



**POWER SOLUTIONS
INTERNATIONAL**



Growth Conference

January 12, 2016

SAFE HARBOR AND OTHER CAUTIONARY NOTES

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PSI OVERVIEW

Largest worldwide manufacturer of natural gas, propane, gasoline and other diesel-alternative engines



**POWER
GENERATION**



**MOBILE
INDUSTRIAL**



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

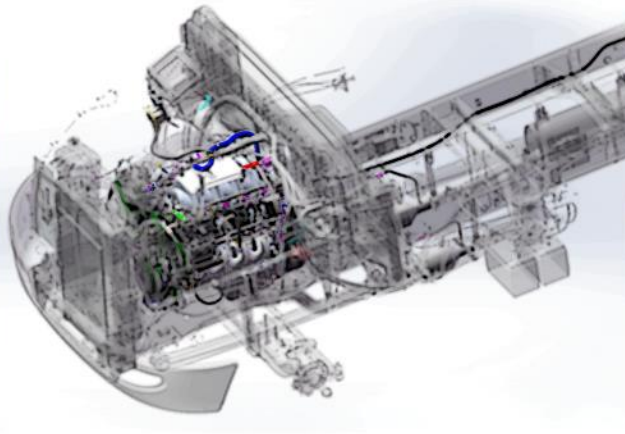
PSI ADVANCED CLEAN TECHNOLOGY & MANUFACTURING CAPABILITIES

Powering alternative fuels for industrial and on-road



Innovative Technologies

- Proprietary on-highway engine controls
- EPA & CARB-certified, low-emission solutions
- Fuel-flexible systems: natural gas, propane, gasoline
- Ongoing patent applications



Leading Talent

- Advanced engineering disciplines
- Industry-leading application knowledge
- Strategic partnerships & JVs
- Highly skilled manufacturing



Advanced Facilities

- Dedicated R&D & engineering facility
- Automotive grade high-volume production lines
- State-of-the-art machining center
- Advanced testing laboratory
- Expanded Asian facilities



PSI MANUFACTURING FOOTPRINT



**PSI Corp. HQ &
Engine Dress Facility**

201 Mittel Dr.
Wood Dale, IL

261,000 sq.ft.



**PSI Machining &
Engine Build Facility**

101 Mittel Dr.
Wood Dale, IL

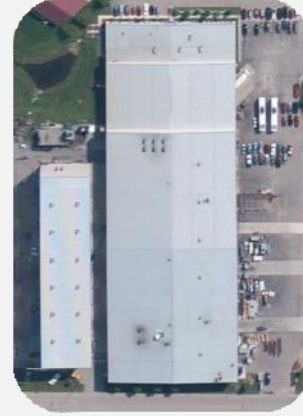
105,000 sq.ft.



**PSI R+D, Engineering
& HD Assembly Facility**

1465 Hamilton Pkwy.
Itasca, IL

198,000 sq.ft.



**3Pi Corp. HQ &
Production Facility**

448 W. Madison St.
Darien, WI

200,000 sq.ft.



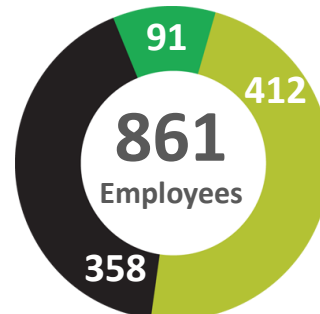
**Buck's Production
Facility**

515 I-27 N
Lubbock, TX

23,000 sq.ft.



Total Company



Administrative Engineering Labor



INDUSTRIAL SHIFT TO NON-DIESELS

Market drivers sparking faster growth for alt-fueled 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



