



**Advanced Emissions Solutions, Inc.**  
*Advancing Cleaner Energy*

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# **First Quarter 2018 Results Call**

*May 10, 2018*





## SAFE HARBOR

This presentation includes forward-looking statements within the meaning of Section 21E of the Securities Exchange Act of 1934, which provides a "safe harbor" for such statements in certain circumstances. The forward-looking statements include statements or expectations regarding future cash flows from refined coal ("RC"); net cash flow usage from corporate; and future amount and timing of production and sale of RC. These statements are based on current expectations, estimates, projections, beliefs and assumptions of our management. Such statements involve significant risks and uncertainties. Actual events or results could differ materially from those discussed in the forward-looking statements as a result of various factors, including but not limited to, changes and timing in laws, regulations, IRS interpretations or guidance, accounting rules and any pending court decisions, legal challenges to or repeal of them; changes in prices, economic conditions and market demand; the ability of the RC facilities to produce and sell coal that qualifies for tax credits; the timing, terms and changes in contracts for RC facilities, or failure to lease or sell RC facilities; impact of competition; availability, cost of and demand for alternative tax credit vehicles and other technologies; technical, start-up and operational difficulties; availability of raw materials; loss of key personnel; and other factors discussed in greater detail in our filings with the SEC. You are cautioned not to place undue reliance on such statements and to consult our SEC filings for additional risks and uncertainties that may apply to our business and the ownership of our securities. Our forward-looking statements are presented as of the date made, and we disclaim any duty to update such statements unless required by law to do so.



## FIRST QUARTER 2018 HIGHLIGHTS

- Returned \$6.8 million to shareholders in the first quarter of 2018 through share repurchase program and dividends
- Continued recurring quarterly dividend; declared first quarter dividend of \$0.25 per share, paid in March 2018, and declared second quarter dividend payable on June 8, 2018 to stockholders of record as of business close on May 22, 2018
- Tinum distributions to ADES were in line with expectations and totaled \$13.5 million during the first quarter of 2018; Tinum distributions were \$14.7 million for the three months ended March 31, 2017, a decrease year over year due to the lease of an RC facility that included a prepayment to Tinum Group, which was subsequently distributed to its equity members during the three months ended March 31, 2017
- Reduced indirect operating costs by 3% year over year to \$5.0 million
- Cash position increased by \$4.1 million compared to December 31, 2017, ending with \$34.8 million of unrestricted cash and cash equivalents as of March 31, 2018
- Net income for the three months ended March 31, 2018 of \$7.7 million or \$0.37 per diluted share
- Based on 17 invested RC facilities as of March 31, 2018 and cash distributions occurring in the three months ending March 31, 2018, the Company's expected future net RC cash flows to ADES are between \$250 million and \$275 million through the end of 2021

