PSI POWER SOLUTIONS INTERNATIONAL

June 1, 2016

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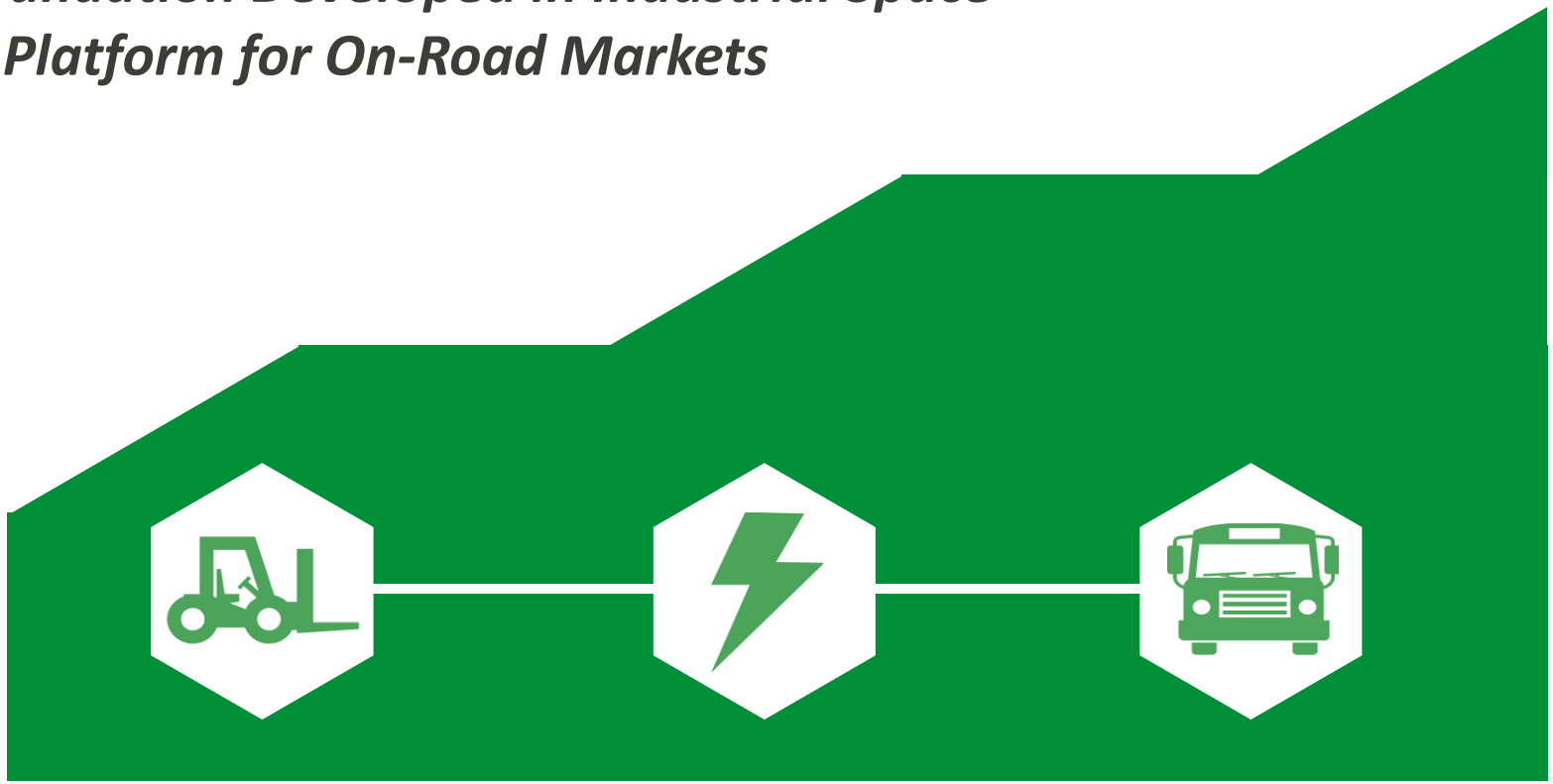
SHIFT FROM DIESEL PERMEATING MORE MARKETS

