

# THE WALL STREET TRANSCRIPT

Connecting Market Leaders with Investors

## AMSC



**DANIEL MCGAHN** was appointed to the position of Chief Executive Officer in June 2011. Mr. McGahn joined AMSC in 2006 as Vice President, Strategic Planning and Corporate Development, and was later promoted to SVP of Asian Operations. In these roles, he was responsible for establishing AMSC's operations in China, Korea and India. In 2008, Mr. McGahn was promoted to the position of Senior Vice President and General Manager of AMSC Superconductor. In this role, he led efforts to significantly enhance AMSC's wire performance and production processes, and strengthened the AMSC Superconductor team to ensure the company is prepared for a rapid scale-up in production. In 2009, he was promoted to President and Chief Operating Officer, where he was responsible for AMSC's day-to-day global operations. From 2003 to 2006, Mr. McGahn served as Executive Vice President and Chief Marketing Officer of Konarka Technologies Inc., a venture-backed developer of polymer photovoltaic technology for renewable power. Prior to 2003, Mr.

McGahn was General Manager and Chief Operating Officer of Hyperion Catalysis, a world leader in carbon nanotube production and application development. He also held managerial positions at IGEN International, a medical device company, and Princeton Consultants Inc. A New Jersey native, Mr. McGahn holds M.S. and B.S. degrees in engineering from the Massachusetts Institute of Technology.

### SECTOR — UTILITIES

**TWST:** Would you begin with a brief introduction to AMSC, including some highlights from the company's history and an overview of your business segments?

**Mr. McGahn:** AMSC focuses on providing smarter, cleaner and better energy solutions. When the company was founded about 25 years ago, we went by the name American Superconductor, and we had operations only in the United States and our sole focus was on superconductor technology. Today, we go by AMSC, which reflects our global operations and our broad scope of wind and grid solutions.

On the Windtec Solutions part of our business, we provide wind turbine electrical controls, wind turbine designs and engineering services, with a significant focus on reducing the cost of wind energy for our wind turbine OEM partners. Our Gridtec Solutions include engineering planning services and advanced grid systems that optimize network reliability, efficiency and performance from the point of power generation through the transmission and distribution infrastructure. From both our wind side and our grid side, it's truly an end-to-end approach from where the power gets generated to when it gets routed through the electricity grid.

**TWST:** You just released your first-quarter results. Would you give us some highlights from the quarter?

**Mr. McGahn:** It was an exciting call and an exciting time for the company. We met or exceeded all of our financial targets in the first fiscal quarter, which was the June-ending quarter. We were able to triple our revenues year-over-year, and we cut our net loss significantly. We boosted our cash balance through the quarter through a set of recent financings. Highlights from the wind side of the business include some key activities in China. In recent months, we have been able to obtain low-voltage ride through, or LVRT certifications, for two of our key partners in China. This is important because one of the challenges in the Chinese market today is that there is a need for specific technology that makes turbines LVRT compliant, meaning that they are able to remain connected to the grid despite low voltage events. AMSC has been delivering LVRT solutions to other markets for many, many years.

Also on the wind side, in Korea and in India, we see the market proceeding upwards. Hyundai Heavy Industries, who is one of our partners in Korea, and Inox, one of our partners in India, are ramping up their production of their wind turbines, which translates into revenues for us because we continue to sell them the electrical control systems for those wind turbines.

On the grid side of our business, we really have demonstrated a leadership position for our products. We announced the 100th contract for our D-VAR STATCOM product, and we've sold more than any other company, even large brands like ABB and other big companies out there that we compete with. And really that's a testament to our engineering team, our sales team, our service team and really to the product itself. We found what, we believe, is a novel technology that fits a very specific need in the market. It helps facilitate greater grid connection for renewable energy projects, and it also helps utilities to better utilize the existing grid.

Lastly on the grid side, we believe we are the largest producer of superconductor wire, and we have recently made a very large wire shipment to LS Cable in Korea for another construction project using superconductor cable. So across the business, we are seeing growth, and we are seeing good news throughout the geographies that we serve.

