POWER SOLUTIONS INTERNATIONAL

4Q & FY 2015 EARNINGS

POWERING A GREENER FUTURE

SAFE HARBOR & OTHER CAUTIONARY NOTES

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AGENDA

GARY WINEMASTER	2015 REVIEW
ERIC COHEN	4Q OPERATIONAL HIGHLIGHTS
MICHAEL LEWIS	FINANCIAL HIGHLIGHTS
GARY WINEMASTER	2016 OUTLOOK
MANAGEMENT TEAM	Q&A
GARY WINEMASTER	CLOSING REMARKS

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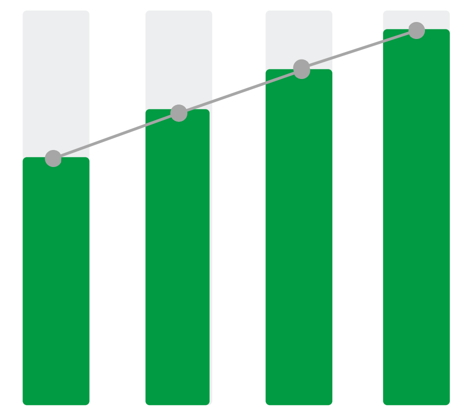
YEAR IN REVIEW

GARY WINEMASTER

THE YEAR IN REVIEW

FINANCIAL PERFORMANCE

- Achieved revenue growth of 12% year-over-year
- Delivered positive operating margin and approximately $6 million of adjusted net income



PSI EXECUTION

- Integration of recent three acquisitions
  - 3PI "turn-around" on track
- Achieved meaningful program wins in the school bus and RV markets
- On-road opportunity moving into the production phase
- Announced four on-road collaborations with leading Chinese bus OEMs

3Pi PROFESSIONAL POWER PRODUCTS

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THE YEAR IN REVIEW

MARKET ENVIRONMENT

- **Diesel Replacement is Secular Trend**
  - Environmental benefits
  - Economics compelling
- **Alternatives Expanding Beyond Natural Gas**
  - CNG, Propane, even gasoline
- **Trend Spreading Beyond US to Asia**
- **Effective Market Entry Strategy**
  - Foundation in stable industrial apps
  - Seek new opportunities in overlooked or smaller markets
- **Track Record!**
  - 26% annual revenue growth since APO
  - Profitable in every year of existence
  - $500 billion new revenue opportunity visible

THE YEAR IN REVIEW

OIL & GAS MARKET DEPRESSED BY CAPEX CUTS

- Redirecting effort to on-road

SUBOPTIMAL FINANCIAL PERFORMANCE AT 3PI

- "Break-even" on a run-rate basis in Q4
- Near-term goal: generate meaningful revenue and profit in 2016
- Sterling Wilson Partnership to support CoGen market
  - Supply engines and packaging services North American cogeneration/combined heat and power (CHP) market

STERLING & WILSON

OPERATING CHALLENGES REDUCED MARGINS

- Larger volumes pressure tested manufacturing capabilities

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OPERATING HIGHLIGHTS

ERIC COHEN

4Q OPERATIONAL HIGHLIGHTS

ON-ROAD INTO REALIZATION PHASE

TURNED THE SHIP AT 3PI

OPERATING AND COST EFFICIENCIES

4Q OPERATIONAL HIGHLIGHTS – CHINA

In addition to Yutong agreements we signed new supply agreement with JAC:

- Top six small and medium bus producers in China
- Significant shift away from diesel to petrol
- Up to 500 certified, 4.8-liter engines 2016
- Over 1,000 units in 2017

Signed new development agreements with :

- Xiamen Golden Dragon Bus Co.
- Jiangsu NEOC Automotive

Strategic technical development offers PSI future growth programs with OEMs

4Q OPERATIONAL HIGHLIGHTS

Returned 3PI to Breakeven

- December EBITDA breakeven as committed
- Focused lean manufacturing efforts
- Pursuing new customer base
- Intend to generate 10% to 15% of revenue in 2016 and to be profitable

New scheduling process and strategy

Analyzing data, historical trends and tighter communication with sales.