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 CAPABILTIES

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

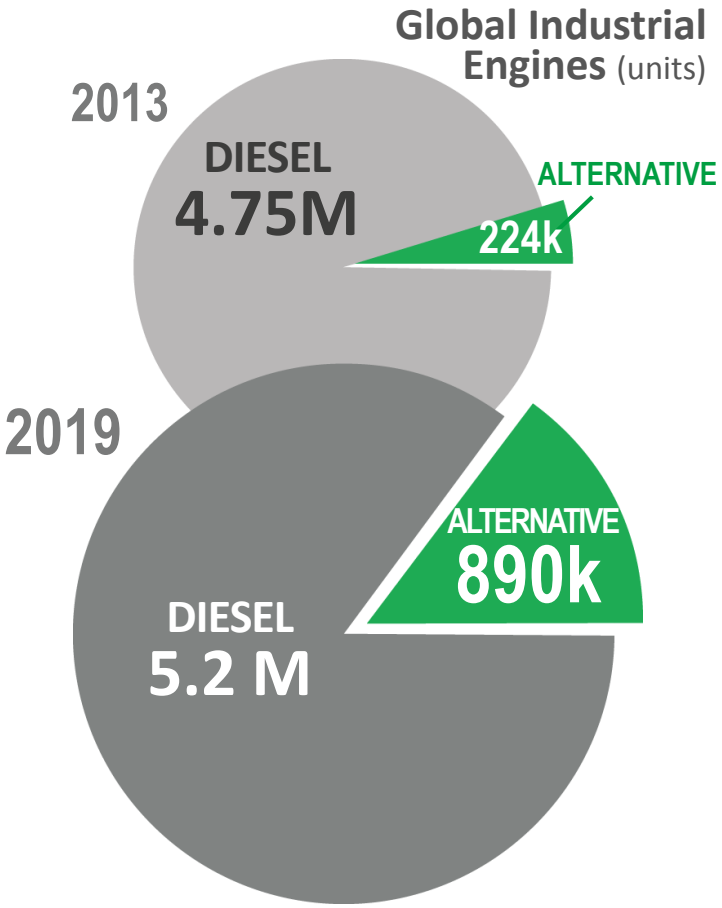
NEW REGULATION
Tighter flare gas & Tier 4 standards

