

American Superconductor Corporation (AMSC)



DANIEL MCGAHN, President and CEO of American Superconductor Corporation, 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 Superconductors. In this role, he led efforts to significantly enhance AMSC's wire performance and production processes, and strengthened the AMSC Superconductors 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, a venture-backed developer of polymer photovoltaic technology for renewable power. While at Konarka, he helped significantly boost the company's profile with key external audiences and secure nearly \$40 million in financing. He also was responsible for business development efforts in Asia, Europe and North America. 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, where he managed research and development, product development, manufacturing, sales and operations. He also held managerial positions at IGEN International, a medical device company, and Princeton Consultants. A New Jersey native, Mr. McGahn holds M.S. and B.S. degrees in engineering from the Massachusetts Institute of Technology.

SECTOR — MANUFACTURING

(AYD610) TWST: You recently announced a project with Exelon in Chicago. Can you talk about that project and what it's going to mean for you?

Mr. McGahn: This is a big deal for our company. When you look at the history of the company, which now is almost at 27 years as of April, this is one of those moments in the company's life that defines it, and that going forward will represent in many ways what the company is about, and what we're going to attempt to do over and over again.

So this is a major installation in one of the largest cities in North America, and we're hoping that we're able to replicate the same product offering that we plan to deliver to Chicago, and not only in Chicago but also in other Exelon family cities. They run the grid — Chicago, Baltimore, Philadelphia — and they recently announced an acquisition of the utility in Washington, D.C. We also aim to bring the solution to many utilities throughout the U.S.

TWST: On your last earnings call, you discussed three events that you believe are catalysts for your revenue growth. Can you update us on your progress toward each of those three goals?

Mr. McGahn: We've characterized three events that we think are important for the company to deliver on in our fiscal 2014. The first one would be a major order with INOX, our wind partner in India, and in June, we announced a \$40 million order with INOX, and this will include shipments for fiscal 2014 as well as some shipments into our fiscal 2015. INOX is performing very well. They've been able to take market share. I think their market share

today is in the range of 10% to 15% in India, and they are looking to continue to grow, and their plans in the future are to do an IPO.

The IPO is in excess of \$100 million and that will help them to have the growth capital to continue the trajectory that they are on. If they're able to get in the range of 20% to 25% market share in India, that really puts them in a position to potentially be the number-one player in that market. So we're very proud of the relationship with INOX, and we really want to help them continue to drive their growth to be a top player in the Indian market.

The second event that we talked about was to get a contract for our new product, which is called Resilient Electric Grid, and we announced just recently an order where the U.S. Department of Homeland Security will help support the funding of an installation in a U.S. city. Chicago has stood up and made it known publicly that they want to be that utility. The plan now is to spend the next six to nine months doing a detailed implementation plan with the focus in Chicago to get ready to begin construction hopefully soon after that.

And then the third event that we've talked about is around our ship protection systems with the U.S. Navy. We'd like to make progress on that new product line and to start the process of getting that into the fleet, and that's an event that we've yet to deliver on, but we're only four months into the fiscal year, so we are not even halfway through the year. We've delivered on two, and we are looking to deliver on this last objective.

What these three events do is put the company into the position to refocus again on growth. We've been able to transition the company from the troubles that began back in 2011, and now we

believe we have the right partners. We're introducing new products, and we've also undertaken initiatives around where our people are located and what they are working on to really focus the company toward topline growth in fiscal year 2015 and beyond.

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TWST: Can you tell us a little bit more about new products that you've recently introduced or that you have in development that you are particularly excited about?

Mr. McGahn: A lot of the excitement in the company is really coming from the new products. These two are Resilient Electric Grid, or sometimes we say REG, and our ship protection systems for the U.S. Navy. In both cases, what we are doing is we are providing value beyond the superconductor wire. We've learned in the wind business that providing full systems enhances the value to the customer and ultimately gets a wind turbine to have higher performance because we are able to put in the latest, greatest technology. Let's use the Indian market example. It's really been through technology innovation that our Indian partner has been able to increase market share.

The same thing with our D-VAR product — we offer it as a product, and we do a full system installation, and we've done that throughout the world today. So really taking that expertise coupled with the superconductor manufacturing capability, and we've been able to develop and scale up, and we're now focused on full-system value. And what does that mean? It means more revenue than just selling a wire. It also means that we're in the position to really drive the creation of large markets. We believe the market for Resilient Electric Grid is pretty easily quantified in the billions of dollars just in the U.S. alone.

The Resilient Electric Grid product provides two main features. It can enhance capacity of the electricity grid, but in some ways more importantly, it also can enhance reliability of the grid. The combination of that capacity and reliability enhancement delivers resiliency to the grid. An urban utility will be able to interconnect existing substations to utilize existing capacity that they can't properly utilize today. They'll also be able to make the system more reliable by providing additional redundancy throughout the distribution system. The project in Chicago specifically is looking at enhancing reliability. If Chicago's utility were to lose a part of their distribution system in the downtown Chicago area, the Resilient Electric Grid would allow them to shift load to other assets within the distribution system.