Completed 100% of the scheduled build plans

OPERATIONAL FOCUS FOR 2016

COST DISCIPLINE

Overhead Reduction

- Reduced headcount and wages
- Production, Takt time, equipment, quality plans are in place and executing to those plans.
- Raised scrutiny for capital allocation and project approval

Further Operational Improvements

- Vendor managed inventory
- Optimize picking parts and sequence
- Supplier value added in lieu of PSIX premises

2015 Q4 vs. Q3

ENGINE PRODUCTION

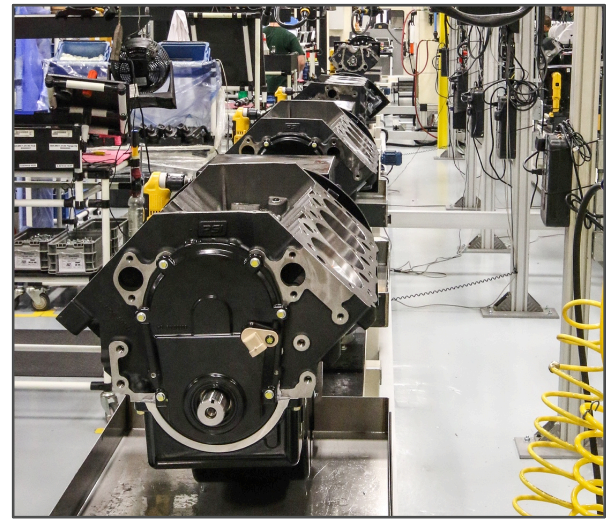
458
UNITS

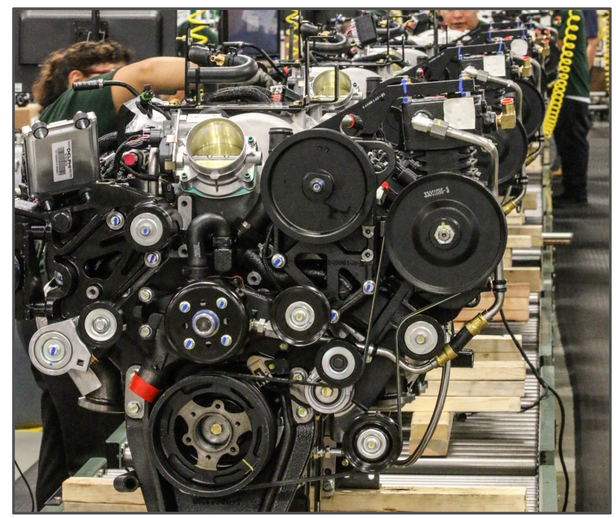
LABOR COST REDUCTION

-$271K
(9%)

PSI ENGINE MANUFACTURING RAMP

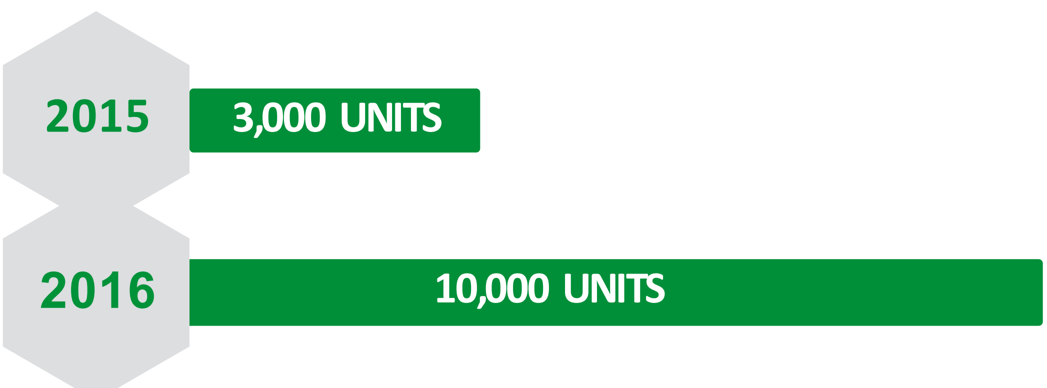
Continue to Ramp Up Capabilities to Produce Our Own Engine.





ENGINE PRODUCTION

- Last year produced approx. 3,000 engines
  End of this year run-rate of approx. 10,000
- Increase due to replacement of GM 4.3L and ramp of 8.8L production
- Insourcing replaces high inventory
- Continuity of supply
- Purpose built solution for our customers needs
- Production, Takt time, equipment and quality plans are in place and executing to those plans