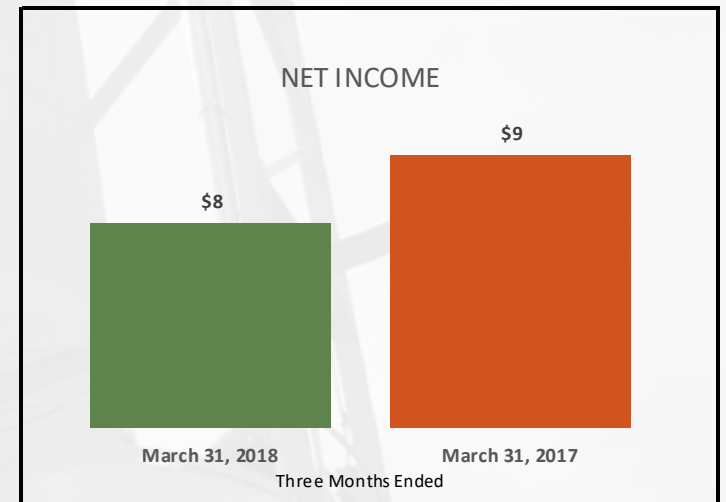
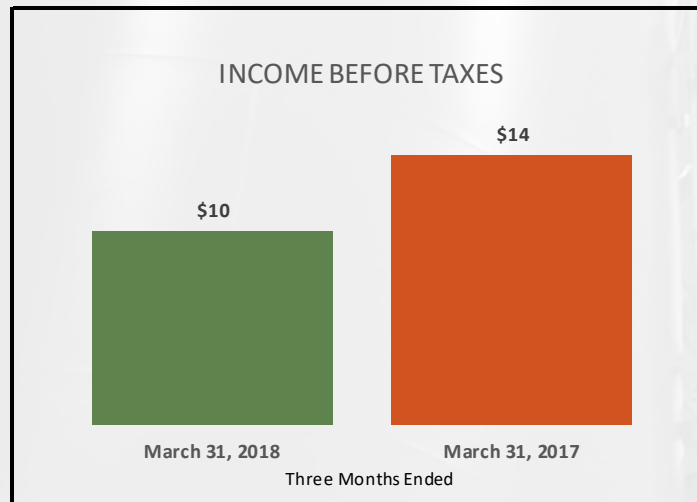
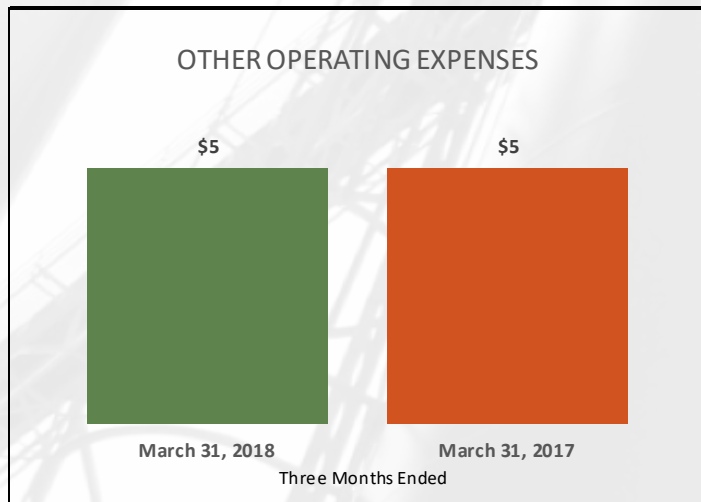
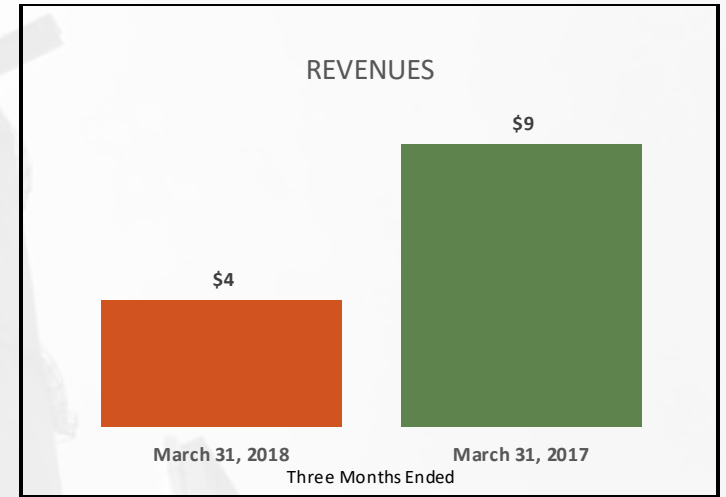
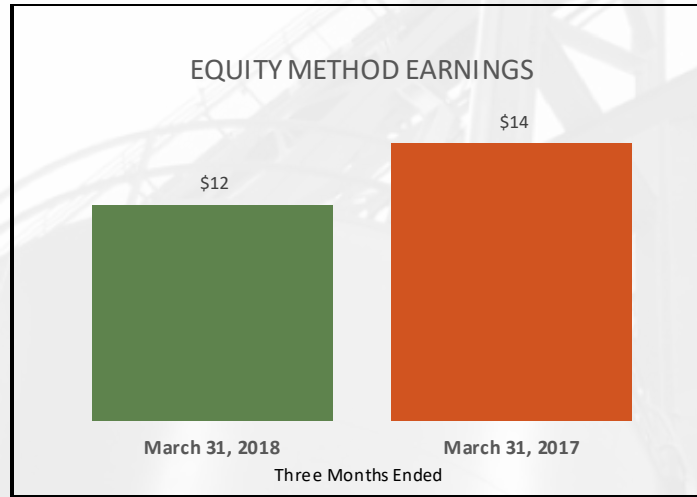
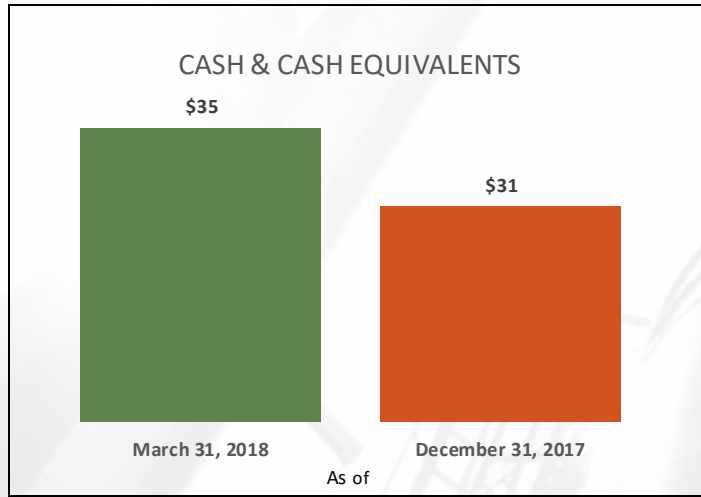