It really fits the theme in the United States today about energy security, security of electricity supply and vulnerability of the electricity grid itself. We've seen it with some of the large storms that we have experienced, I think most notably Superstorm Sandy. Additionally, there was an event out in California where somebody was attempting

to take out a substation using a firearm. The utilities know that the grid is vulnerable, they know where it is vulnerable, and in many ways, the Resilient Electric Grid can help to minimize those vulnerabilities. What's different for our company is that historically we've talked about selling wire and eventually having our superconductor wire compete with copper, which is the traditional material that's used in the grid.

What's changing with the news of the launch of the Resilient Electric Grid program is we're now competing with the iron in the substation and the land that needs to be acquired to build new infrastructure in the urban grid. It changes the value proposition for the company. It also changes the value itself that we're now able to think about installations in the city that are on the order of tens of millions of dollars and potentially more than a \$100 million per program, per city. This is very different than thinking about selling commodity material — again, something like copper. So it's a true repositioning of the company, the strategy, the product and the overall offering.

And then, the other products that we're excited about are ship protection systems, and what we'll really talk about here is the degaussing system. The way that the modern surface ship protects itself against minefields is by tuning the magnetic signature of the ship to approximate the environment that that ship is in. A large surface ship is a big hunk of metal, and mines get attracted to the passing of that metal through the ocean. I think that what we've seen is the Navy has the two principle challenges with the way that the surface fleet is deployed. The first is we're now bringing our surface ships into shallower water. That means that the response that the degaussing systems would have to have needs to be more significant, needs to be faster.

In addition, we have ships now in the fleet that can do 45, 50 knots, which for a surface ship is quite fast, and legacy technology that was developed and implemented in World War II really doesn't provide the level of protection that the Navy desires today. We think we have a very nice offering. We have been able to do product design, develop and test. We've done at-sea trials successfully for the product, and now we're looking to begin the deployment in the fleet, in ships that are built today and new ship platforms that will come tomorrow.

TWST: When we talked back in 2012, India was really the key market for you. Is that still the case, and which other geographic regions are you focusing on at this point?

Mr. McGahn: We're starting to see the fulfillment of the vision of a couple of years ago. We've seen INOX go from a prototype at that point to more than 10% market share. They are a top-tier player, and they continue to gain market share. We have been able to deliver with INOX a very nice business in India that has really good prospects for growth.

The Indian market is predicted to grow from approximately 2,000 megawatts a year to something approaching 4,000 megawatts a year between now and end of the decade. So there is growth in the market, and through innovative technology, we're enabling INOX to take additional market share. Our wind business really starts in India. We see the Chinese market as an additional opportunity for us as well as the Korean offshore market as additional opportunity for the wind market.

On the grid side, our markets have been more in North America, the U.K. and Australia. We've talked in recent conference calls about Australia and policies there. In addition,

we are looking to expand the grid business's regional reach to include Southern Africa and Eastern Europe, both of which we've gotten first wins. We have also been exploring the Middle East as well as South America. We continue to expand our geographic footprint and the markets in which we participate.

I've been very excited and pleased with the two new product offerings. These two new product offerings however are really focused first and foremost on the U.S. markets. The desire is to deploy Resilient Electric Grid in the U.S. and then be able to open up additional markets in the future. Additionally, the desire is to deploy the ship protection systems with the U.S. Navy and then look to be able to sell to allied navies in the future.

TWST: Can you comment on the strength of your balance sheet at this point, and what are the areas that you are working to improve?

Mr. McGahn: I think the good news that came out of the March quarter, which is the end of our fiscal year, was that our cash balance on a year-to-year basis change by about \$1 million. We've initiated many programs throughout the company to curtail costs, we've gone through consolidation, and I think we've streamlined our footprint in a way in which we can focus on product development and manufacturing to really focus the company on growth.

We continue to monitor our cash position, but much of the focus now is less about the balance sheet and more about revenue growth. I think this is one of the big differences between now and the last time spoke in 2012. We've been able to demonstrate to customers over and over again the strength of the

balance sheet that we've had, and we want to make sure that we can manage those costs but also be able to deliver topline growth, really starting in, hopefully, in 2015.

TWST: Based on everything happening for the company and the goals that you have communicated to the marketplace, what kinds of investors do you think would be most interested in your stock today and why?

Mr. McGahn: I think the investors that are most interested in our stock are those investors who understand that you have an asset — and I think — that is perceived to be undervalued, and that's well positioned for growth, that's well positioned for a diversity of that growth. I think some other things that are different about the company today is that we've really focused on diversification of the countries we operate in and generate revenue from, but also the product line and the product offering. For a growth investor, for a value investor, for an investor that is seeking access to investments that leverage emerging markets, AMSC really hits all three of those themes.

TWST: Thank you. (MES)

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