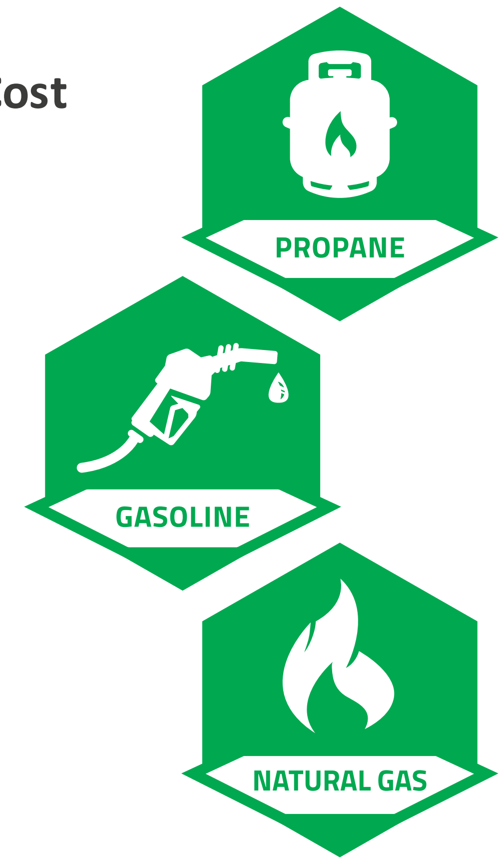
R&D/MARKET DEVELOPMENT
FOCUS FOR 2016

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-highway 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



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FINANCIAL REVIEW

MICHAEL LEWIS

FINANCIAL HIGHLIGHTS

	2015		2014	FY	
	4Q	3Q	4Q	2015	2014
Net Sales	**$96.7**	**$112.0**	**$103.9**	**$389.4**	**$348.0**
Gross Margin	**13.7**	**15.3**	**21.1**	**62.8**	**67.0**
Gross Margin %	*14.2%*	*13.7%*	*20.3%*	*16.1%*	*19.3%*
Operating Expense	**$14.4**	**$13.9**	**$12.0**	**$53.6**	**$41.0**
Op. Expense %	*14.9%*	*12.4%*	*11.5%*	*13.8%*	*11.8%*
Operating (Loss) Income	**$(0.7)**	**$1.4**	**$9.1**	**$9.2**	**$26.0**

Q4 SEQUENTIAL COMPARISON

- Primarily reduced sales related to Power Gen end markets
- Slightly improved gross margin offset by increased R&D spending and amortization
- (4Q Operating profit includes increased transaction costs of approx. $145k transaction costs and approx. $365k amortization costs)

Q4 YEAR-OVER-YEAR COMPARISON

- Reduced sales related to Power Gen end-markets offset by sales to On-road end-markets
- Significant mix change away from Power gen markets and increased amortization
- (2015 Operating profit includes increased transaction costs of approx. $404k and increased amortization costs of $1.2 million)

2015 FULL YEAR COMPARISON

- Increased sales primarily related to Power Gen
- Reduced gross margins due to mix, increased operating expense largely related to increased amortization
- (2015 Operating profit includes increased transaction costs of approx. $292k and increased amortization costs of $3.2 million)

FINANCIAL HIGHLIGHTS

	2015		2014	FY	
	4Q	3Q	4Q	2015	2014
Net Income	**$1.7**	**$9.1**	**$10.3**	**$14.3**	**$23.7**
Warrant Reval.	**(1.3)**	**(8.8)**	**(5.0)**	**(9.3)**	**(6.2)**
Cont. Consideration	**0.1**	**(0.0)**	**(0.0)**	**0.0**	**(2.3)**
Pro-rata Tax Adjust	**(0.9)**	**–**	**–**	**–**	**–**
Transaction Costs	**0.2**	**0.2**	**–**	**0.7**	**0.5**
Adjusted Net Income	**$(0.2)**	**$0.5**	**$5.3**	**$5.7**	**$15.7**
Adj. Net Income %	*-0.2%*	*0.4%*	*5.1%*	*1.5%*	*4.5%*
Diluted EPS					
GAAP EPS	**$0.04**	**$0.03**	**$0.48**	**$0.45**	**$1.58**
Adjusted EPS	**(0.01)**	**0.04**	**0.48**	**0.51**	**1.41**
Note – Diluted EPS related to:					
Contingent Consideration	0.01	–	–	–	(0.22)
Pro-rata Tax Adjustment	(0.08)	–	–	–	–
Transaction Costs	0.02	0.01	–	0.06	0.05

Q4'2015

- Non-cash income of approx. $1.3 million from a decrease an estimated fair value of warrant liability
- Adjusted net income of $(0.01) per share vs. $0.47 per share last year