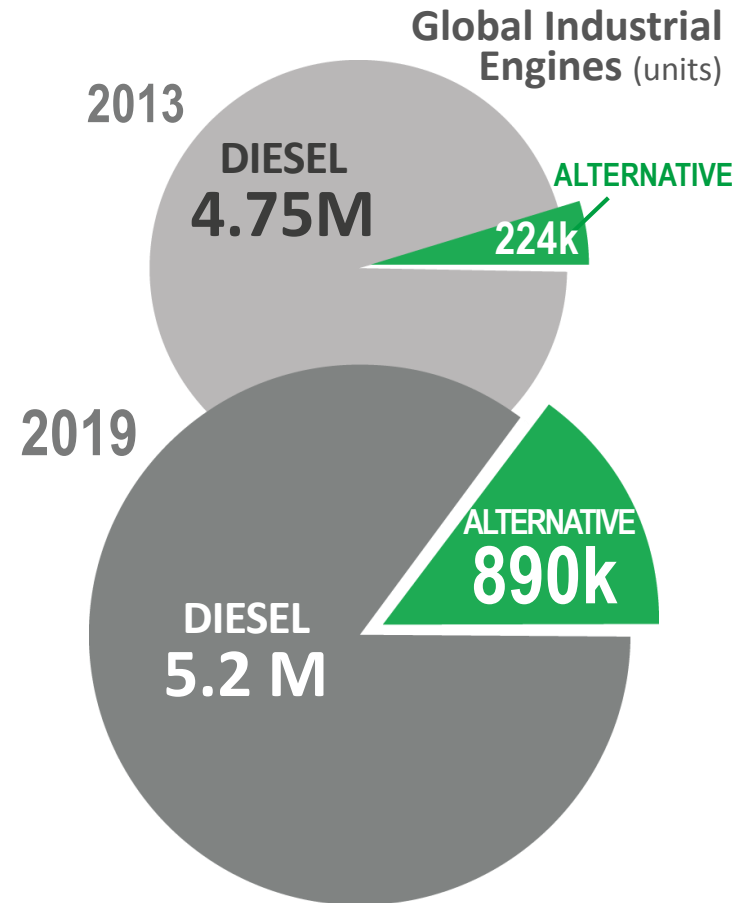
NATIONAL ENERGY GOALS

Energy independence & security



LEGISLATIVE INCENTIVES

Green grants & tax credits



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



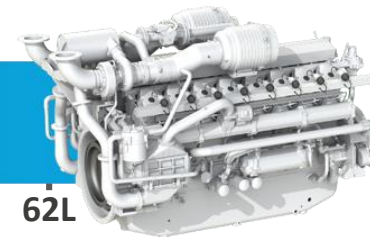
PSI POWER GENERATION



STATIONARY / MOBILE AND CUSTOM DESIGNED SOLUTIONS



25 ENGINE DISPLACEMENTS



POWER GENERATION MARKET

OEMs shifting toward alternatives to diesel

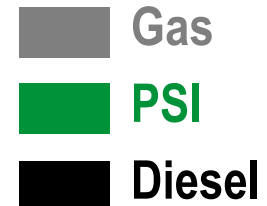
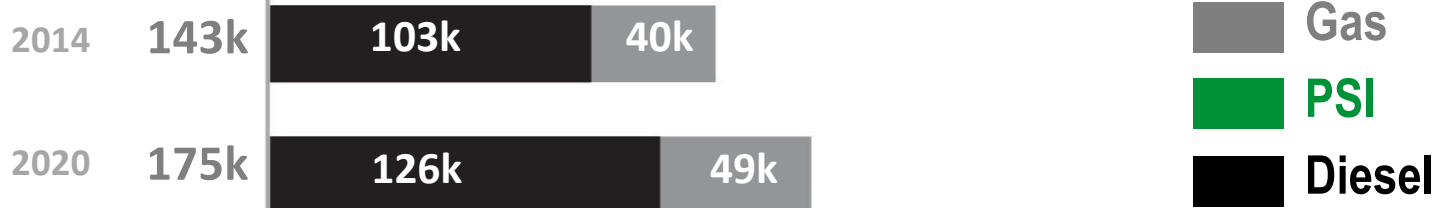
GLOBAL (units)



N. AMERICA (\$)



N. AMERICA (units)



Sources: Frost & Sullivan, Power Systems Research.



POWER GENERATION

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 2020¹
- 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)²

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



PSI MOBILE INDUSTRIAL



FORKLIFTS



AERIAL LIFTS



**ARBOR
PRODUCTS**



**INDUSTRIAL
SWEEPERS**



**AGRICULTURAL
& TURF**



**AIRCRAFT
GROUND SUPPORT**

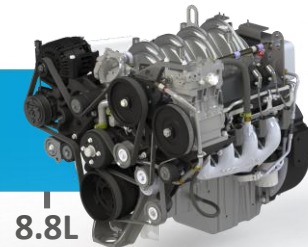


OTHER INDUSTRIAL



.97L

17 ENGINE DISPLACEMENTS



8.8L

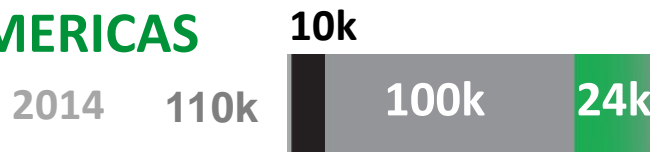


MATERIAL HANDLING MARKET

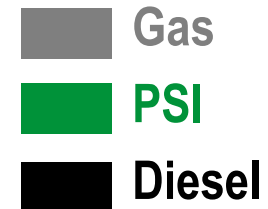
Opportunities for intrinsic NA growth and new Asian gas market

Internal Combustion Forklifts

AMERICAS



All growth is in gas market (34%)



ASIA*



Untapped market for PSI with 54% growth



*Excludes Japan

Sources: Power Systems Research; ITA; WITS; Industrial Truck Institution, CCMA.