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

NORTH AMERICA PRODUCTION

CLASS 2 – 4
600,000 UNITS

CLASS 5 – 7
237,000 UNITS

Sources: Internal estimates, ACT Research

PSI CLASS 2-7 ENGINE PORTFOLIO

PSI *3.4L*

Class 2 - 4

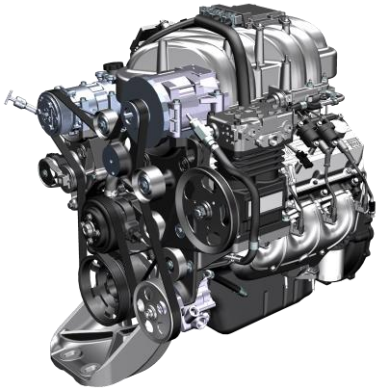
PSI *4.3L*

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*

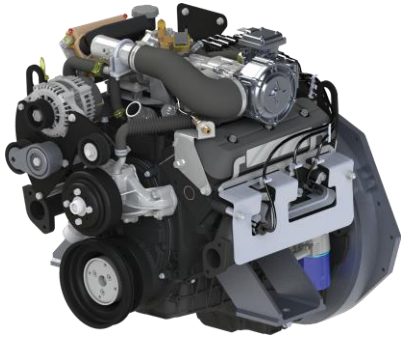
Recreational Vehicles

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

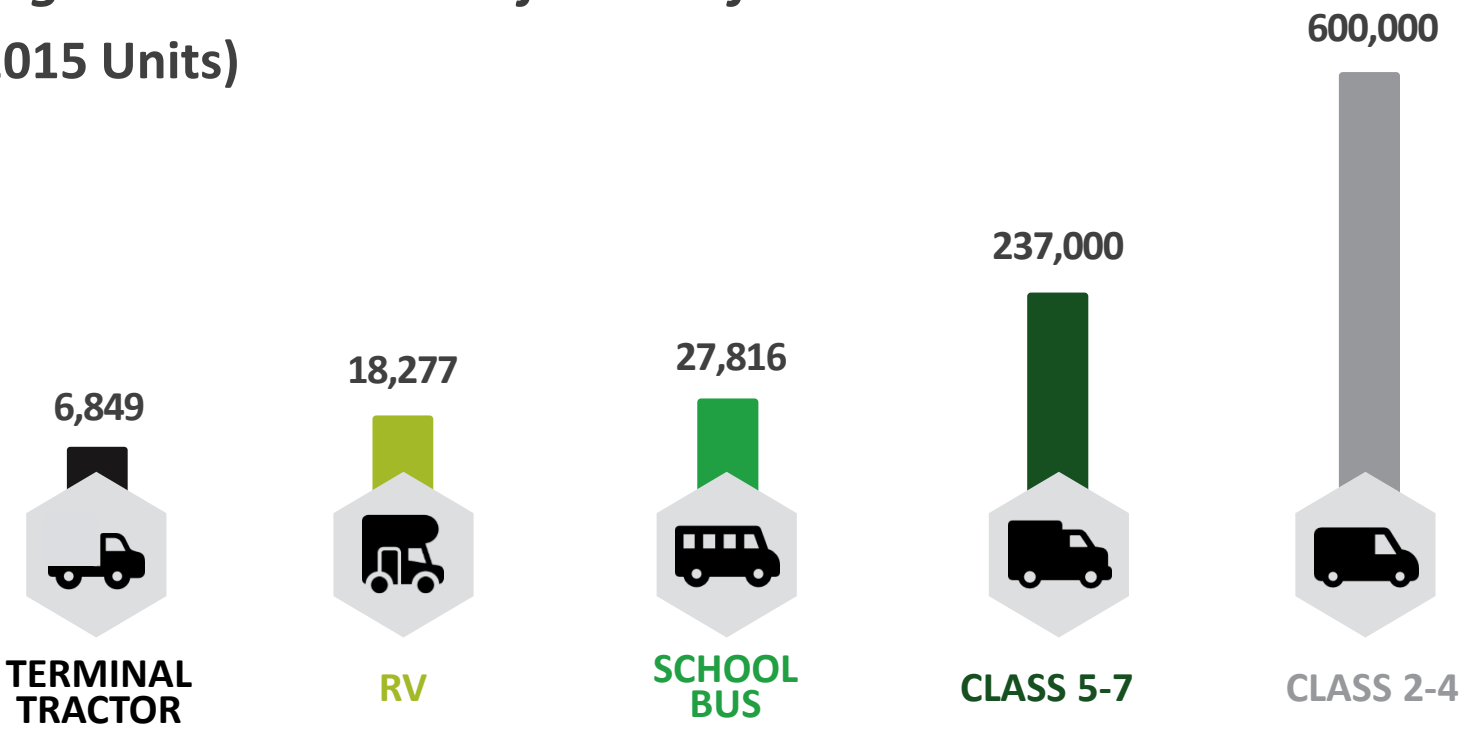
OPPORTUNITY FOR EXISTING PARTNERS TO BECOME TOP CUSTOMERS

- **School Bus:**
  - Large adoption of propane equals a $200 million+ opportunity (50% take rate with 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