**TWST: You quadrupled your wind revenues in the first quarter. What factors contributed to that growth and what is the outlook for the wind segment at this point?**

**Mr. McGahn:** Yes, going into a little bit more detail, India, Korea and China contributed significant revenues to our wind business during the quarter. In India, our partner Inox is ramping up production. Inox is vertically integrated, meaning that many of their wind turbines are going into their own wind farms in India, and they have plans to continue scaling up operations and serving other wind farm developers in the years ahead. We expect Inox and our AMSC India operation to be key contributors to our success in fiscal 2012. Hyundai Heavy Industries, one of our partners in Korea, is focused on global wind opportunities both in the onshore and offshore environments. It has initial traction in orders developing in Asia, North America, as well as Europe. And in China,

connect their power to the grid in a highly reliable fashion. And large industrial firms get a dual advantage of increasing their uptime and also protecting the grid from their operations through utilization of our D-VAR solution. In the first quarter, we had a significant D-VAR shipment to a company called Karara Mining, which is in Australia. This company is using our D-VAR solution to mitigate the instability that can be caused on the electricity grid from the massive induction motors at the site. Our D-VAR system ensures high-power quality for the industrial consumer as well as the grid operator when those large motors kick into gear. We believe there may be a large opportunity for our D-VAR product in the mining and the industrial sector.

**TWST: Aside from fundamentals, what are the most meaningful metrics you use to monitor and evaluate your business that investors should also analyze?**

**Mr. McGahn:** I think what investors should see beyond just the metrics will be the way we offer our product to the market, this end-to-end nature in what we do from the design of the wind turbine to the delivery of the range of the wind turbines, developing different turbine designs, be it from megawatt range to different drivetrains. And then, all the way through to the grid side from the connection of the wind farm to the electricity grid, being able to better utilize existing infrastructure on the grid, opening up new capacity and then also being able to deliver additional capacity through our superconductor power-cable solutions.

And then, when you look at this broader market, one of the metrics that we try to focus on is not just our overall global market, but the regional markets that we play in. In many ways, the way to think about how we go to market is that we get local — we provide local content at local cost. We have a kind of a unique positioning where we are more focused on regional markets than we are necessarily on the global market.

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specifically, Jincheng New Energy, we call them JCNE, contributed more than 10% of our revenue in the June quarter, and we are going through an LVRT certification process with them as well. That certification should help to open up some new doors to them with wind developers in China.

**TWST: You doubled your grid revenues on a year-over-year basis. What factors contributed to that growth, and what is the outlook for the grid segment at this point?**

**Mr. McGahn:** Today, when we look at our D-VAR order book, we believe that it has never been healthier in the history of our company. We continue to generate a steady stream of orders for our D-VAR solutions, because we help companies in many different ways. So for utilities, D-VAR systems control voltage levels and maintain grid stability. For renewable project developers, both wind and solar, D-VAR systems enable them to

And then from a financial performance perspective, it's not just about revenues right now. We have gone through a transition that started in 2011, and we will continue here in 2012. A lot of the questions that I get asked are about our operating expenses and our cost of goods sold. In 2011, a lot of our focus was on realigning our operating expense with our near-term revenue opportunities and the company went through a series of changes in 2011 to be leaner and meaner in many ways. In 2012, the focus is on our product cost, specifically how do we continue to reduce cost, either through our cost reduction efforts of our supply chain or even with some of our product design efforts? So 2011 was really the year of opex, and 2012 was really the year of product cost for us to get our business back to growth. We are really focusing in the long term, on sustainable profitability.