FORKLIFT MARKET



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



PSI ON-ROAD



**DELIVERY
FLEETS**



BUSES



CAB-OVERS



RVS



TRANSIT BUSES



TOW TRUCKS



**UTILITY
TRUCKS**



CHASSIS



4.8L



6.0L

305K

C3-5

95K

C6-7

196K

C8

US ON-ROAD MARKET



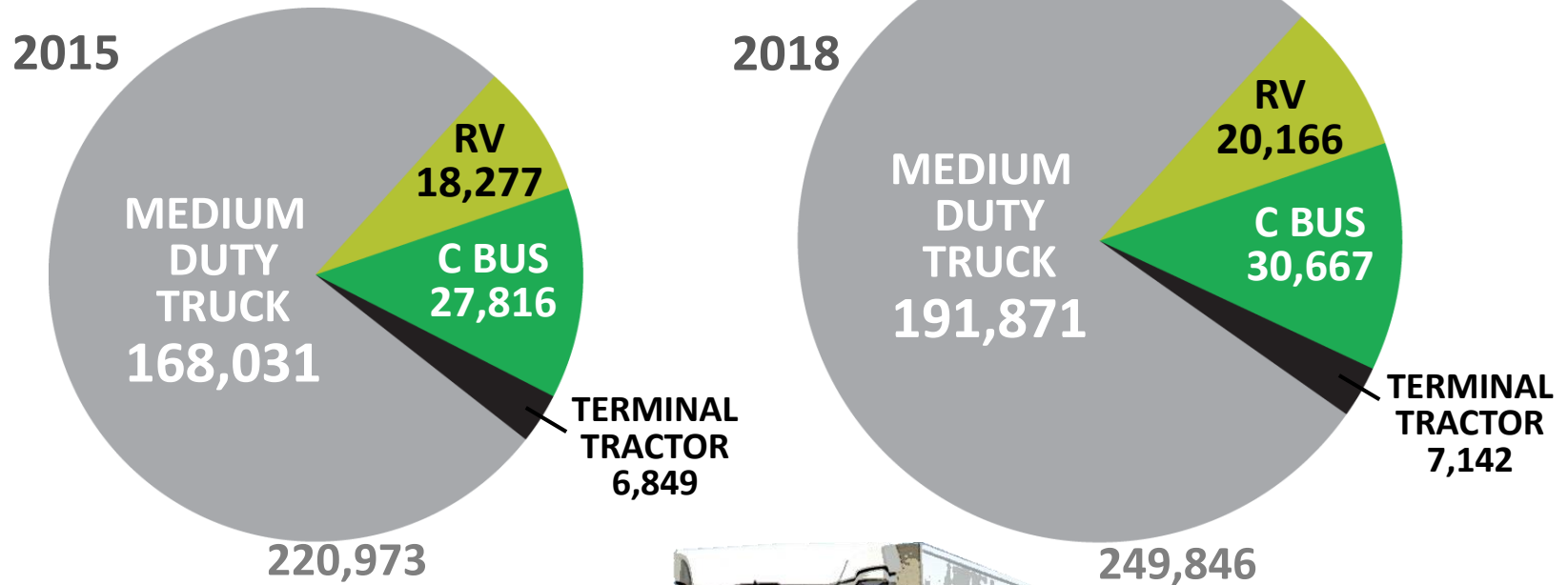
8.8L

Source: Wards Communication.



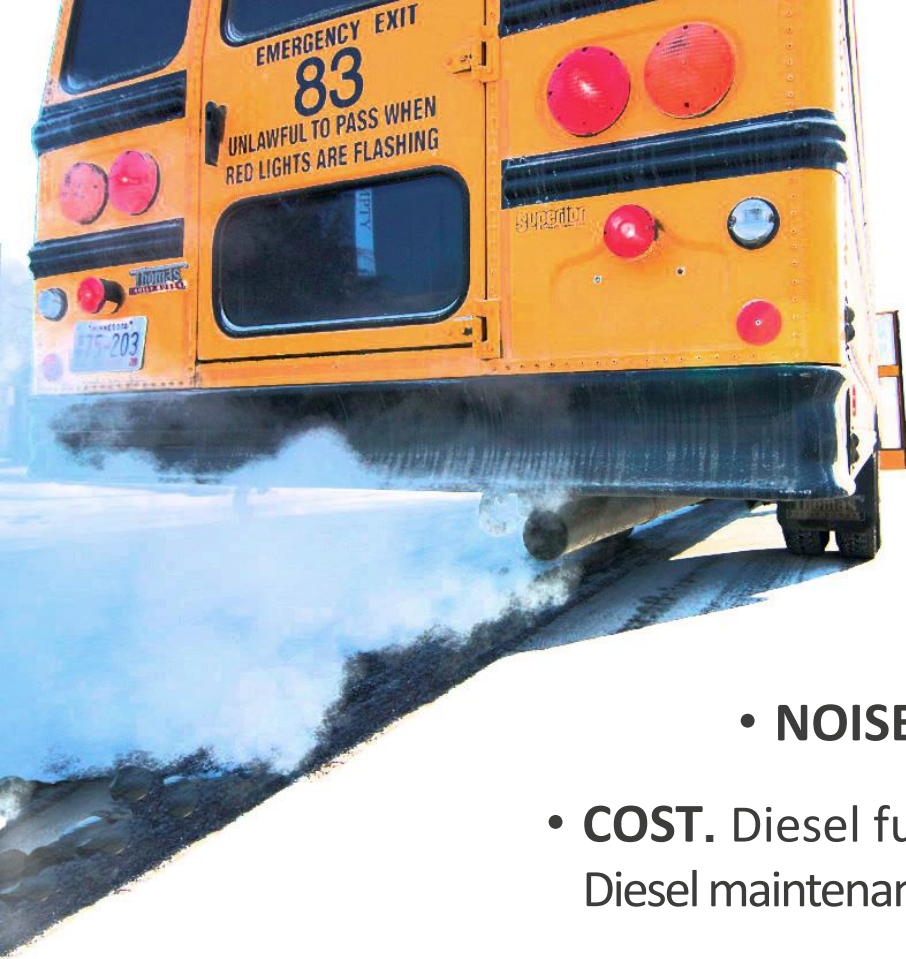
North American **ON-ROAD MARKET**

Market with continuing growth



Source: IHF Global; PSR, Internal estimates.