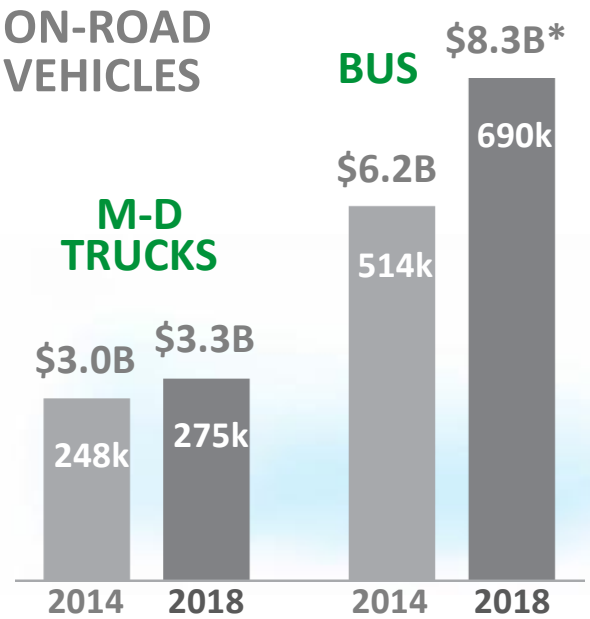
Large Market with Projections for Future Growth

(2015 Units)



Sources: IHS Global, School Bus Fleet North America, Wards Auto, PSR, ACT Research, Internal estimates

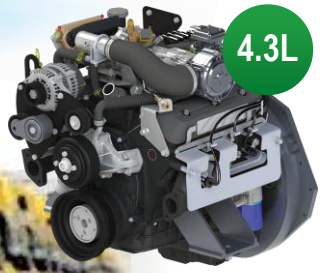
ON-ROAD MARKETS CHINA



* 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



Sources: LMC Automotive; SinoMarketInsight

SCHOOL BUSES SHIFTING TO **ALTERNATIVE FUELS**

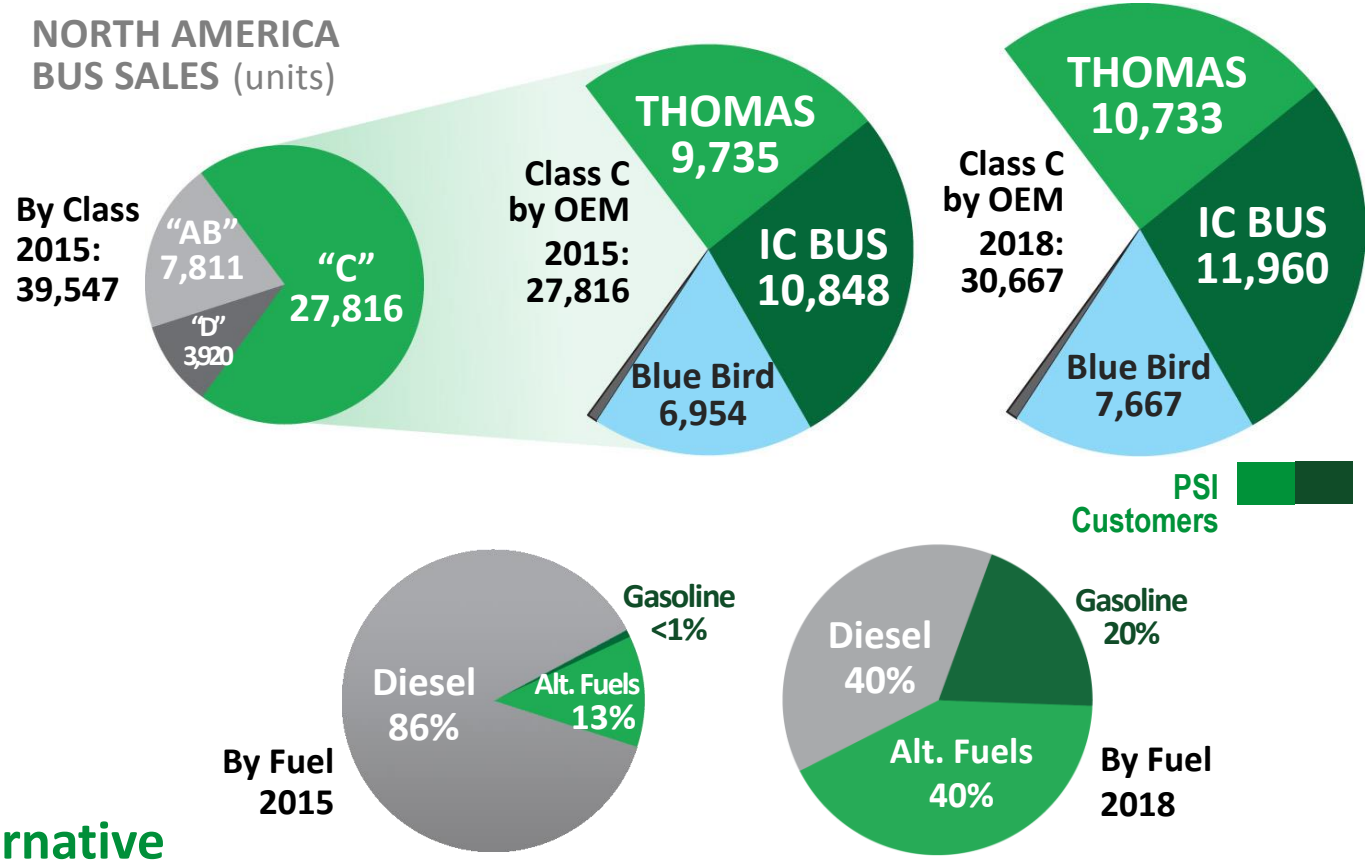
- **HEALTH.** Diesel particulate matter is carcinogenic, and buses often idle.[1]
- **NOISE.** Propane vehicles are 50% quieter.
- **COST.** Diesel fuel is 45% more per mile than propane. Diesel maintenance is 67+% per mile more costly than propane.[2]
- **ENVIRONMENT.** Propane vehicles can reduce lifecycle 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; [4]Clean Fuel USA