# FINANCIALS



# FINANCIAL HIGHLIGHTS





# REFINED COAL





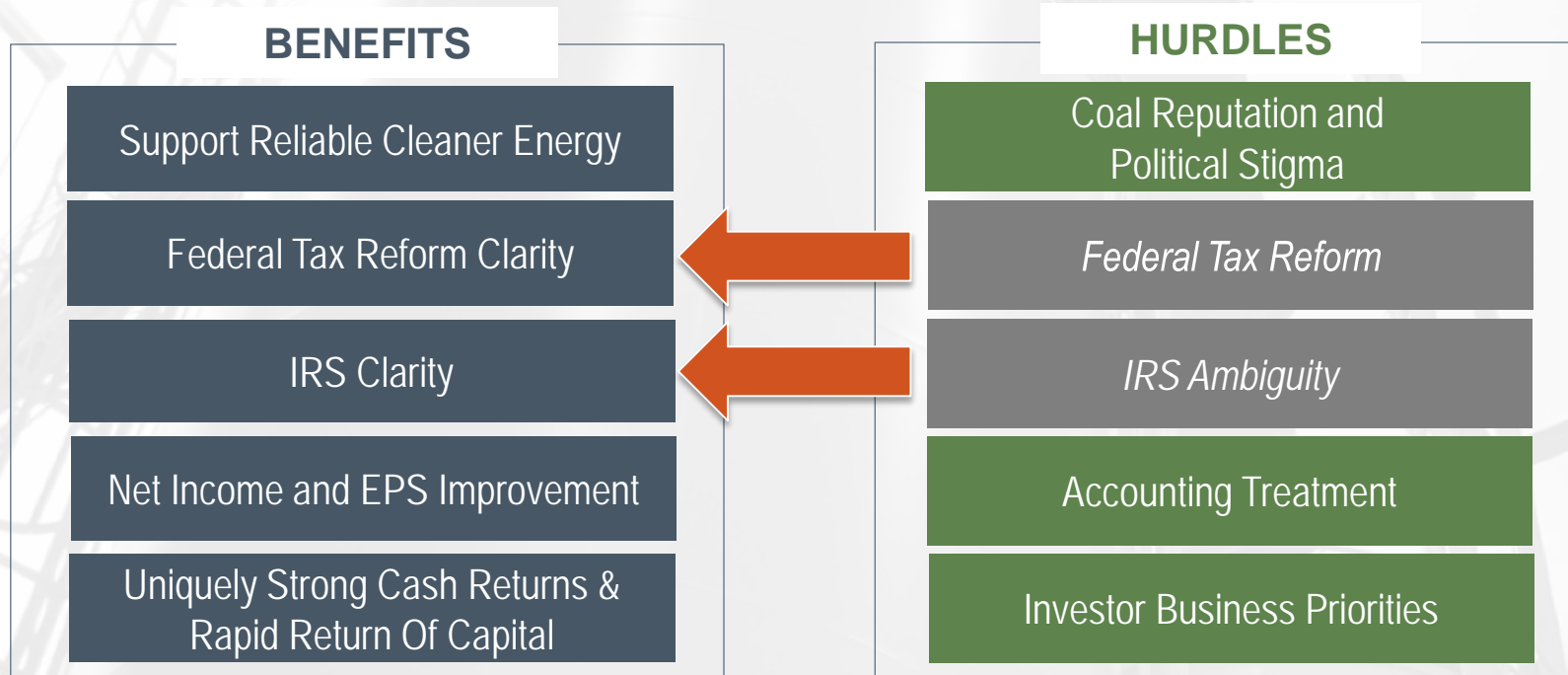


## REFINED COAL ENVIRONMENT

The refined coal business is proven and yields many benefits to utilities, investors and the environment, and while the outlook is improving, there remain hurdles to overcome