SCHOOL BUSES SHIFTING TO **ALTERNATIVE FUELS**

- **HEALTH.** Diesel particulate matter is carcinogenic, and buses often idle.¹
- **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.²
- **ENVIRONMENT.** Propane vehicles can reduce lifecycle GHG emissions by up to 15%.³
- **INCENTIVES.** Current LP fuel cost: \$1.11/gal; 50¢/gal. LP fuel credit makes net LP cost 61¢/gal.⁴

Sources: ¹ WHO; ^{2&3} DOE/Clean Cities; ⁴Clean Fuel USA.

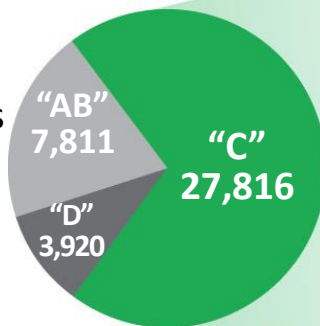


SCHOOL BUS MARKET

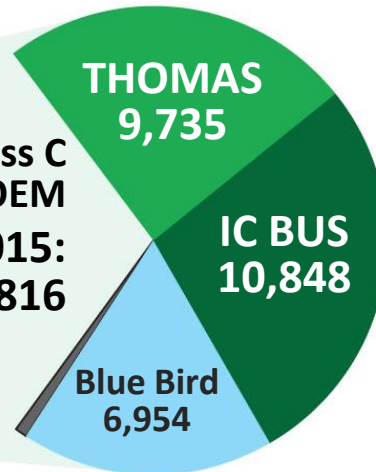
Strong propane & gasoline growth, industry-leading customers, **\$700M engine market opportunity**

NORTH AMERICA BUS SALES (units)

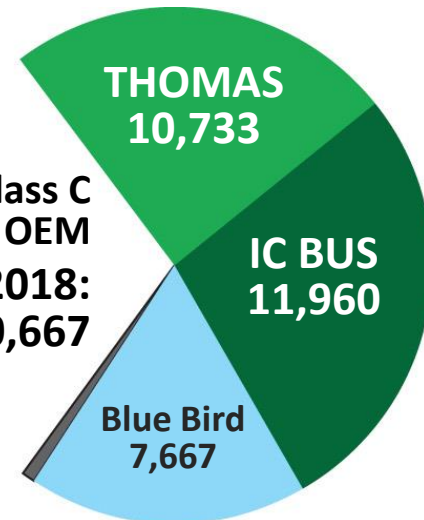
By Class
2015:
39,547



Class C
by OEM
2015:
27,816



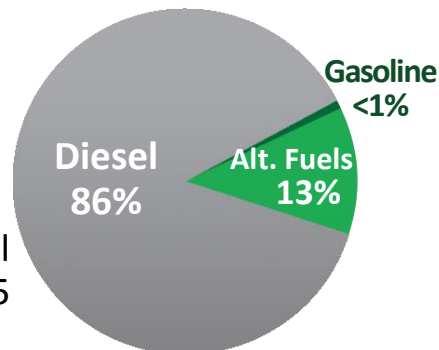
Class C
by OEM
2018:
30,667



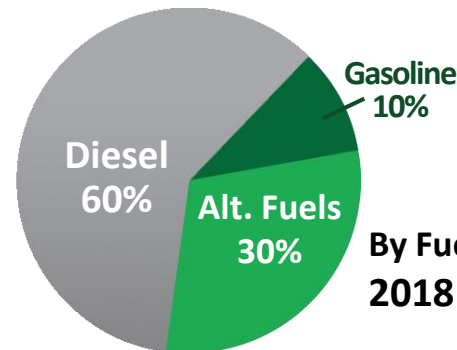
PSI Customers



By Fuel
2015



By Fuel
2018



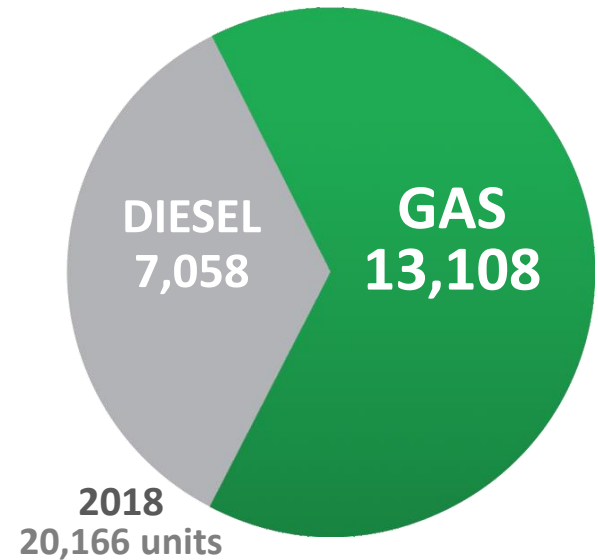
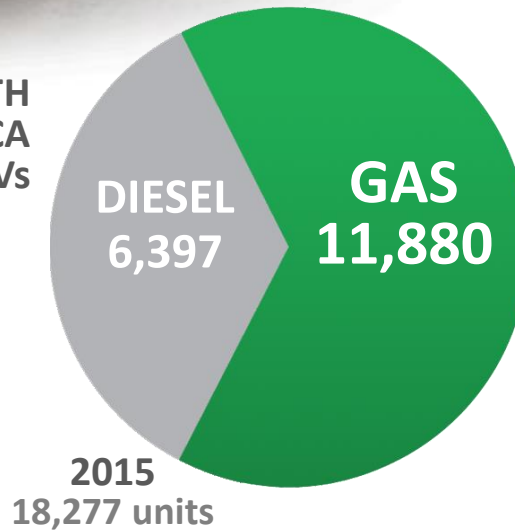
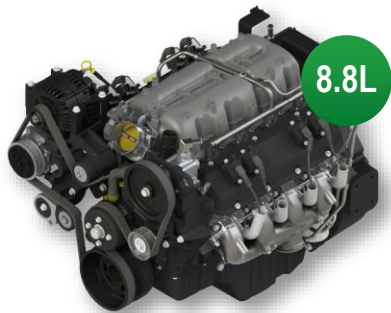
Sources: School Bus Fleet, Internal estimates.