2015 FULL YEAR

- EPS down from 2014 due to reduced heavy duty sales

FINANCIAL HIGHLIGHTS

	2015		2014	FY	
	4Q	3Q	4Q	2015	2014
Net Income	$1.7	$9.1	$10.3	$14.3	$23.7
Interest	1.3	1.4	0.4	4.3	1.3
Taxes	(2.6)	(0.5)	3.3	(0.4)	10.8
Depreciation	1.3	1.2	0.8	4.3	2.6
Amortization	1.9	1.4	0.8	5.3	2.1
EBITDA	$3.6	$12.6	$15.6	$27.8	$40.5
Warrant Reval.	(1.3)	(8.8)	(5.0)	(9.3)	(6.2)
Cont. Consideration	0.1	(0.0)	(0.0)	0.0	(2.3)
Trans. Cost/Debt Extinguishment	0.2	0.2	–	.7	0.5
Adjusted EBITDA	$2.6	$4.0	$10.6	$19.2	$32.5
Adjusted EBITDA %	*2.7%*	*4.0%*	*10.2%*	*4.9%*	*9.3%*

2015 Q4 NET INCOME

- Tax credit due to renewed R&D credit in December 2015

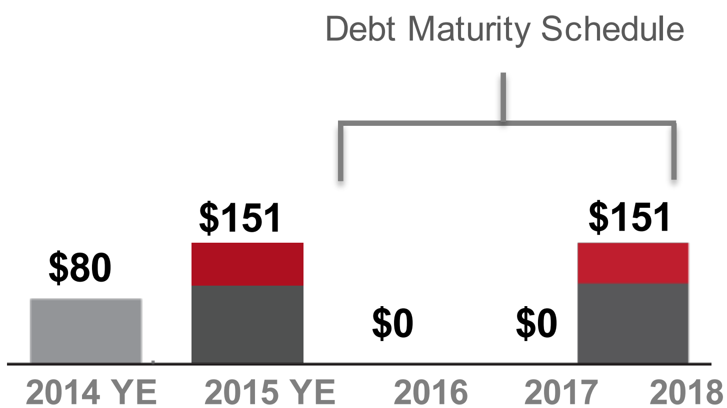
DEBT OVERVIEW

No Significant Near-Term Debt Maturities

$55 MILLION UNSECURED NOTES

- Completed April 29, 2015
- Coupon of 5.5%
- Maturity – 3 years with option to re-purchase in March 2017
- Junior to revolving line of credit

DEBT SUMMARY ($M)



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

COVENANTS

- No covenants related to $55MM Notes
- ABL In compliance thru 2015

WORKING CAPITAL

INVENTORY MANAGEMENT

	2013	2014	2015
Accounts Receivable	$42.7	$81.7	$104.4
Inventory	56.0	93.9	130.3
Total A/R Inventory	$98.7	$175.6	$234.7
Accounts Payable	24.4	60.9	76.1
Working Capital	$74.3	$114.7	$158.6
As % of Revenue	*31.2%*	*33.0%*	*40.7%*

INVENTORY FOCUS

- 2014 Initiated "Last-time buys"
- Continuing to optimize balances by engine architecture

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OUTLOOK

GARY WINEMASTER

CHANGE IN GUIDANCE – CHANGE IN DRIVERS

Reduction In Guidance Reflection Of Delay Of Growth In Oil & Gas

POWER GENERATION

- Reduced Oil & Gas demand – assumed approximately $50-60M in 2016
- More diversified revenue base
- Unique emission technology
- Majority of revenue recognition is in 2H