SCHOOL BUS MARKET

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

NORTH AMERICA BUS SALES (units)

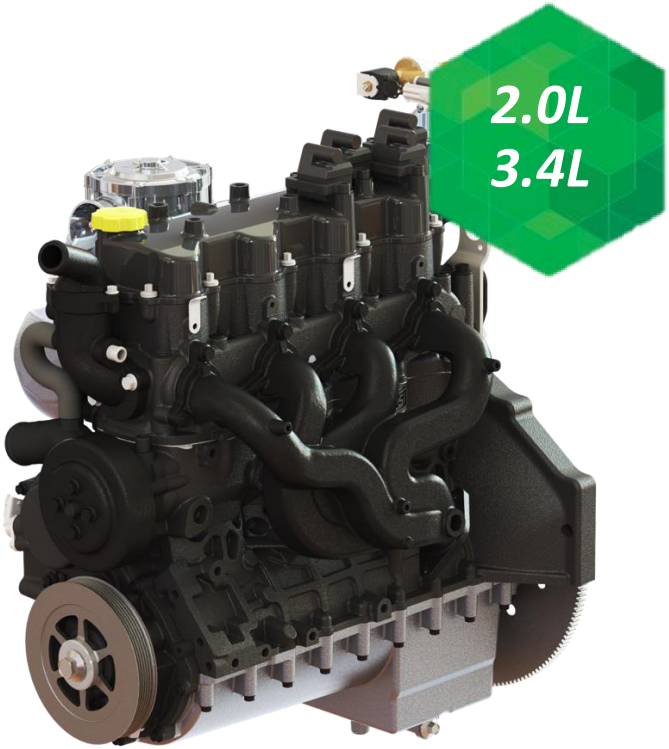


PSI is the Sole Supplier of Alternative Fuels to IC Bus and LP to Thomasbuilt Bus

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*



*Internal estimate.

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

ups · UNITED STATES POSTAL SERVICE · FedEx

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

RENTAL FLEETS

PENSKE · Ryder

- Entering the last mile delivery market space

CUSTOMER TRUCKS

Photo renderings are for artistic, conceptual purposes only and do not represent actual production models.