RV MARKET NORTH AMERICA

Large gasoline market with engine power gaps that PSI is poised to fill,
total engine market of \$400M

NORTH
AMERICA
RVs

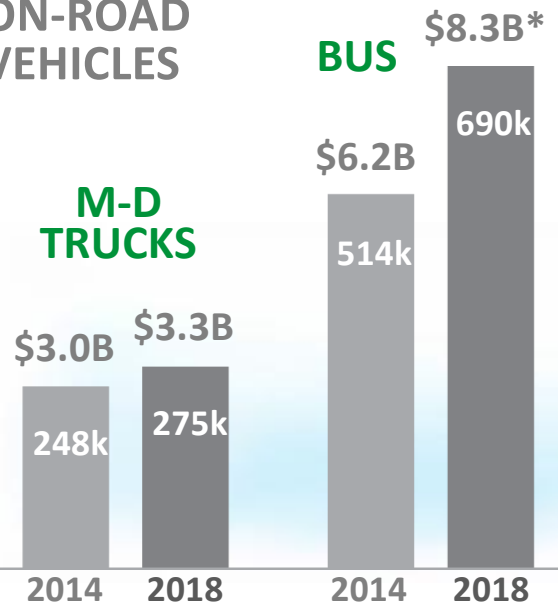


Source: RVIA.



ON-ROAD MARKETS CHINA

ON-ROAD VEHICLES



* Engine market opportunity

Gasoline is a new alternative
in shift away from diesel

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



Sources: LMC Automotive; SinoMarketInsight.



ACQUISITIONS



3Pi. Professional Power Products, Inc., leading global designer and manufacturer of large, custom-engineered integrated electrical power generation systems.



BUCK'S ENGINES, LP. Manufacturer of alternatively fueled engines for industrial markets, product line of United Engines, LLC.



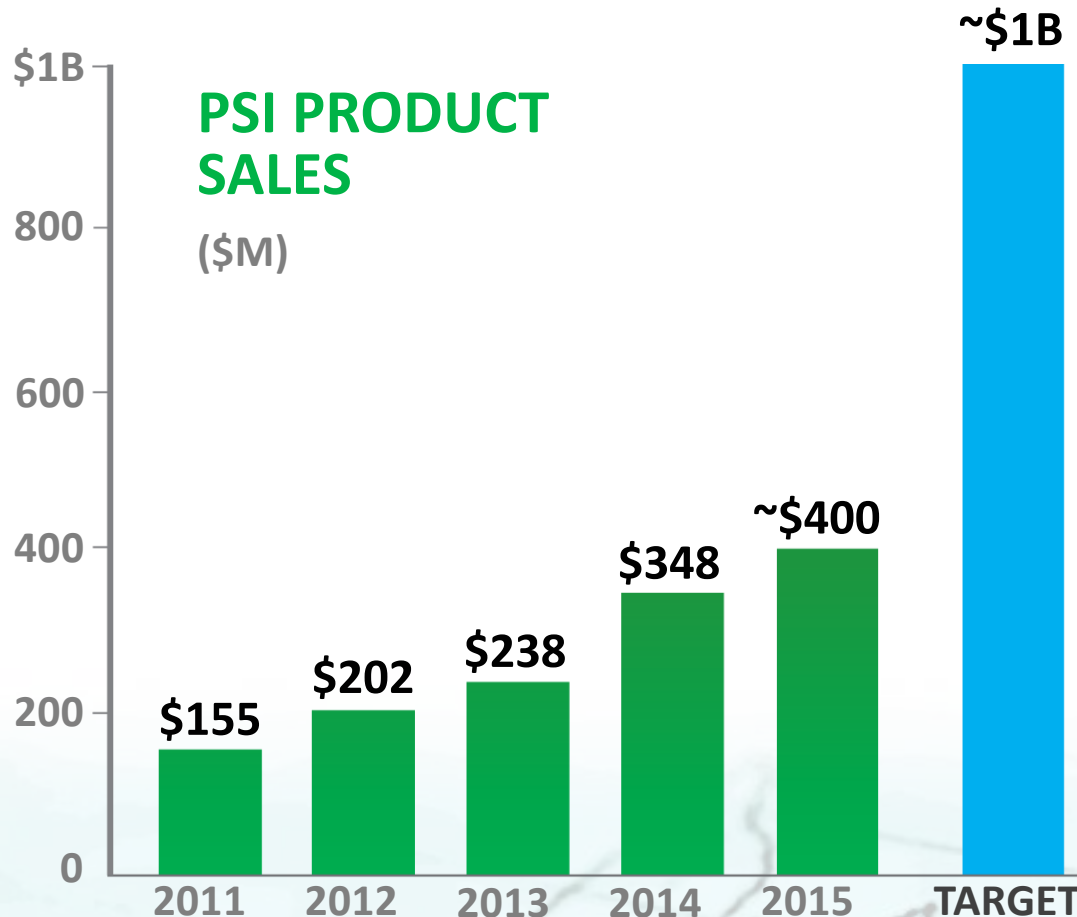
POWERTRAIN INTEGRATION. Madison Heights, MI-based, on-road power system manufacturer.



