



**POWER SOLUTIONS  
INTERNATIONAL**

**May 25, 2016**



**Barrington Research**  
SPRING INVESTMENT CONFERENCE

# SAFE HARBOR & OTHER CAUTIONARY NOTES

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# SHIFT FROM DIESEL PERMEATING MORE MARKETS

*Foundation Developed in Industrial Space  
is Platform for On-Road Markets*



**MOBILE  
INDUSTRIAL**

**POWER  
GENERATION**

**ON-ROAD**



# PSI OVERVIEW

## Applications

## Top Customers

## Strengths



STATIONARY  
MOBILE  
PACKAGING  
COGEN/CHP  
MICROGRID  
DATA CENTER  
TELECOM  
OIL & GAS

**Kohler**  
**Cummins**  
**Taylor**  
**Caterpillar**  
**Exxon Mobil**  
**Briggs & Stratton**  
**JP Morgan Chase**  
**IBM**  
**GE**

- Broad portfolio of engine architectures
- Custom engineering solutions for complex needs
- Emissions platforms to meet local requirements



FORKLIFT  
AERIAL LIFT  
SWEEPER  
GROUND SUPPORT  
MATERIAL HANDLING  
ARBOR PRODUCT

**Hyster/Yale**  
**Hyundai**  
**Clark**  
**HELI**  
**Hangcha**  
**Doosan**  
**Tennant**  
**Mitsubishi Caterpillar**  
**JLG**  
**John Deere**  
**Morbark**  
**Bandit**

- Leader in the adoption of non-diesel products
- Large engine family covers wide range of market
- High-volume manufacturing capable of covering 100% of market demand
- US, China and Korea facilities provide optimal customer support



SCHOOL/TRANSIT BUS  
MEDIUM-DUTY  
VOCATIONAL TRUCK  
RV  
CAB-OVER / CHASSIS  
TOW/UTILITY

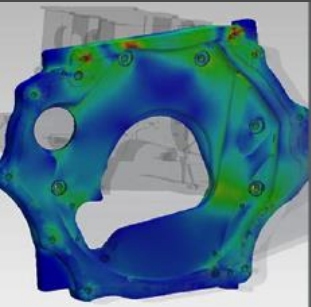
**Navistar**  
**Freightliner**  
**Capacity**  
**Yutong**  
**King Long**  
**JAC Motors**

- Non-diesel apps for clean-energy adopters
- Power/weight advantages for improved efficiency
- Custom application engineering for package efficiency

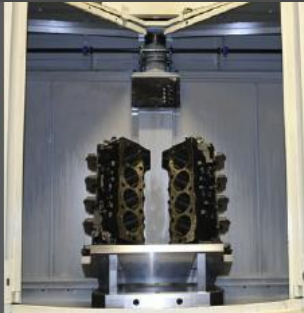
# PSI CAPABILITIES

## *Powering Alternative Fuels for Industrial and On-Road*

DESIGN &  
ENGINEERING



SPECIALIZED  
MACHINING



ADVANCED  
MANUFACTURING



POWERTRAIN  
ASSEMBLY



TESTING &  
VALIDATION



APPLICATION  
INTEGRATION



### Innovative Technologies

PSI Proprietary On-Road  
Engine Controls  
Partnered with Delphi

Certified, Low-Emission Solutions  
(EPA, CARB Certifications)