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*

Electronic Data Warehouse (EDW) Vehicle Asset Attribute Report, as of May 31, 2013

Photo renderings are for artistic, conceptual purposes only and do not represent actual production models.

R&D/MARKET DEVELOPMENT
AGGRESSIVE INVESTMENT

ON-ROAD

Six Aggressive Product Launches with Shared Development Cost

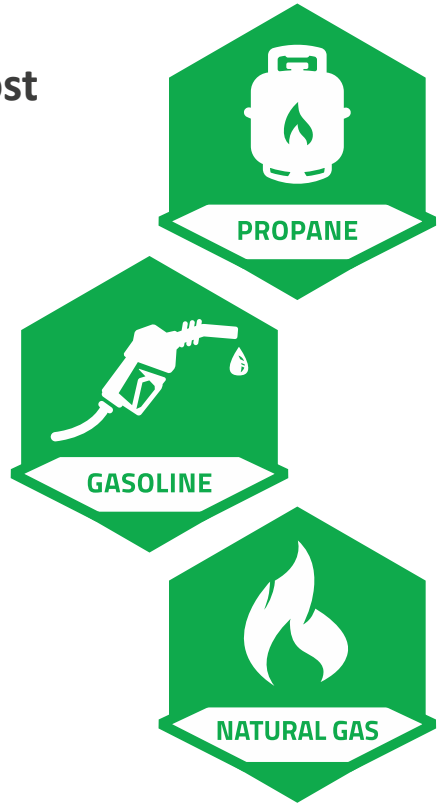
- Propane, Gasoline, and CNG
- Leverage existing engine and chassis engineering

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

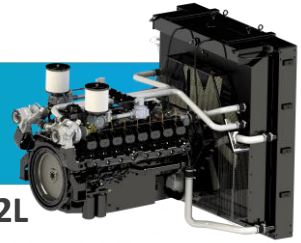
- Create public market awareness and interest
- Joint pull through campaigns
- Joint marketing campaigns
- Coordinated sales visits