**TWST: In which customer end markets and/or geographic areas do you currently see the best opportunities for growth? And what are you doing to put the company in a position to be able to take advantage of those opportunities as they emerge?**

**Mr. McGahn:** Our company's offerings are very well suited for emerging markets. One of our key markets today is India. With the changing market dynamics in India today, it really favors AMSC. India is the third-largest wind market in the world, and we believe our key partner there, Inox, really has a great opportunity to become a top tier player in the Indian wind market. On the grid side, again say in India, there was some recent news about blackouts that affected a significant part of the Indian population — 600 million people without power. It's clear that the Indian grids — along with many other electricity grids around the world, including here in the U.S. — are in need of upgrade. And what we're seeing is that, along with our partners, we can deliver a lot of value that really helps support the electricity grid.

Korea in many ways strategically serves as our window to the world. We have developed partnerships in Korea with companies that are not just singularly focused on the local Korean market. They want to develop global exports. On the wind side, we're partnered with Hyundai Heavy Industries and Doosan, and they've already started to establish not only their foothold in the Korean market, but in the global market as well. On the grid side,

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Korea has a very broad plan for creating the world's first truly smart grid. And not just looking at the end of the grid, where the electricity is consumed, but really thinking about the whole system from power generation all the way through the consumption of electricity. They want to take this model and be able to create opportunities for product exports out of Korea to both the developing and developed world. Our superconductor technology plays a key role in this. Last year, Kepco energized its first superconductor cable. This cable utilizes our superconductor wire. And Kepco has several more in the pipeline. We have a very broad relationship with another large Korean company called LS Cable. Together with LS Cable, we have the ability to deliver full turnkey power-cable implementations around the world.

And then, the last part today really is China, which is where about half of the wind market resides today and market estimates show that that will continue for at least the near term. Our partners today are fielding the most advanced wind turbines. We believe this puts them in a great opportunity to gain market share and be able to become stronger players in the wind market. On the grid side, given the amount of upgrade that has to happen and the level of investment that's being made in China, it really does present a tremendous opportunity for our Gridtec Solutions.

Going a little further, we think about longer-term opportunities, the same kinds of change that have gone through China, Korea and India — we're now starting to see in South

America and Eastern Europe as well. So as I said earlier in the discussion, in many ways our offerings are very well suited for emerging markets, and we are in a position to take advantage of those as investments happen in renewable energy and in grid infrastructure as well.

**TWST: In either segment of the business, what new offerings, customers or projects are in development or recently launched or won that would be of particular interest to investors?**

**Mr. McGahn:** I think the other key things to watch on the wind side are Inox in India. They recently secured additional financing that has enabled them to ramp up their capacity of their production. There is a significant investment within Hyundai. Additionally, within Korea, there's a 2.5-gigawatt wind project that is already being developed now that's expected to expand to about 10-gigawatts over the coming years. To give you a general sense, 10-gigawatts is nearly a quarter of the total wind market today in the world. So Korea, we believe, will emerge as a real market in and of itself, and particularly for offshore wind.

So the combination of our Windtec Solutions with these heavy industry companies in Korea that really understand shipbuilding and deployment strategy, as well as advanced engineering solutions, really may have a dramatic impact on the cost of electricity for wind, particularly in the offshore venue — not just in Korea, but globally.

And then there is a tremendous challenge that has gone on in grid connection for wind turbines in China, and what we're trying to do with the LVRT technology is really to enable our partners to be in a premier position from a technology standpoint. On the grid side, our D-VAR product remains an important source of revenue for us. We're looking to do two things with it. We want to broaden the application set. We talked a little bit about mining and industrial uses, and we hope to be able to deliver on that, and then we also see an opportunity for utility-scale solar projects.

From a stock standpoint, many people look at the solar panel companies and struggle to see what the right investment would be. We really benefit from that. With the reduction of solar panel prices, it enables the adoption of large power plant scale solar implementations. That means that they're going to require, we hope, our product solution to be able to connect that to the grid, and we see that happening throughout Asia and North America as well. So that's additional market opportunities to us.

Then we talked a little bit earlier about European geographies. Recent wins that we've delivered in Eastern and Western Europe for our grid solutions, we believe, help to start to open up European market to us. It's been a market we've played in, but principally in the United Kingdom. So to be able to deliver recent orders in countries like France and Romania expands the value that our company can deliver, not only to our partners, but to our shareholders.