Fuel-Flexible Systems: Natural Gas,  
Propane, Gasoline

Ongoing Patent Applications



### Leading Talent

Advanced Engineering  
Disciplines

Industry-Leading Application  
Knowledge

Strategic Partnerships & JV

Highly Skilled Manufacturing

750+ Employees



### Advanced Facilities

Dedicated R & D  
& Engineering Facility

Automotive Grade High-Volume  
Production Lines

State-of-the-Art Machining Center

Advanced Testing Laboratory

Expanded Asian & Korean Facilities

Over 800,000 SQFT

# MACRO TREND: SHIFT AWAY FROM DIESEL

## *Drivers of Accelerating Growth of Alternative Fuel Engines*



### NEW REGULATION

Tighter flare gas & Tier 4 standards



### COST & COMPLEXITY OF EMISSION COMPLIANCE

Tier 4: up to 100% more costly;  
up to 35% larger system



### PRICE VOLATILITY

Diesel fuel swings vs. low-cost alternatives



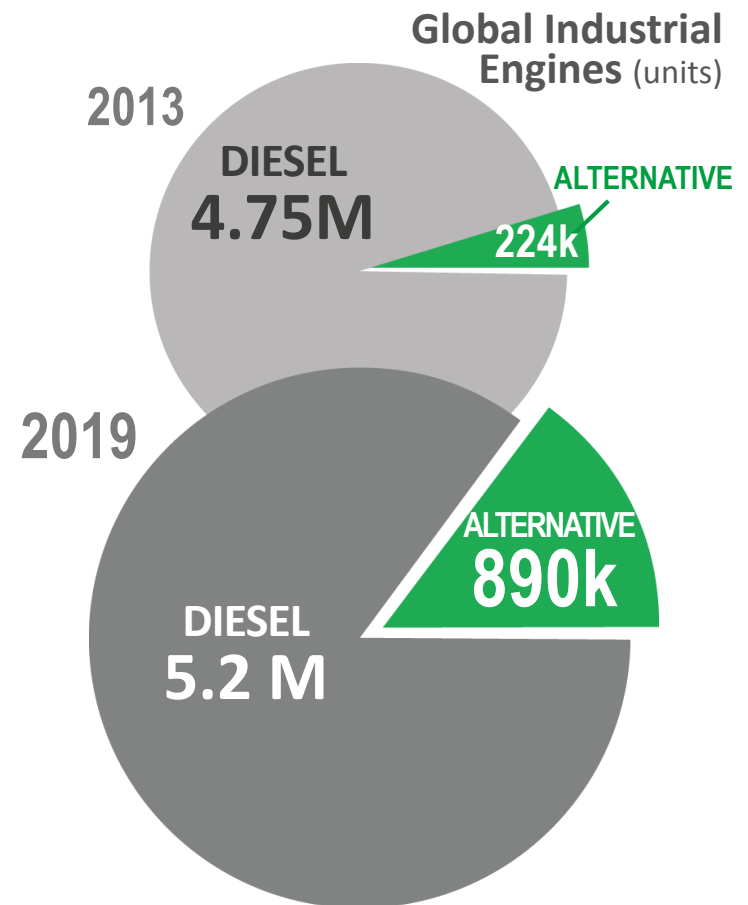
### NATIONAL ENERGY GOALS

Energy independence & security



### LEGISLATIVE INCENTIVES

Green grants & tax credits



Sources: Power Systems Research; Internal forecast 15% shift to alternative by 2019.



# ON-ROAD MARKET



**DELIVERY  
FLEETS**



**BUSES**



**CAB-OVERS**



**RVS**



**TRANSIT BUSES**



**TOW TRUCKS**



**UTILITY  
TRUCKS**



**CHASSIS**

**CLASS  
2-4**

**600K**

**CLASS  
3-5**

**305K**

**CLASS  
6-7**

**95K**

Source: Wards Communication.



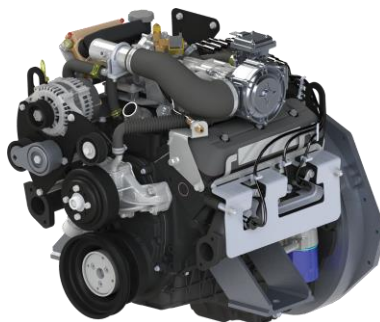
# PSI CLASS 2-7 ENGINE PORTFOLIO

**PSI** 3.4L



Class 2 - 4

**PSI** 4.3L



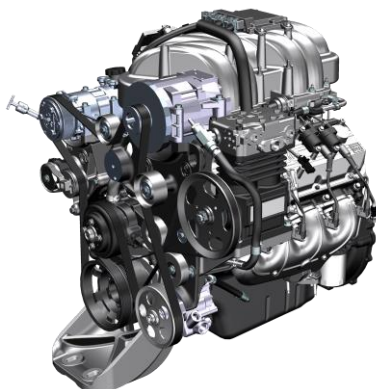
Class 3 - 4

**PSI** 6.0L



Class 4 - 6

**PSI** 8.0L 



Class 5 - 6

**PSI** 8.8L Low-Speed



Class 5 - 7

**PSI** 8.8L High Speed



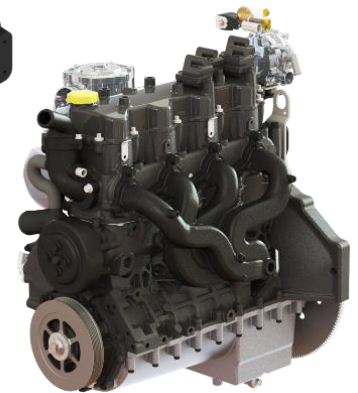
Recreational Vehicles

# FOCUSED EFFORT TO SUPPORT ON ROAD/DEVELOPMENT OF OUR OWN ENGINES

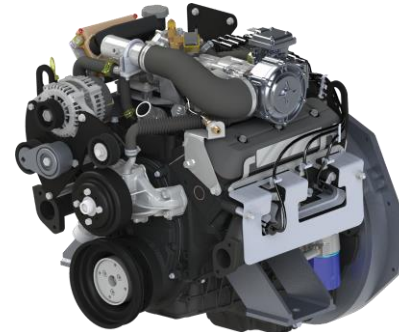
- Incurring significant costs without associated revenue in the first half of 2016
  - Testing, validation, certification and training
  - Goal is to ensure durability and quality and to maintain our reputation
- Recently hired 3 key executives to support on-road market and all other PSI engine design programs
  - Head of Engine Manufacturing, VP of Quality, and Director of Engine Engineering APD
  - Average of over 30 years experience, most of which was with General Motors
  - Knowledge of GM 4.3L and 8.1L engines, engine launch programs and quality management