PSI POWER GENERATION

STATIONARY / MOBILE AND CUSTOM DESIGNED SOLUTIONS

22 ENGINE DISPLACEMENTS



.97L

29.2L

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

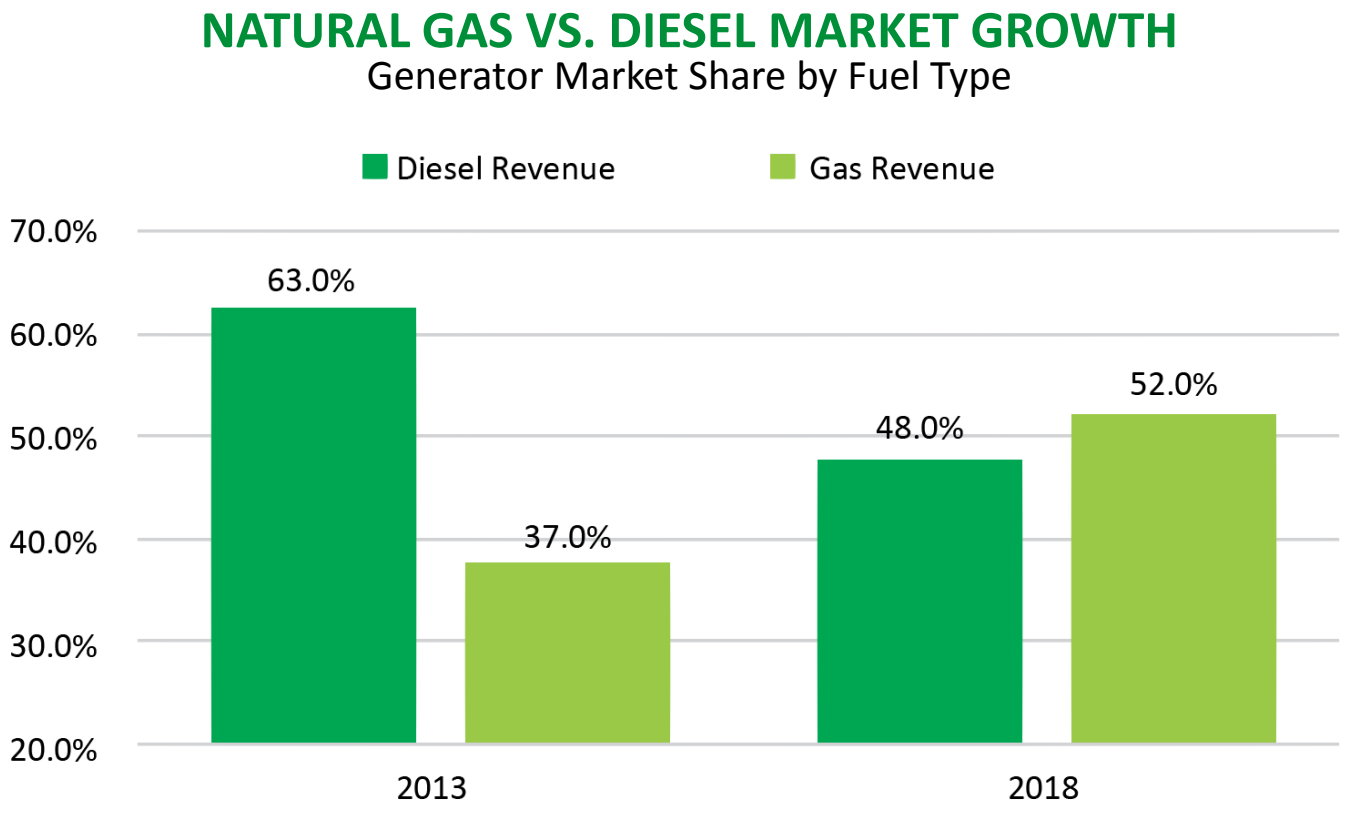
- Cost, complexity & packaging for diesel emissions makes gas engines more attractive
- Emergency Standby growth requires NFPA-rated application
- CHP capacity in NA to grow from 93.5k now to 116k MW by 2020
- Small-scale CHP plants under 10MW (PSI's target market) growing at 200 MW/year rate
- Global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



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

3Pi PROFESSIONAL POWER PRODUCTS

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

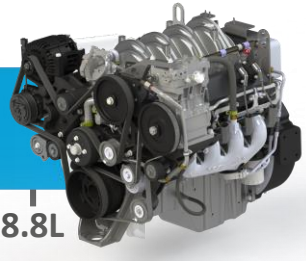
AIRCRAFT GROUND SUPPORT

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

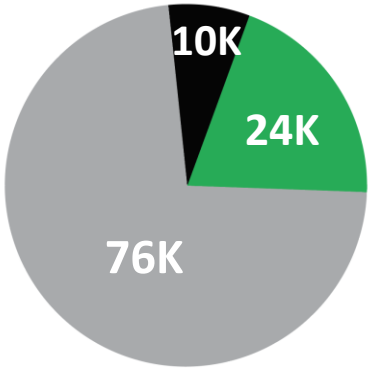
Opportunities for Intrinsic NA Growth and New Asian Gas Market

INTERNAL COMBUSTION FORKLIFTS

AMERICAS

2014

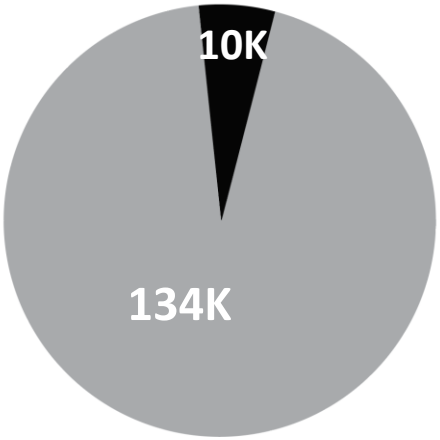
TOTAL: 110K



2020

TOTAL: 144K

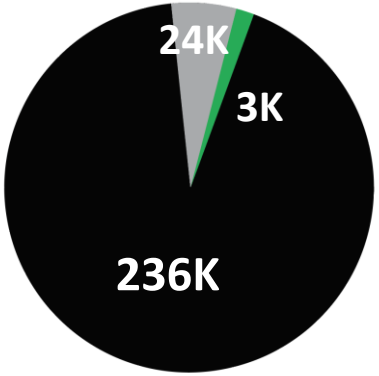
All growth is in gas market (34%)