A significant number of major public and private companies have invested in RC Tax Equity since its inception

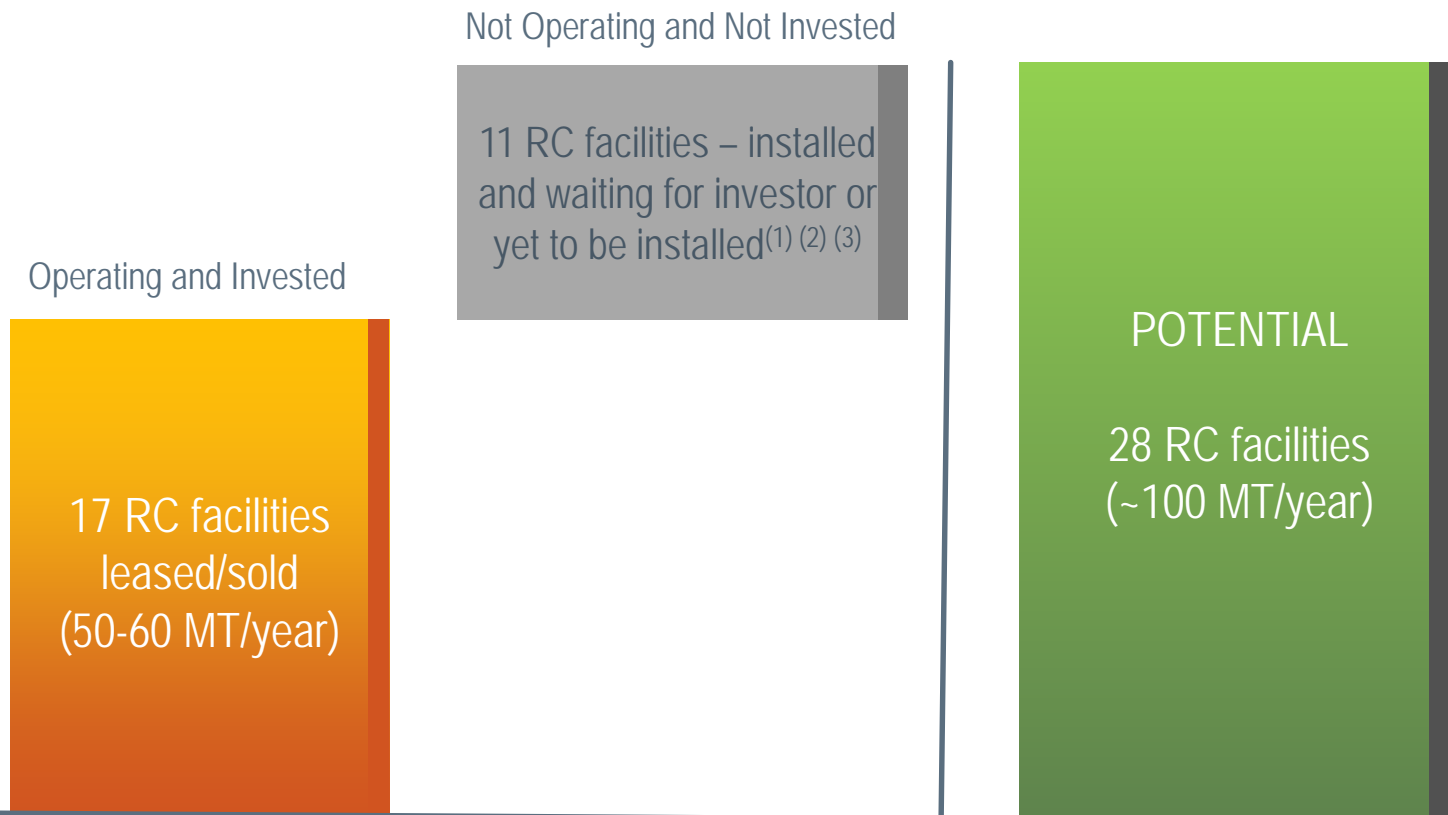
There are benefits *if* hurdles can be overcome