BI-PHASE. Electronic fuel-injection system manufacturer, privately held by regional food company.



REVENUE DEVELOPMENT

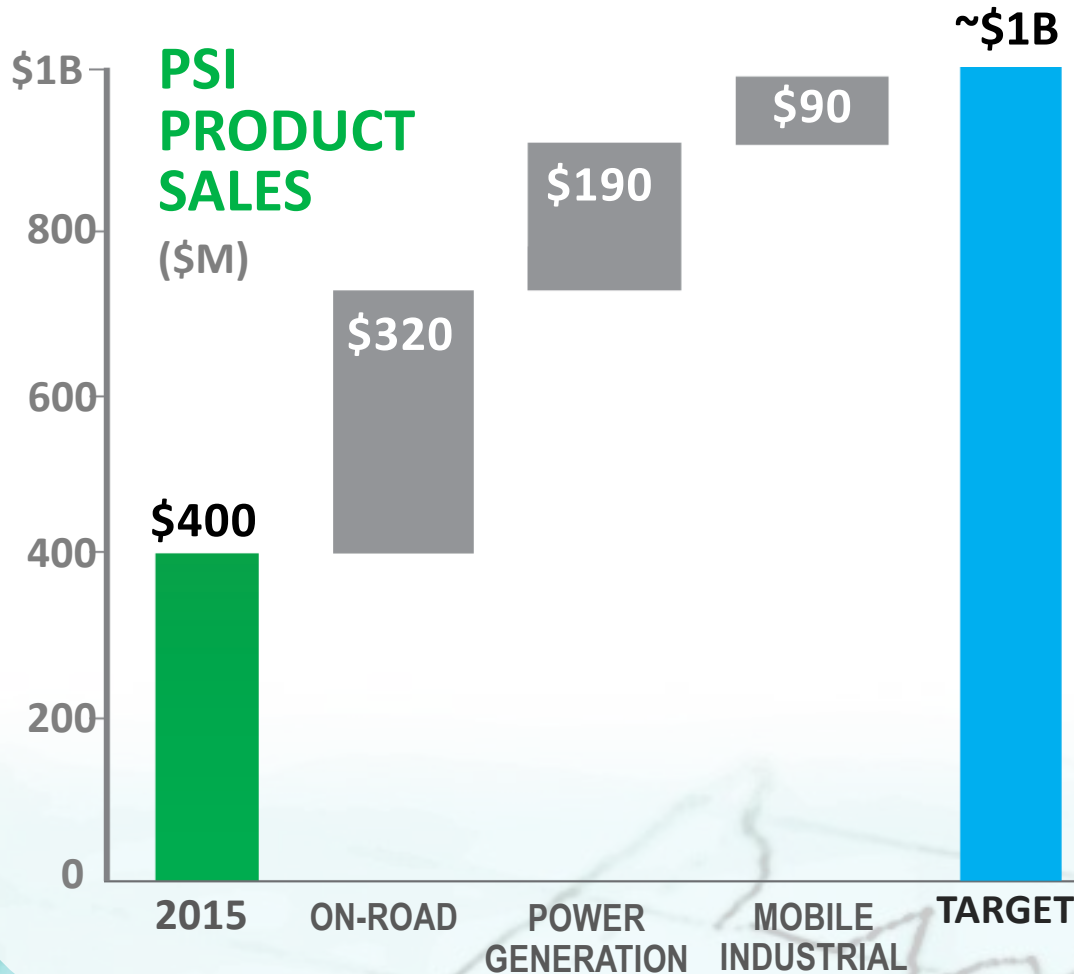


Assumptions

- Certain end markets recover/expand
- Reduced volatility in the Oil & Gas industry/pricing
- Regulatory environment continues to pressure improved emissions standards