ASIA*

2014

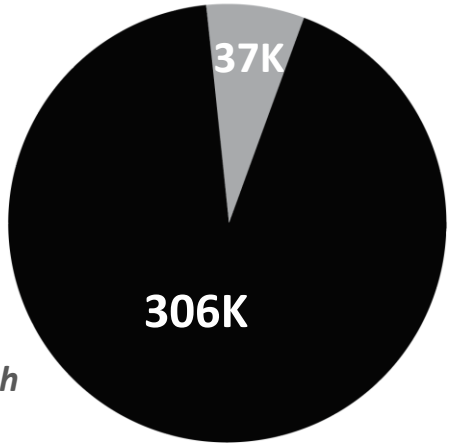
TOTAL: 263K



2020

TOTAL: 343K

Untapped market for PSI with 54% growth



Gas
PSI
Diesel

*Excludes Japan

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

INCOME STATEMENT

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

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 1Q		2015 4Q
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**	$133,019	$9.7m reduction	$142,674

WORKING CAPITAL FOCUS (Q1 2016 versus Q4 2015)

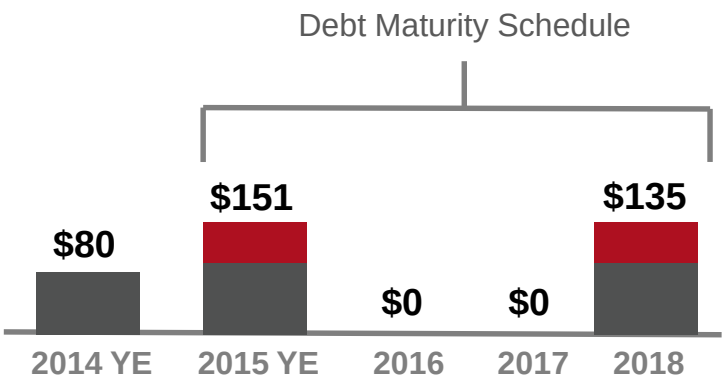
- Accounts Receivable, net, reduced by $41,202k (considering sales reduction of $34,856k from 2015 Q4 to Q1 2016)
- Inventories, net, reduced by $9,612K (working through "Last-time buys"; continuing to optimize balances by engine architecture)
- **Prudent working capital management contributes to positive 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

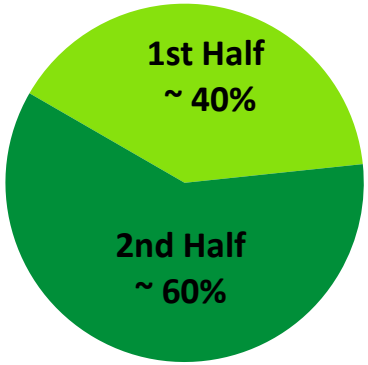
* Amended to 6.5% from 5.5% April 1, 2016; ** As defined by the agreement, with such amount reducing to $135M effective February 1, 2017

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

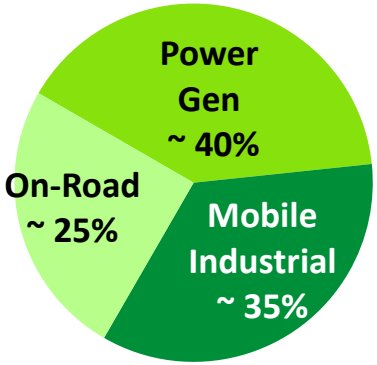
MOBILE INDUSTRIAL

- 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**

MARKET-DRIVEN EXPANSION
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