**PSI** 8.8L



**PSI** 3.4L



**PSI** 4.3L

# 2016 ON-ROAD SUMMARY



## ON-ROAD TO FUEL YEARS OF LONG-TERM GROWTH

- Business changing revenue opportunity
- On-road in 2016
  - Business anchored by relationship with Freightliner Custom Chassis and Thomas Built Bus
  - Second half ramp anticipated
    - School Bus: Propane engines in production for Navistar IC Bus to support orders for the upcoming Fall school year; Large buying/operating groups considering repowering diesel engines using PSI's engine
    - China On-Road Market: Programs in place with the 4 leading bus manufacturers – meaningful orders anticipated upon receipt of certifications
    - Terminal Tractors: TICO propane terminal tractor powered by PSI 8.8L displayed at ACT Expo in Long Beach, CA



# VISION FOR ON-ROAD

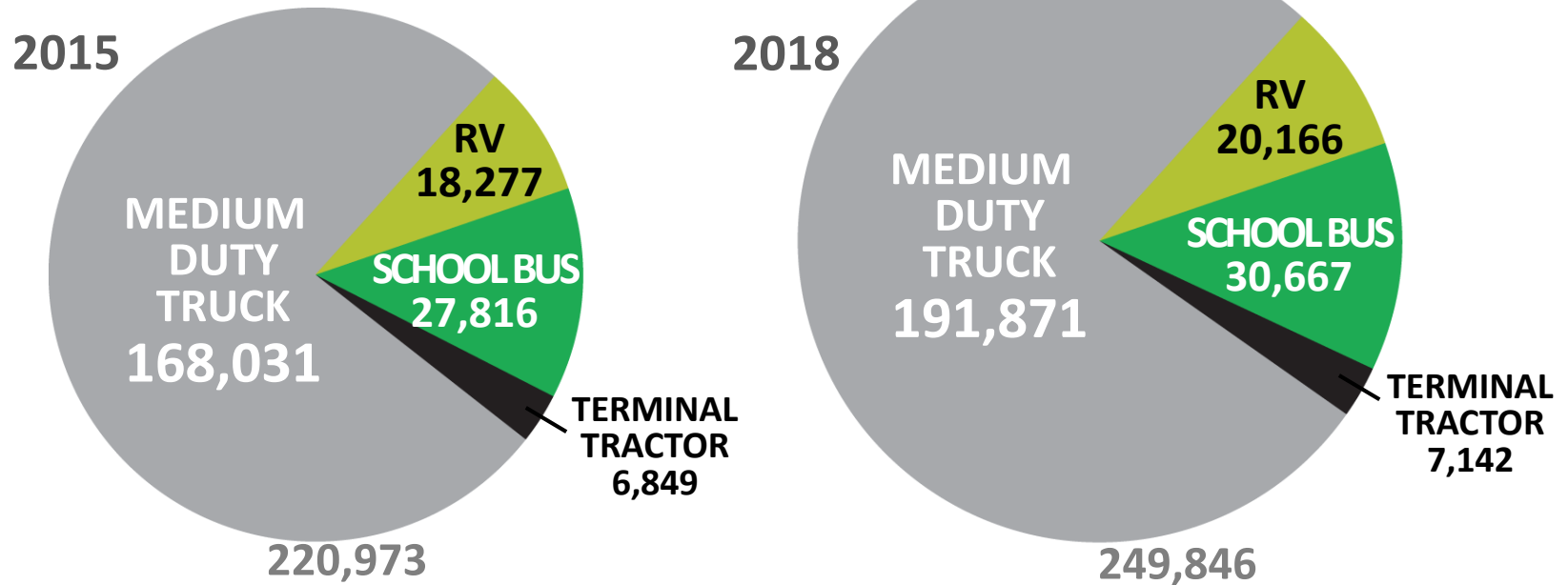
## OPPORTUNITY FOR EXISTING PARTNERS TO BECOME TOP CUSTOMERS

- **School Bus:**
  - Large adoption of Propane equals a \$200 million+ opportunity (50% take rate w/ existing customers)
  - Adoption of gasoline
  - Continuation of repower for diesel
- **China:** Expand with existing customers to other applications (Sprinters, Truck, etc.)
- **Ports:** Adoption of alternatives to diesel
- **Other:** Post Office and last mile delivery fleets



# ON-ROAD NORTH AMERICA

*Market with Continuing Growth*



Source: IHF Global; PSR, Internal estimates.



# ON-ROAD MARKETS CHINA

## ON-ROAD VEHICLES

### M-D TRUCKS

\$3.0B \$3.3B

248k

275k

2014

2018

### BUS

\$8.3B\*

\$6.2B

514k

690k

2014

2018

\* Engine market opportunity

*Gasoline is a New Alternative  
Representing a Shift Away from Diesel*

- Now partnering with 4 top gasoline bus and truck OEMs
- NG bus market also growing: tripled from 2009 to 2015