## REFINED COAL FACILITIES TODAY AND TOMORROW

### FULL-TIME OPERATIONS ROADMAP



RC Facility information as of March 31, 2018

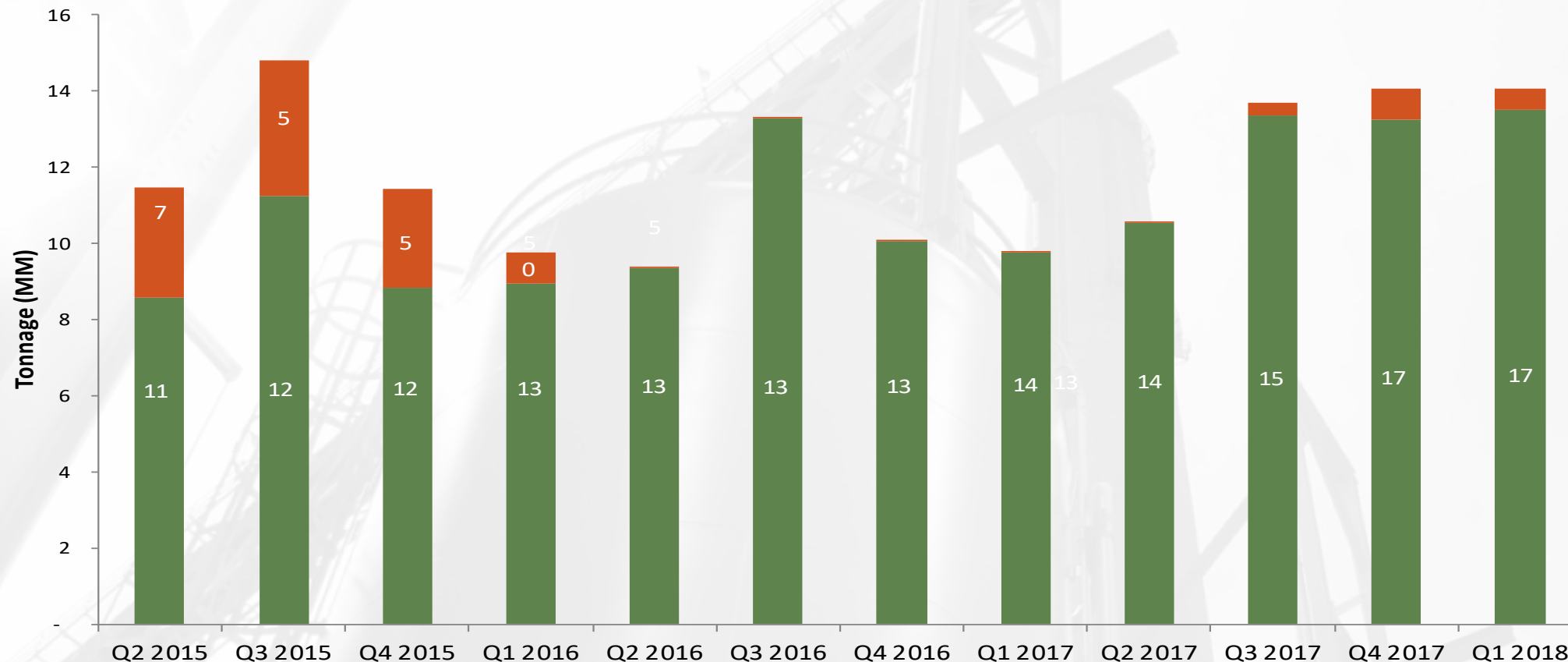
2018 - 2021

- (1) Certain facilities would require capital investment to transition to operating status;
- (2) Two facilities are in the engineering and construction phase.
- (3) Two facilities were placed in service in 2009 and available Section 45 tax credit generation ability for these facilities will expire during the year ended 2019





## OPERATING TONS: INVESTED vs. RETAINED



Three Month Ended March 31, 2018	Invested	Retained	QTD - Total
Tonnage <sup>(1)</sup>	13,502	576	14,078
Count (#) <sup>(2)</sup>	17	-	17