On the superconductor side, which is really the long-term value of the company, we believe that we've never been in a better position in terms of manufacturability and market leadership. And we made a little news recently about acquiring a fundamental patent for the technology. So our patent position has only gotten stronger as our manufacturing capability and our global reach to our partners like LS Cable.

**TWST: On your most recent earnings call, you said controlling cost of goods sold is a top goal. Please tell us how you plan to achieve those cost savings.**

**Mr. McGahn:** Cost reduction actions were put into place in FY2011, and we expect to see the impact of those reductions in the quarters ahead, particularly on the wind side of our business. In 2011, we really focused principally on resizing the opex for the near-term revenues and really focusing the company on getting back to revenue growth. We've already seen that start to happen. Now in our FY12, we're really focused on improving our gross margins through product cost reduction and design efforts. This should help expand the markets we play in and position us for sustainable profitability.

**TWST: What are the most significant two or three business challenges or risks you're currently facing, and what strategies are you and your team using to mitigate the negative impact of those risks on the company?**

**Mr. McGahn:** From an external perspective, there have been big concerns in the past about our customer and geographic concentration. We've invested our time, our money and our resources in diversifying our revenue base. We want to make sure that we continue that investment. We want to continue to make sure that revenues grow in the five or six main geographies that we play in today. We look in the future to hopefully expand the number of geographies that we play in. So the concern over the past few years has always been about concentration of revenue, and we are now demonstrating diversification of revenue.

The second one is really the slowdown of the Chinese market on the wind side. It's still a very large market, but it is not growing at the rates that it once was. As I said earlier, however, it's still about half of the overall global market. We have a very unique opportunity to provide our partners with advanced wind turbine technology that we believe can help them gain market share in the short term. The second trend in China is the shift to larger wind turbines. Larger wind turbines mean lower cost of energy, and that's where the Chinese are pushing to be able to move their market — to lower cost. We could help the growth efforts with grid connection and lower cost to larger turbines.

And then the third kind of key indicator that we look at is the U.S. market, particularly on the wind side. The expiration of the production tax credit in the U.S., here at the end of calendar 2012, will have a strong impact on the wind market in 2013. We

don't today really have a large benefit on the wind side yet in North America. Our main play here is really driven by grid interconnection of renewable power plants like wind. What we're doing is making sure that we have diversified revenues outside the U.S., so that our exposure to the U.S. market is limited. We want to make sure that we participate in the market, because we see the U.S. market probably turning in the years to come and getting better. And then, given the grid challenges that are increasingly being discussed in the U.S. media, there is a real tremendous need to invest billions of dollars to really improve the electricity grid. So although in the short term the U.S. market for the wind side might be weakening into 2013, we see there is a long-term play.

I think that one of the main challenges that investors really have is getting an understanding that we play in so many different regional markets. Some investors get a bit concerned about the U.S. market, but this market really is not a good indicator of our overall business.

**TWST: Do you think the investment community has a good understanding of AMSC's story? What misconceptions or little-known facts can you share with us about the company?**

**Mr. McGahn:** We're a new company, and our name change to AMSC helps to really understand that. We used to be a company that focused solely on the American markets and on superconductor technologies. We operate now in eight different countries, and we offer that holistic set of solutions for wind turbine manufacturers and for power project developers, as well as power utilities and industrial companies. People really have not fully understood our reach in the countries like India, Korea, Australia and the United Kingdom. And also there are still other geographies that could help grow our company in South America and Eastern Europe.

We have investors that like renewables, we have investors that like our superconductor technology, but there's so much more to what we do and how we grow the market and where we grow to market.

**TWST: Thank you. (MES)**

**DANIEL MCGAHN**  
**President & CEO**  
**AMSC**  
**64 Jackson Rd.**  
**Devens, MA 01434**  
**(978) 842-3000**  
**(978) 842-3024 — FAX**  
**www.amsc.com**