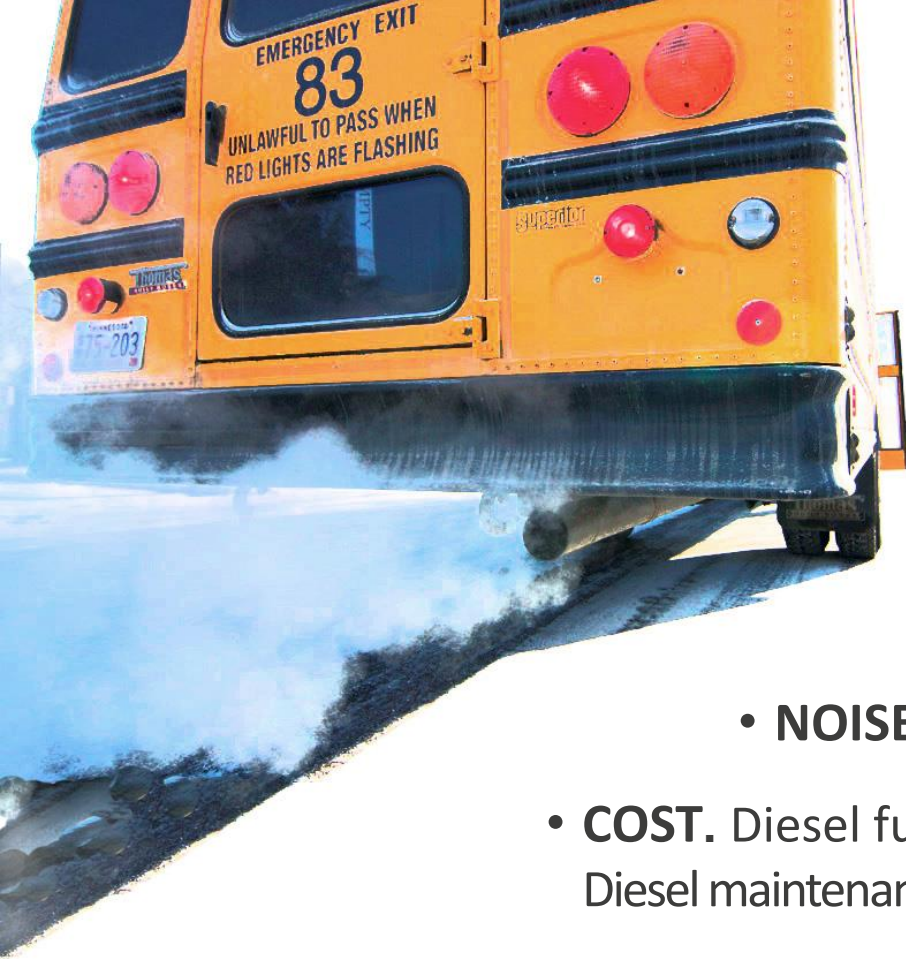
4.3L



6.0L

Sources: LMC Automotive; SinoMarketInsight.





# SCHOOL BUSES SHIFTING TO **ALTERNATIVE FUELS**

- **HEALTH.** Diesel particulate matter is carcinogenic, and buses often idle.<sup>1</sup>
- **NOISE.** Propane vehicles are 50% quieter.
- **COST.** Diesel fuel is 45% more per mile than propane. Diesel maintenance is 67+% per mile more costly than propane.<sup>2</sup>
- **ENVIRONMENT.** Propane vehicles can reduce lifecycle GHG emissions by up to 15%.<sup>3</sup>
- **INCENTIVES.** Current LP fuel cost: \$1.11/gal; 50¢/gal. LP fuel credit makes net LP cost 61¢/gal.<sup>4</sup>

Sources: <sup>1</sup> WHO; <sup>2&3</sup> DOE/Clean Cities; <sup>4</sup>Clean Fuel USA.



# SCHOOL BUS MARKET

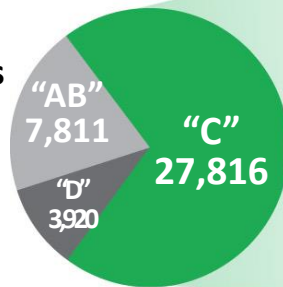
Strong Propane & Gasoline Growth, Industry-Leading Customers, \$700M Engine Market Opportunity



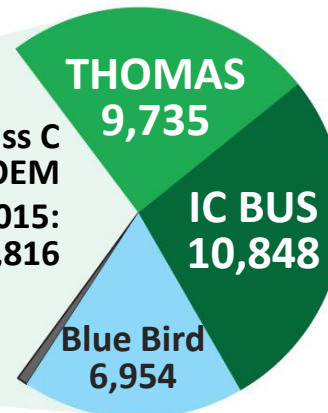
**PSI is the Sole Supplier of Alternative Fuels to IC Bus and LP to Thomasbuilt Bus**