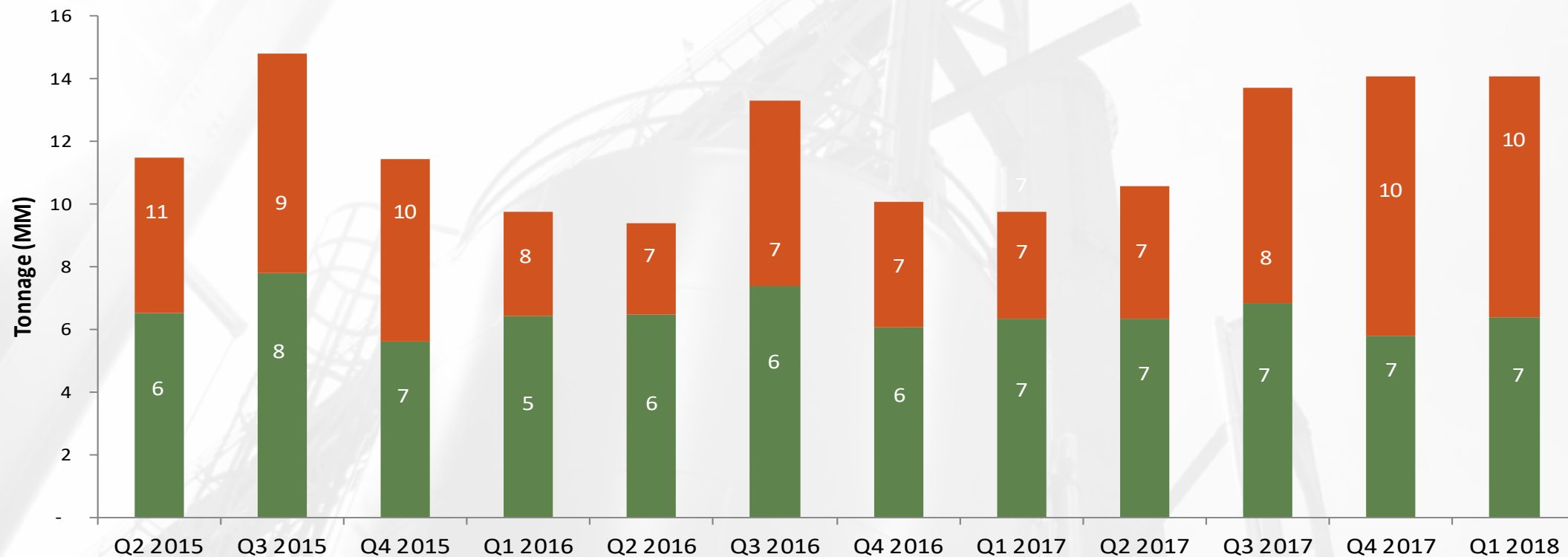
Note: Numbers within bar graph represent the number of facilities per category as of the end of each quarter presented

(1) Tonnage information is based upon RC production for the three months ended March 31, 2018 (in thousands)

(2) During Q3 2017, a 15<sup>th</sup> RC facility became approximately 50% invested with an independent 3<sup>rd</sup> party. The remaining ~50% is retained by Tinuum Group, NexGen and the Company; the Company benefits from the tax credits attained.



## OPERATING TONS: ROYALTY VS. NON-ROYALTY



Three Month Ended March 31, 2018	Operating Tons		QTD - Total
	Royalty	Non-Royalty	
Tonnage <sup>(1)</sup>	7,716	6,362	14,078
Count (#) <sup>(2)</sup>	10	7	17

Note: Numbers within bar graph represent the number of facilities per category as of the end of each quarter presented

(1) Tonnage information is based upon RC production for the three months ended March 31, 2018 (in thousands)

(2) Counts are based upon the number of facilities of which a royalty has been earned during the period



