

# Mossberg's Investor Digest

## Best Idea Profile:

## Capstone Turbine Corp. (NASDAQ:CPST)

### DESCRIPTION:

Capstone Turbine Corp. produces low-emission microturbine systems, providing a dependable power source for customers in multiple industries: oil and gas, renewable energy, energy efficiency systems, mobile products (such as marine), and critical power. Its microturbines operate continuously or on-demand, and run on a variety of fuels; including natural gas, biogas, diesel, propane and kerosene. Capstone is headquartered in the Los Angeles area with sales and service centers in China, Mexico, Singapore, South America, the United Kingdom and the U.S. It was founded in 1988.

### KEY INVESTMENT CONSIDERATIONS:

**Large Market Opportunity** – Management estimates there is a \$15 billion market opportunity in microturbines, and believes its share of the market is approximately \$1.5 billion. Capstone's solutions reduce energy costs, ensure power availability, and help preserve the environment with its near-zero emissions profile. Its advantages over the competition across its solutions include lower total cost of ownership, more environmentally friendly, non-reliant on government subsidies, and higher system uptime.

**Executing on Plan** – Capstone is executing in the areas it had identified as key to its continuing success. It is refining its production efficiencies, and as the European market slowly returns, it is expecting larger megawatt opportunities that will drive higher production rates. Secondly it is experiencing higher average selling prices as a result of higher proportion of larger unit sales and a modest price increase across all lines. Another key to success is low direct material cost and reduced cash usage, both of which were demonstrated in the second quarter. Management is confident of its ability to end the year with more than \$30 million of cash on the balance sheet.

**Backlog Growth** – Capstone's compound annual growth rate since 2007 has been 35% in revenue and 76% in backlog. Historically Capstone's customers have remaining budgets to spend late in the year that has benefited Capstone. Management cautions investors not to draw conclusions based on its sequential quarter trends because the business is a "lumpy project-based business." Backlog in the September quarter improved 6% year over year, despite the weak European markets that are the largest concern for the next year, and this backlog should grow over the next six months.

**Acceleration in Second Half** – Revenues are likely to accelerate in the second half, as the third fiscal quarter is typically the best quarter for margins and revenues. Many customers, especially in oil and gas, rush to spend their remaining budgets by the end of the December quarter. As revenues and margins accelerate in the second half of fiscal 2014, Capstone should achieve breakeven EBITDA in the final quarter of fiscal 2014.

**Strong Cash Flow** – The September quarter generated \$8 million in cash, which allows Capstone to handle the acceleration of business in the second quarter without having to dilute shareholders' interests.

### VALUATION:

December is frequently a good month for Capstone as customers rush to spend their capital budgets. Investors reacted positively recently to an announcement of a new distributor for Capstone. The distributor acquired for Hilcorp Alaska LLC another Capstone turbine and it is believed that Hilcorp will use Capstone microturbines on the remaining five drill rigs that have yet to be renovated. Capstone stock could benefit from further indication that the second half of the fiscal year will see strong orders.

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Investment Data (as of 12/26/13)

<b>Recent Price</b>	<b>\$1.22</b>
52-Week Range	\$0.73 - \$1.52
Fiscal Year End	Mar
Dividend	NA
Yield	NA
Shares Outstanding	310 M
Average Trading Volume (3 mos)	2.4 M
Market Capitalization	\$378 M
Cash	\$28 M
Long-term Debt	\$12 M
Enterprise Value (EV)	\$368 M
Book Value	\$0.11
TTM Revenue	\$128 M
P/ Revenue	3.0 x
TTM EPS	\$(0.06)
P/ EPS	NA
TTM EBITDA	\$(15.9) M
EV/ EBITDA	(23) x

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