**NORTH AMERICA  
BUS SALES (units)**

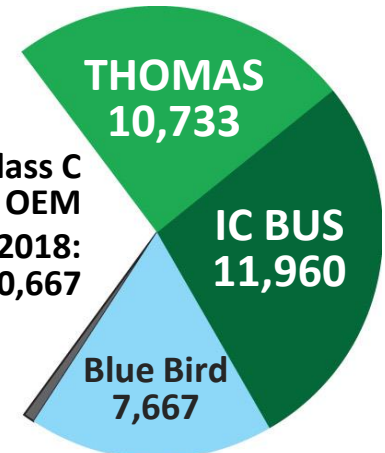
**By Class  
2015:  
39,547**



**Class C  
by OEM  
2015:  
27,816**



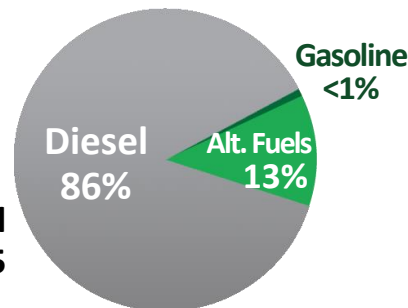
**Class C  
by OEM  
2018:  
30,667**



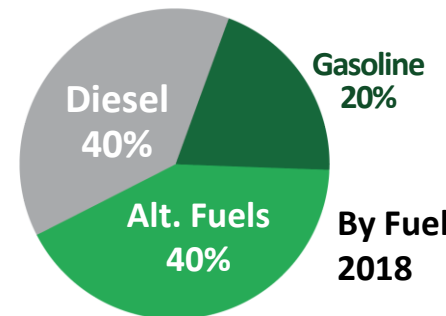
**PSI  
Customers**



**By Fuel  
2015**



**By Fuel  
2018**



Sources: School Bus Fleet, Internal estimates.



# PROPRIETARY ON-ROAD ENGINE FOR SMALLER VEHICLES

- Exploding Opportunities in emerging market
- Long term supplier, continuity of engine supply
- Purpose built for Last Mile Delivery Vehicles
- The Only Rugged & Hardened Alt-Fuel Platform
  - Liquid propane
  - Natural gas (CNG or LNG)
  - Gasoline
- Class 2-4 Truck/Van Market = 600,000 Units\*



# ON-ROAD LAST MILE DELIVERY

## amazon vs. Walmart

- Walmart to combine retail stores, distribution centers and new facilities into what it calls its “next generation fulfillment network” to battle Amazon

**“Amazon.com (AMZN) is Building Its Distribution Warehouses Closer to Customers to Save Millions of Dollars in Shipping Costs and Increasing Use of Its Own Delivery Trucks.”**

### PACKAGE DELIVERY FLEETS



- Competing for last mile delivery business from e-commerce retailers

### RENTAL FLEETS



- Entering the last mile delivery market space

## CUSTOMER TRUCKS



# LAST MILE EXAMPLE: USPS “PRIORITY YOU”

## “PRIORITY: YOU”

- The Postal Service has introduced services including free package pick-up, improved tracking technology, and Sunday delivery in order to capitalize on the continued growth of ecommerce. The agency said its package volumes have surged about 30 percent during the past five years.

## REQUEST FOR NGDV

- The Postal Service is seeking next generation delivery vehicles to accommodate more package volume as e-commerce package delivery offsets declining letters/mail.

## TOTAL VEHICLE FLEET

- Total population - 142,000 LLVs\*



# R&D/MARKET DEVELOPMENT

## AGGRESSIVE INVESTMENT

### ON-ROAD

#### Six Aggressive Product Launches with Shared Development Cost

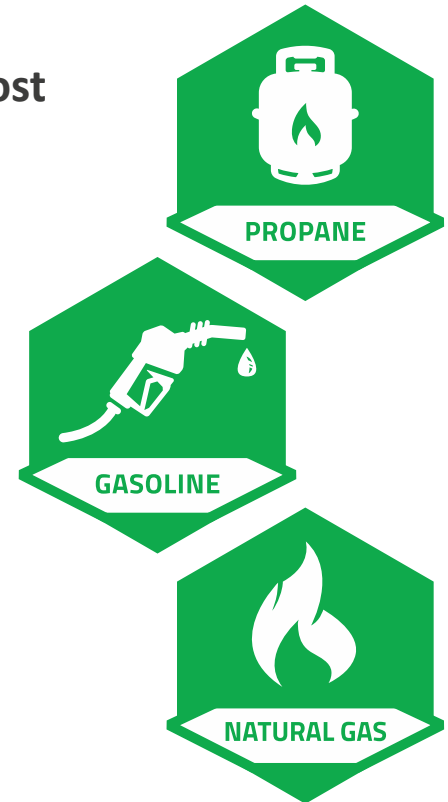
- Propane, Gasoline, and CNG
- Leverage existing engine and chassis engineering

#### New Way Of Product Development

- Formation of empowered launch team
  - Customer on-road experience
  - PSI entrepreneurial culture
- High decision velocity with risk management action plan

#### Conquest Sales

- Create public market awareness and interest
- Joint pull through campaigns
- Joint marketing campaigns
- Coordinated sales visits



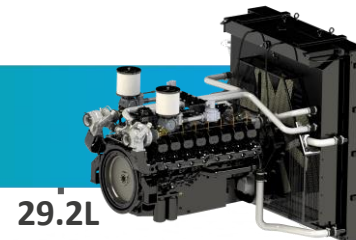
# PSI POWER GENERATION



STATIONARY / MOBILE AND CUSTOM DESIGNED SOLUTIONS



22 ENGINE DISPLACEMENTS



# POWER GENERATION OVERVIEW

## APPLICATIONS

- Auxiliary Power Units
- Compressors/Pumps
- Generators:
  - Portable, Standby
  - Prime, Emergency
- Co-generation/CHP
- Demand Response
- Peak Shaving
- Microgrids
- Healthcare
- Data Centers/Telecom
- Oil & Gas
- Specialty Power
- Mobile Power