MOBILE INDUSTRIAL

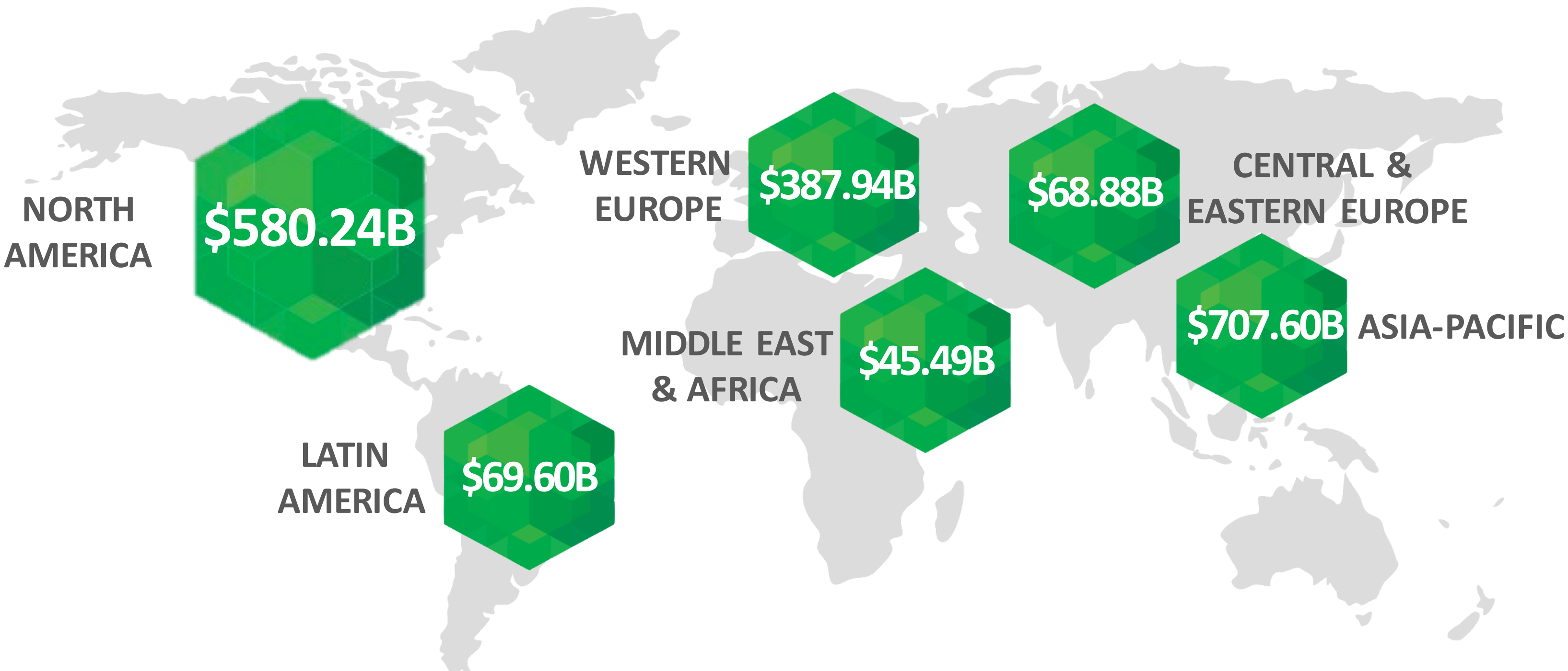
- Continue to grow
- First Major non-certified win in China

ON-ROAD

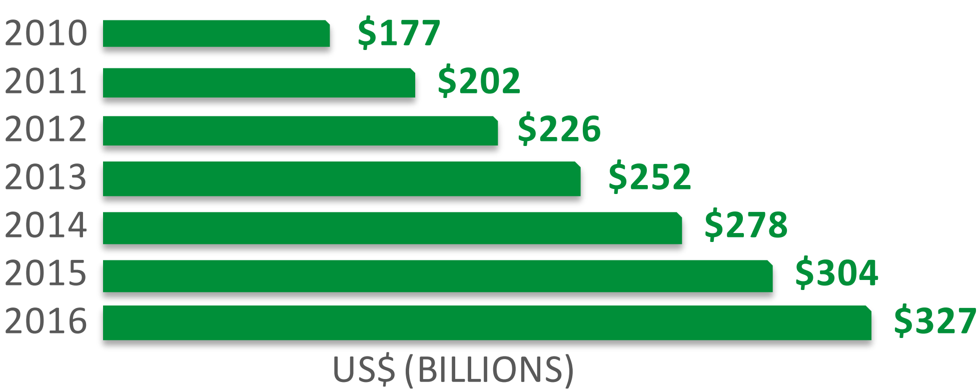
- Full volume capacity to be reached in 2H