PATH TO TARGET

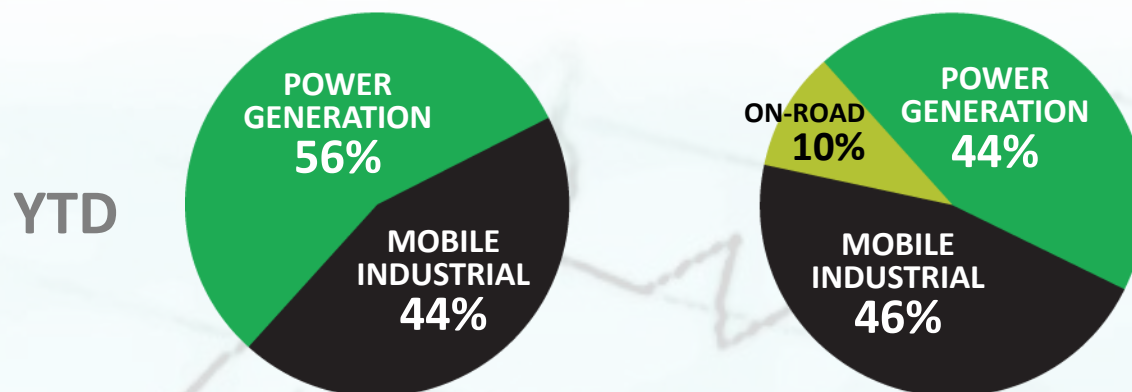
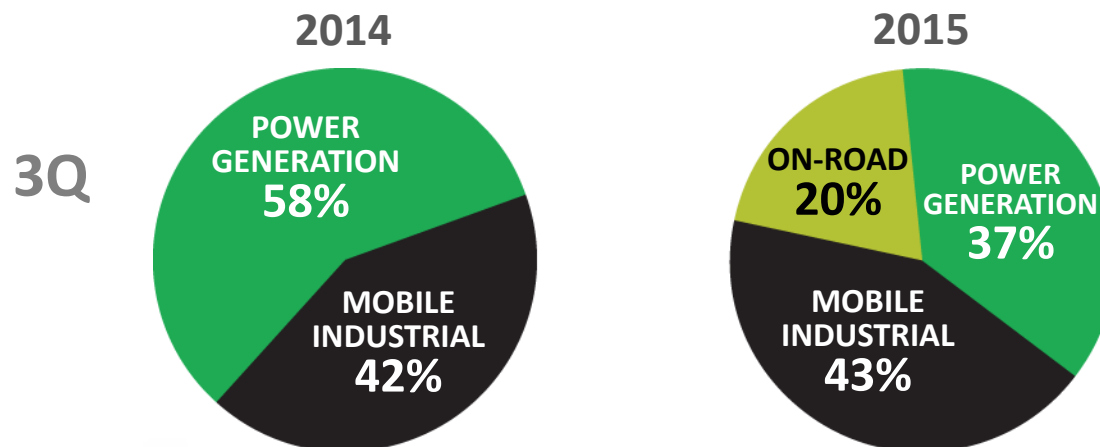


Assumptions

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ON-ROAD STARTING TO GROW



3Q 2015 RESULTS

- **MACRO ENVIRONMENT SLUGGISH**

- Many industrial markets challenged with slow growth
- US GDP (advanced estimates): Q3 = +1.5%; Q2 = +3.9%

- **Q3 2015 FINANCIAL PERFORMANCE**

- Sequential and year-over-year sales growth
- Higher costs associated with manufacturing and supply chain issues, lower margin business at 3PI
- Net Income of \$9.0M (includes benefit of warrant revaluation)
- Adjusted Net income of \$487k

- **STRONG WORKING CAPITAL IMPROVEMENT**

- Reduced DSO to 78 days from 81
- Reduced Inventory to 96 days from 142



3Q 2015 RESULTS

Reduction in gross margin primarily due to manufacturing inefficiencies

P&L	Q3 2015	Q2 2015	Seq Change	Q3 2014	Y/Y Change
Net Sales	\$112.0	\$94.6	+18.4%	\$94.0	+19.1%
Gross Margin %	13.7%	18.4%	-470 bps	19.8%	-610 bps
Operating Expense %	12.4%	13.6%	-120 bps	11.8%	+60 bps
Adjusted EBITDA*	\$4.2	\$6.8	(38.2%)	\$8.9	(52.8%)
Net Income	\$9.1	\$4.9	+85.7%	\$7.1	+28.2%
Adjusted Net Income*	\$0.5	\$2.2	(77.3%)	\$4.4	(88.6%)
Capital Expenditures	\$3.2	\$2.6	+23.1%	\$2.3	+39.1%

Balance Sheet	Q3 2015	Q2 2015	Change
Cash	\$12.3	\$6.1	+101.6%
A/R DSO	78	81	-3 days
Inventory Days	96	142	-46 days
Total Assets	\$330.1	\$331.7	(0.4%)
A/P	\$43.9	\$40.7	+7.9%
Debt	\$152.8	\$158.7	+3.7%
Equity	\$104.3	\$95.0	+9.8%

* Please refer to the definitions of non-GAAP financial measures in the appendix.



SUMMARY

Penetrating New Markets

- PSIX business extends beyond Oil & Gas
 - Exposure to production segment, not exploration; continued education of benefits
- On-Road has significant demand

Product Offering Continues to Increase

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

Growth Potential with Acquisitions

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

Base Fundamentals Still In-Tact

- Improvement in margin is key opportunity
- No near-term debt maturities



Non-GAAP Financial Measures and Reconciliations

Reconciliation of GAAP "Net Income" to non-GAAP "Adjusted Net Income" (Dollar amounts in thousands)

As used herein, "GAAP" refers to generally accepted accounting principles in the United States. The Company uses certain numerical measures in this presentation which are or may be considered "Non-GAAP financial measures" under Regulation G. The Company believes supplementing its consolidated financial statements presented in accordance with GAAP with non-GAAP measures provides investors with useful information regarding the Company's short-term and long-term trends. The Company has provided below for your reference supplemental financial disclosure for these measures, including the most directly comparable GAAP measures and associated reconciliations.