## MARKET TRENDS

- Cost, complexity & packaging for diesel emissions makes gas engines more attractive
- Emergency Standby growth requires NFPA-rated application
- CHP capacity in NA to grow from 93.5k now to 116k MW by 2020
- Small-scale CHP plants under 10MW (PSI's target market) growing at 200 MW/year rate
- Global microgrid market to grow at 20.7% CAGR (2014-2020)

## PSI ADVANTAGES

- Product range of .97L–29L and 20kw–1MW & expanded solutions for larger packaging requirements
- Doosan PSI JV
- 3PI - Equally leveraged engine and packaging opportunities
- True Emergency Standby: NFPA 110.1 compliant
- 50z and 60z products
- UL2200 compliant
- Standby, Prime & Continuous

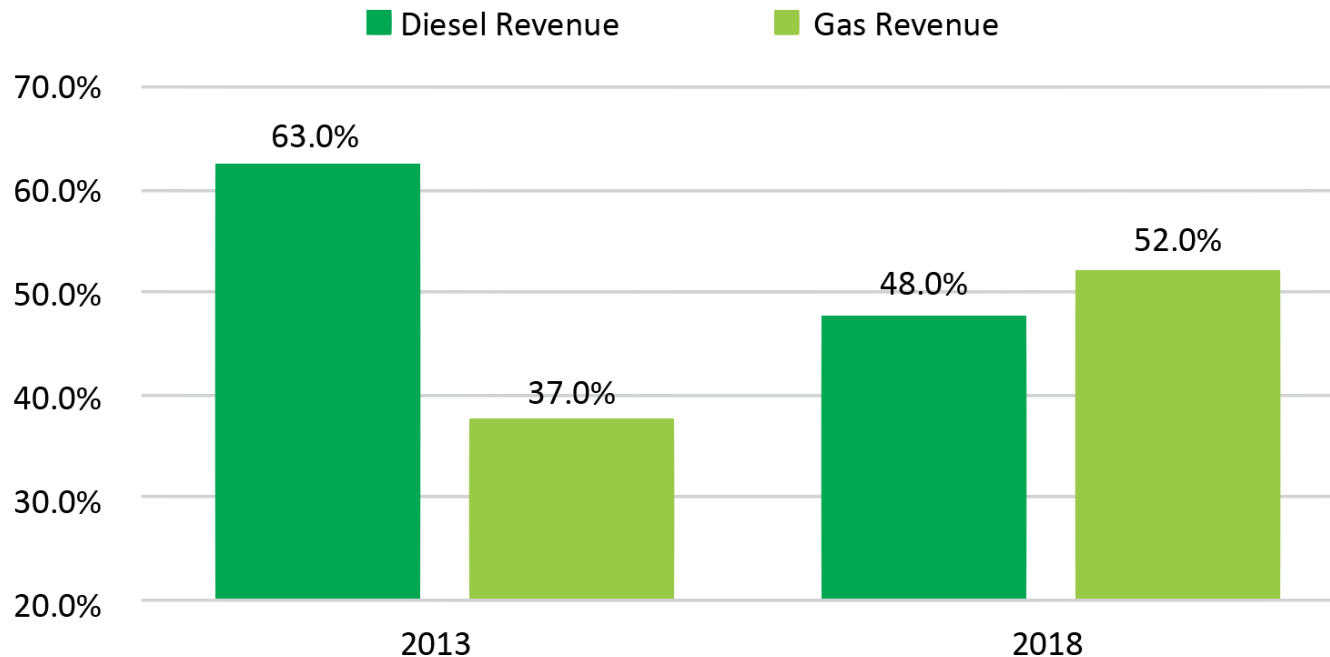


# POWER GENERATION MARKET

*OEMs Shifting Toward Alternatives to Diesel*

## NATURAL GAS VS. DIESEL MARKET GROWTH

Generator Market Share by Fuel Type



Sources: Frost & Sullivan, EGSA, Internal estimates



# POWER GENERATION / 3PI

## DRIVE PERFORMANCE AT 3PI

- Near-term goal: generate meaningful revenue and profit in 2016
- Highest revenue was \$40 million - new partnership with Sterling & Wilson expected to support material growth
- PSI exclusive provider of Heavy Duty Engines
- Sterling & Wilson Partnership to support CoGen market
  - Supply engines and packaging services for North American cogeneration/combined heat and power (CHP) market
  - BOOM structures

**STERLING & WILSON**   
\$2.5B / 23k Employees



## PSI MIDDLE EAST BUSINESS OPPORTUNITIES

- Replicate success we achieved in North America
- Well operators looking at PSI engines to lower operating costs and improve emissions (eliminate flaring)
- 1MW Waukesha engines could be a good fit for booster applications along the pipeline

# MOBILE INDUSTRIAL MARKET



**FORKLIFTS**



**AERIAL LIFTS**



**ARBOR  
PRODUCTS**



**INDUSTRIAL  
SWEEPERS**



**AGRICULTURAL  
& TURF**



**AIRCRAFT  
GROUND SUPPORT**

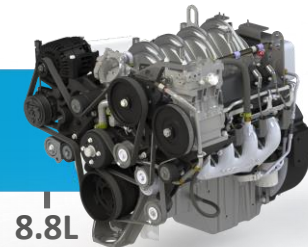


**OTHER INDUSTRIAL**



.97L

**17 ENGINE DISPLACEMENTS**



8.8L



# MATERIAL HANDLING OVERVIEW



## APPLICATIONS

- Class 4
  - 1T – 8T
  - Forklifts
- Class 5
  - 1T – 52T
  - Container Handlers
  - Large Forklifts
  - Reach Stackers