# Future Cash Flows for ADES & 2018 Priorities



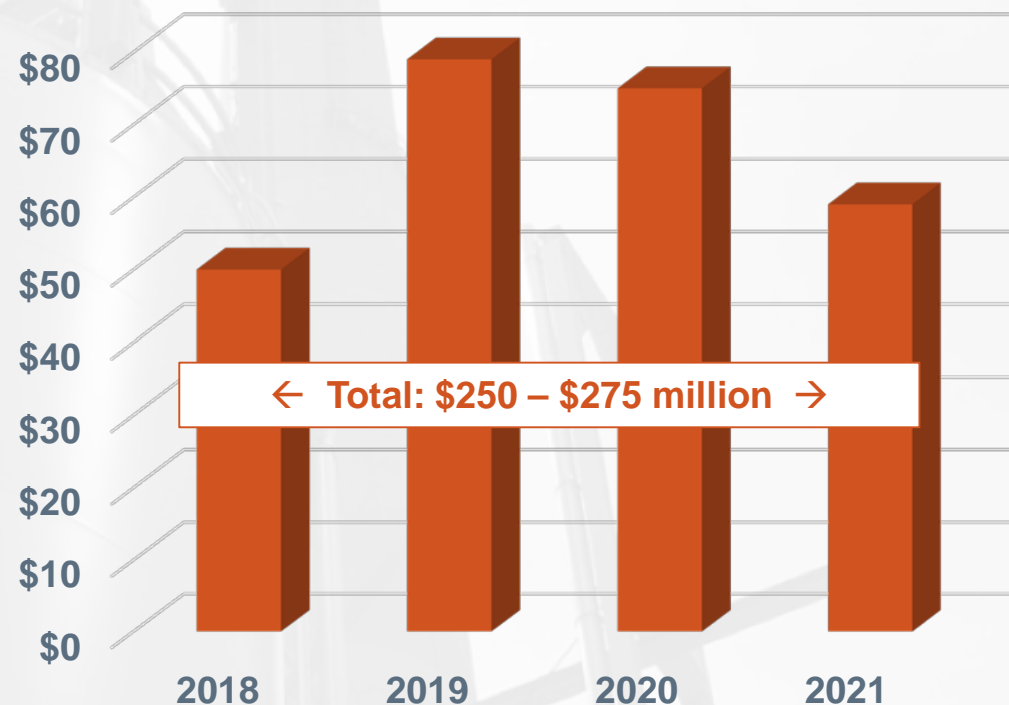


## EXPECTED FUTURE CASH FLOWS

- Based on 17 invested facilities as of March 31, 2018 and includes all net RC cash flows of ADES <sup>(1)</sup>
- Results in expected future net RC cash flows of \$250M to \$275M to ADES in total through 2021 <sup>(2)</sup>
- Each additional refined coal facility could add between \$5-7 million annually to ADES
- Obtained third party tax equity investors for RC facilities in March, July and November 2017
- Additionally, net cash flow usage from Corporate, offset by EC segment contributions, are estimated to range from \$8-10 million annually on a run rate basis<sup>(3)</sup>

### EXPECTED FUTURE CASH FLOWS FROM RC BUSINESS <sup>(1)</sup>

(in millions)



(1) Net RC cash flows includes the impact of all Tinum distributions and royalty payments offset by the Company's federal and state tax payments as well as interest payments

