | $ (24) |

# Appendix

| Process Systems | Three Months Ended December 31, | | Twelve Months Ended December 31, | |
|---|---|---|---|---|
| | 2018 | 2017 | 2018 | 2017 |
| Net (Loss) | $ (8,501) | $ (390) | $ (16,003) | $ (2,207) |
| Interest Expense | 3 | 1 | 6 | 5 |
| Income Tax (Benefit) | (365) | (78) | (453) | (88) |
| Depreciation and Amortization | 405 | 428 | 1,709 | 1,706 |
| Share-based Compensation and Other Stock Payments | 20 | 20 | 89 | 53 |
| Restructuring Expense | 243 | - | 668 | - |
| Impairment Expense | 7,592 | - | 12,585 | - |
| Adjusted EBITDA (Non-GAAP) | $ (603) | $ (19) | $ (1,399) | $ (531) |

| Corporate and Other | Three Months Ended December 31, | | Twelve Months Ended December 31, | |
|---|---|---|---|---|
| | 2018 | 2017 | 2018 | 2017 |
| Net(Loss)/Income | $ (2,577) | $ (2,261) | $ (4,690) | $ 742 |
| Interest Expense | 339 | 184 | 1,220 | 692 |
| Income Tax Provision/(Benefit) | 738 | 430 | 1,392 | (6,617) |
| Depreciation and Amortization | 62 | 61 | 233 | 225 |
| Share-based Compensation and Other Stock Payments | 65 | 112 | 523 | 552 |
| NMTC Extinguishment Gain | - | - | (2,249) | - |
| Adjusted EBITDA (Non-GAAP) | $ (1,373) | $ (1,474) | $ (3,571) | $ (4,406) |

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