## MARKET DRIVERS

- \$6,700 fuel savings/yr vs. diesel
- Propane systems 50% less costly than Tier 4-compliant diesel systems
- 36% lower acquisition cost than electric
- 50% longer operation time over electric
- 100% consistent load over electric

## PSI ADVANTAGES

- New 2.0L, 2.4L & 4.3 engines cover 80% of market: 1.5– 8-ton
- USA, China & Korea facilities
- High-volume manufacturing capability covers 100% market demand



# MATERIAL HANDLING MARKET

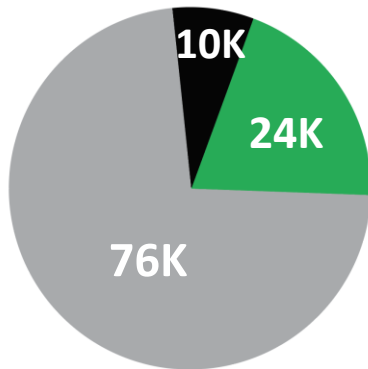
*Opportunities for Intrinsic NA Growth and New Asian Gas Market*

## INTERNAL COMBUSTION FORKLIFTS

### AMERICAS

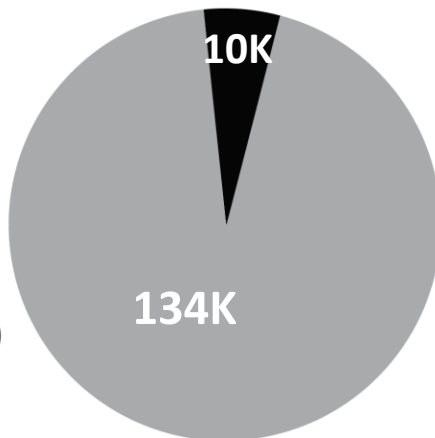
**2014**

TOTAL:  
110K



**2020**

TOTAL:  
144K

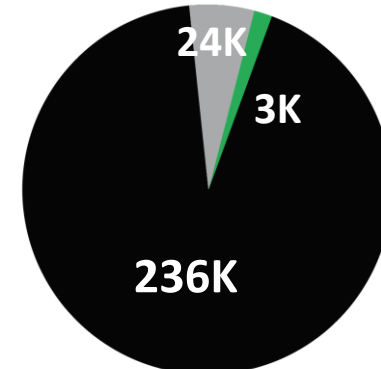


*All growth  
is in gas  
market (34%)*

### ASIA\*

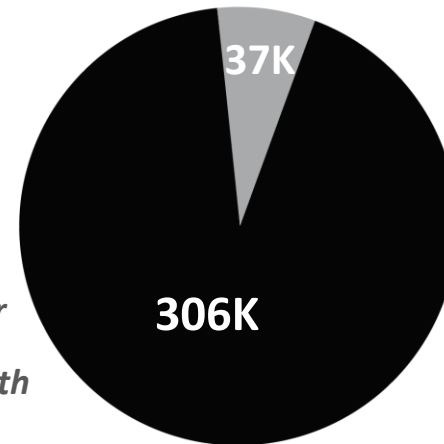
**2014**

TOTAL:  
263K



**2020**

TOTAL:  
343K



*Untapped  
market for  
PSI with  
54% growth*



\*Excludes Japan



# INCOME STATEMENT

	2016 <u>1Q</u>	2015 <u>4Q</u>	2015 <u>1Q</u>
<b>Net Sales</b>	<b>\$61,814</b>	<b>\$96,670</b>	<b>\$86,139</b>
<b>Gross Profit</b>	<b>4,056</b>	<b>13,695</b>	<b>16,457</b>
<i>Gross Profit %</i>	<i>6.6%</i>	<i>14.2%</i>	<i>19.1%</i>
<b>Operating Expense</b>	<b>\$12,737</b>	<b>\$14,433</b>	<b>\$12,387</b>
<i>Op. Expense %</i>	<i>20.6%</i>	<i>14.9%</i>	<i>14.4%</i>
<b>Operating (Loss) Income</b>	<b>\$(8,681)</b>	<b>\$(738)</b>	<b>\$4,070</b>

## Q1 SEQUENTIAL COMPARISON

- Reduced sales due to reduction in Power Generation and On-Road end markets
- Gross profit impacted by volume, product mix and underabsorption
- Q1 2016 operating loss includes \$1,429k in amortization and no transaction costs compared to Q4 2015 operating loss which includes amortization costs of \$1,860k and transaction costs of \$393k

## Q1 YEAR-OVER-YEAR COMPARISON

- Reduced sales due to reduction in Power Generation end markets offset by sales to On-road end markets
- Gross profit impacted by volume, product mix and underabsorption
- Q1 2016 operating loss includes \$1,429k in amortization and no transaction costs compared to Q1 2015 operating loss which includes amortization costs of \$850k and transaction costs of \$200k