	Three months ended September 30, 2015	Three months ended September 30, 2014	Three months ended June 30, 2015
Net income	\$ 9,109	\$ 7,148	\$ 4,921
Non-cash (income) from warrant revaluation	(8,750)	(858)	(2,904)
Non-cash (income) from contingent consideration revaluation, net of tax	(30)	(1,925)	(-)
Transaction costs, net of tax	158	-	148
Adjusted net income	<u>\$ 487</u>	<u>\$ 4,365</u>	<u>\$ 2,165</u>

Non-GAAP Financial Measures and Reconciliations

Adjusted net income is derived from GAAP results by excluding the non-cash impact related to the change in the estimated fair value of the liability associated with the warrants issued in the Company's April 2011 private placement. The Company excludes this non-operating, non-cash impact, as the Company believes it is not indicative of its core operating results or future performance. The warrant revaluation results from facts and circumstances that fluctuate in impact and is excluded by management in its forecast and evaluation of the Company's operational performance. Adjusted net income also includes adjustments to remove transaction related costs in the three months ended September 30, 2015 and June 30, 2015 and the revaluation of contingent consideration in the three months ended September 30, 2015 and 2014, respectively, both recorded in association with acquisition activity. The Company believes that these costs are not indicative of the Company's core operating results or future performance. These costs are excluded by management in its forecast and evaluation of the Company's operational performance.

Adjusted net income and other non-GAAP financial measures used and presented by the Company may be calculated differently from, and therefore may not be comparable to, similarly titled measures used by other companies. Investors should consider non-GAAP measures in addition to, and not as a substitute for, or as superior to, financial performance measures prepared in accordance with GAAP.



Non-GAAP Financial Measures and Reconciliations

GAAP “Net Income” to non-GAAP “Adjusted EBITDA”

Adjusted EBITDA is derived from GAAP results as net income before net interest expense, income taxes, depreciation and amortization. Adjusted EBITDA excludes the non-cash impact related to the change in the estimated fair value of the liability associated with the warrants issued in the Company’s April 2011 private placement. The warrant revaluation results from facts and circumstances that fluctuate in impact and is excluded by management in its forecast and evaluation of the Company’s operational performance. Adjusted EBITDA includes an adjustment to remove the revaluation of the contingent consideration liability recorded in connection with the Company’s acquisition of 3PI, which was completed on April 1, 2014 and the Company’s acquisition of Powertrain Integration which was completed on May 15, 2015. The Company believes that this non-cash item, similar to the warrant related impact on earnings, is not indicative of the Company's core operating results or future performance. These costs are excluded by management in its forecast and evaluation of the Company's operational performance. Adjusted EBITDA also includes an adjustment to remove transaction costs incurred in association with the Company's acquisitions in 2014 and 2015. The Company believes that these costs are not indicative of the Company’s core operating results or future performance. These costs are excluded by management in its forecast and evaluation of the Company’s operational performance.



Non-GAAP Financial Measures and Reconciliations

Adjusted EBITDA as defined above is used as a supplemental financial measure by our management and by external users of our financial statements such as investors, commercial banks, research analysts and others, to assess:

- the financial performance of our assets without regard to financing methods, capital structure or historical cost basis;
- the ability of our assets to generate cash sufficient to pay interest costs and support our indebtedness;
- our operating performance and return on investment as compared to those of other companies without regard to financing or capital structures; and
- the viability of acquisitions and capital expenditure projects and the overall rates of return on alternative investment opportunities.

Adjusted EBITDA and other non-GAAP financial measures used and presented by the Company may be calculated differently from, and therefore may not be comparable to, similarly titled measures used by other companies. Adjusted EBITDA is not intended to represent cash flow and does not represent the measure of cash available for distribution. Investors should consider non-GAAP measures in addition to, and not as a substitute for, or as superior to, financial performance measures prepared in accordance with GAAP.



Non-GAAP Financial Measures and Reconciliations

GAAP “Accounts Receivable” to non-GAAP “A/R DSO”

The Company believes supplementing its consolidated financial statements presented in accordance with GAAP with non-GAAP measures provides investors with useful information regarding the Company’s short-term and long-term trends. GAAP Accounts Receivable is generally defined as net Accounts receivable for its customer base. A/R DSO is used by the Company to estimate its average collection period, and includes only Accounts Receivable.

A/R DSO and other non-GAAP financial measures used and presented by the Company may be calculated differently from, and therefore may not be comparable to, similarly titled measures used by other companies. Investors should consider non-GAAP measures in addition to, and not as a substitute for, or as superior to, financial performance measures prepared in accordance with GAAP.



Non-GAAP Financial Measures and Reconciliations

GAAP “Inventories” to non-GAAP “Inventory Days”

The Company believes supplementing its consolidated financial statements presented in accordance with GAAP with non-GAAP measures provides investors with useful information regarding the Company’s short-term and long-term trends. GAAP Inventories is generally defined as product inventories used in production. Inventory Days is used by the Company to estimate its average number of days goods remain in inventory before being sold.

Inventory Days and other non-GAAP financial measures used and presented by the Company may be calculated differently from, and therefore may not be comparable to, similarly titled measures used by other companies. Investors should consider non-GAAP measures in addition to, and not as a substitute for, or as superior to, financial performance measures prepared in accordance with GAAP.



THANK YOU