E-COMMERCE SALES STATISTICS

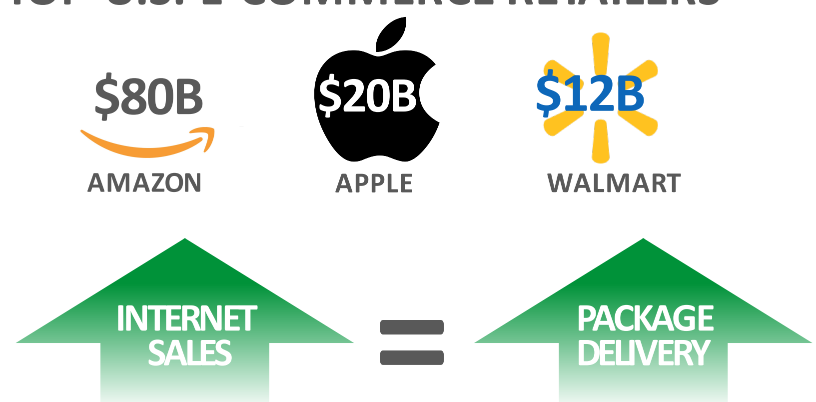
ESTIMATED GLOBAL E-COMMERCE SALES IN 2016 = $1.8 TRILLION



U.S. E-COMMERCE FORECAST



TOP U.S. E-COMMERCE RETAILERS



Sources: eMarketer.com, Forrester Research, Inc. & Internet Retailer 2015

COMPETING FOR 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

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

USPS CAPITALIZES ON E-COMMERCE PACKAGE DELIVERY WITH NEW CAMPAIGN

"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.

PSI

PURPOSE BUILT, RUGGEDIZED
ON-ROAD ENGINE

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

*Internal estimate.

QUESTIONS & ANSWERS

MANAGEMENT TEAM

Power Solutions International

CLOSING REMARKS

GARY WINEMASTER

SUMMARY

2015

- Achieved revenue growth with one significant end market down
- 3PI Turn around on track
- Achieved meaningful design wins in the school bus and RV markets
- On-road opportunity moving into the realization phase
- Sterling Wilson Partnership

2016

- Cost discipline focus.
- Execute shift from purchasing to manufacturing engines.
- Continue On-Road R&D for aggressive commercialization
- Working capital improvement and inventory management

INVESTMENT THESIS STILL INTACT

- Aggressively pursue opportunities with existing and new customers.
- The leader in alternative fuel solutions, with competitive advantages in engineering and manufacturing.

THANK **YOU**

MARKET-DRIVEN EXPANSION
ONGOING PATENT APPLICATIONS
INNOVATIVE ENGINEERING
PSI
FUEL-FLEXIBLE PRODUCTS
DIRECT CUSTOMER/OEM RELATIONSHIPS
EXPERIENCED APPLICATION INTEGRATION
COMPLETE SOLUTIONS

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.

Reconciliation of Net Income to Adjusted Net (Loss) Income (Dollar amounts in thousands)			
	Three months ended December 31, 2015	Three months ended December 31, 2014	Three months ended September 31, 2015
Net income	$1,704	$10,321	$9,109
Non-cash (income) expense from warrant revaluation	(1,259)	(4,979)	(8,750)
Non-cash (income) expense from contingent consideration revaluation, net of tax	59	(35)	(30)
Federal research tax credit	(900)	-	-
Transaction costs, net of tax	236	-	158
Adjusted net (loss) income	$ (160)	$ 5,307	487

Non-GAAP Financial Measures and Reconciliations

Reconciliation of Net Income to Adjusted Net Income (Dollar amounts in thousands)		
	Twelve months ended December 31, 2015	Twelve months ended December 31, 2014
Net income	$ 14,278	$ 23,726
Non-cash (income) expense from warrant revaluation	(9,299)	(6,169)
Non-cash (income) expense from contingent consideration revaluation, net of tax	29	(2,305)
Federal research tax credits	-	-
Transaction costs, net of tax	662	487
Adjusted net income	$ 5,670	$ 15,739

Non-GAAP Financial Measures and Reconciliations

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. Adjusted net income (loss) 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 earnings (loss) per diluted common share is also derived from GAAP results by excluding the non-cash impact, even when antidilutive, related to the change in the estimated fair value of the liability associated with the warrants. Adjusted net income (loss) and adjusted earnings (loss) per diluted common share also include an adjustment to remove transaction related costs and the revaluation of contingent consideration in 2015 and 2014, both recorded in association with acquisition activity. In the three months ended December 31, 2015, adjusted net income (loss) and adjusted earnings (loss) per diluted common share also include an adjustment to normalize the federal research tax credit recognized for the full year of 2015. Other than the federal research tax credit for which an adjustment is presented in a comparison of quarterly results and is principally attributable to the timing of the passage of the legislation re-enacting this credit for 2015, the Company believes that these costs are not indicative of the Company's core operating results or future performance. These costs, other than the federal research tax credit, are excluded by management in its forecast and evaluation of the Company's operational performance.

Adjusted net income (loss), adjusted earnings (loss) per diluted common share 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

<u>GAAP "Net Income" to non-GAAP "Adjusted EBITDA"</u>

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.