# BALANCE SHEET

## WORKING CAPITAL MANAGEMENT

	2016 <u>1Q</u>	2015 <u>4Q</u>
Accounts Receivable, net	\$63,163	\$104,365
Inventories, net	120,735	130,347
Total A/R Inventory, net	183,898	234,712
Accounts Payable	41,491	76,078
Working Capital*	\$142,407	\$158,634
Net Debt**	<u>\$133,019</u>	\$142,674
		\$9.7m reduction

## WORKING CAPITAL FOCUS (Q1 2016 versus Q4 2015)

- Accounts Receivable, net, reduced by \$41,202k (considering sales reduction of \$34,856k from 2015 Q4 to Q1 2016)
- Inventories, net, reduced by \$9,612K (working through “Last-time buys”; continuing to optimize balances by engine architecture)
- **Prudent working capital management contributes to positive operating cash flow of \$9,995k, which funded R&D of \$5,250K in Q1 2016**

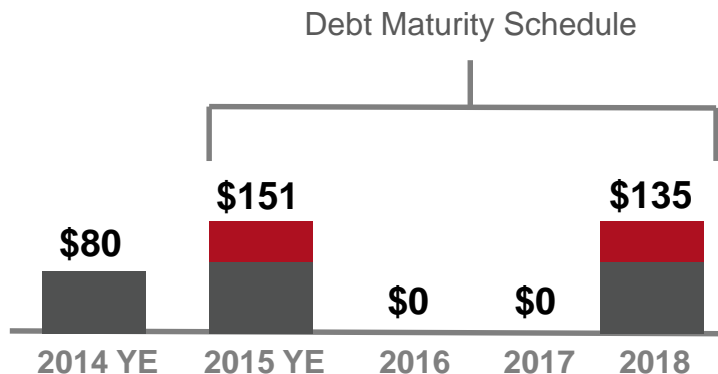
\* Working capital defined as Accounts Receivable, net, plus Inventories, net, minus Accounts Payable; \*\* Net debt defined as Revolving line of credit plus Long-term debt, net, minus Cash



# DEBT OVERVIEW

## *No Significant Near-Term Debt Maturities*

### DEBT SUMMARY (\$M)



### COVENANTS

- No covenants related to \$55MM Notes
- ABL In compliance

### \$55 MILLION UNSECURED NOTES

- Amended on April 1, 2016
  - 6.5%\* Coupon
  - Increased permitted indebtedness to \$145M\*\*
  - Eliminated special mandatory offer to purchase

### REVOLVING LINE OF CREDIT

- Facility increased to \$125M from \$100M February 2015
- Expires in June 2018
- Fixed Charge to Adjusted EBITDA coverage ratio of 1 to 1

\* Amended to 6.5% from 5.5% April 1, 2016; \*\* As defined by the agreement, with such amount reducing to \$135M effective February 1, 2017

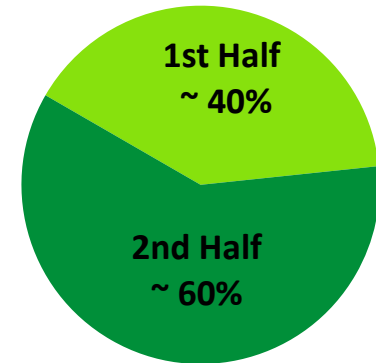


# 2016 OUTLOOK

## FINANCIAL GUIDANCE

- Revenue range of \$350 to \$375 million for the year\*
- Continue to anticipate profitability for the year

## 2016 REVENUE\*



## POWER GENERATION

- Reduced Oil & Gas demand – assumed approximately \$50 million
- More diversified revenue base
- Unique emission technology
- Majority of revenue recognition is in 2H

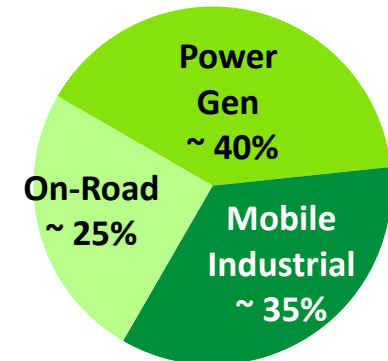
## MOBILE INDUSTRIAL

- First major non-certified win in China

## ON-ROAD

- Full volume capacity to be reached in 2H

## END MARKET REVENUE\*\* (2016E)



\* Includes aftermarket, eliminations and other, rounded to the nearest 5%

\*\* Excludes aftermarket, eliminations and other, rounded to the nearest 5%



# **SUMMARY** GROWTH PROSPECTS INTACT

## **Penetrating New Markets**

- PSIX business extends beyond Oil & Gas
  - Exposure to production segment, not exploration; continued education of benefits
- On-Road has significant demand beginning in the second half of 2016, continuing in to 2017

## **Product Offering Continues to Increase**

- As markets move to alternative fuels, continue to provide solutions

## **Growth Potential with Acquisitions**

- Powertrain Integration growth with on-road
- 3PI growth in Cogen, CHP

## **Base Fundamentals Still In-Tact**

- Leader in alternative fuel solutions, with competitive advantages in engineering and manufacturing
- Improvement in margin is key opportunity
- No near-term debt maturities



# THANK YOU