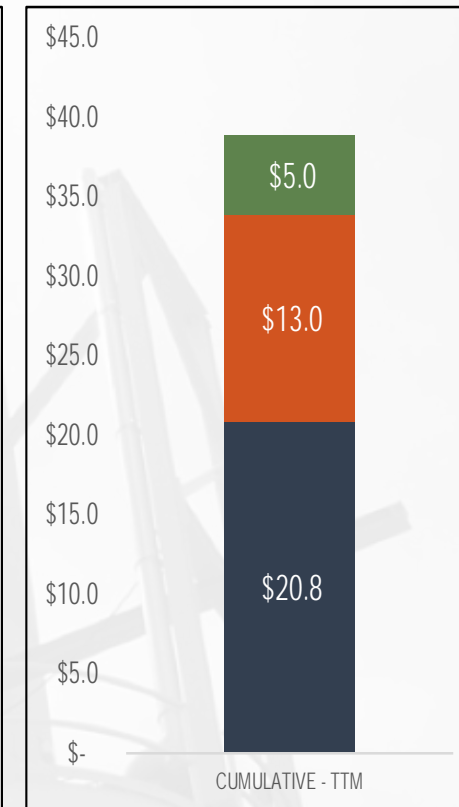
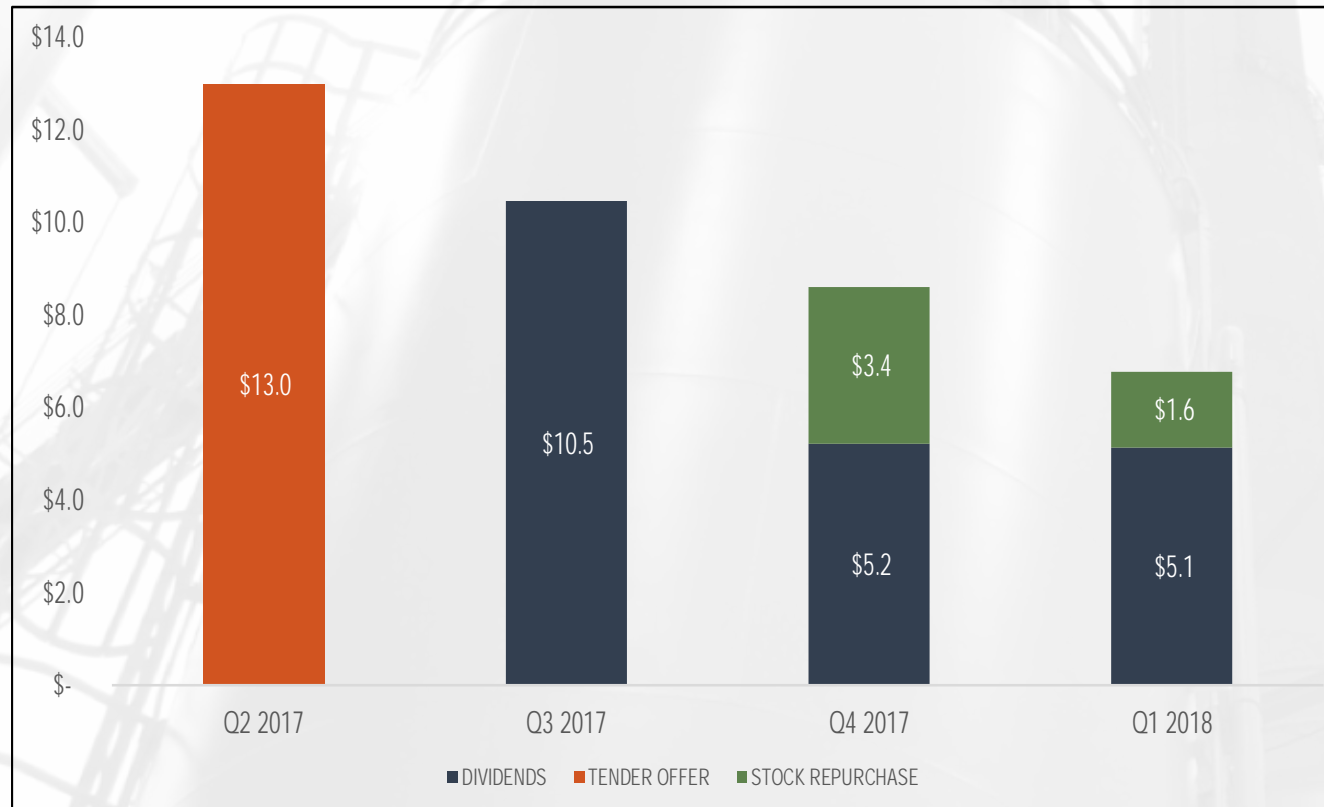
(2) The expectation is based on the following four key assumptions: 1) Tinum Group continues to not operate retained facilities; 2) Tinum Group does not have material CapEx or unusual operating expenses; 3) tax equity lease renewals are not terminated or repriced; and 4) coal-fired generation remains consistent

(3) Net cash flow usage does not include payment of potential quarterly dividends or share repurchases and is after additional cost adjustments



## Return of Capital

- During trailing twelve months (TTM) as of March 31, 2018, Company has paid \$20.8 million in dividends and utilized capital of \$18.0 million to repurchase shares
- Subsequent to March 31, 2018, the Company purchased an additional \$4.3 million worth of its common stock under the stock repurchase program.
- As of March 31, 2018, dividend yield was ~9% on an annualized basis





## 2018 PRIORITIES



### **INCREASE AND OPTIMIZE REFINED COAL NET CASH FLOWS:**

Add Investors:

- Nurture current & add additional sales channels
- Leverage improving refined coal tax equity market and investor clarity as a result of tax reform

Optimization:

- Maximize operational performance to produce RC and further develop customer relationships to ensure retention of RC customers
- Optimize resources at ADES to support Tinum and public platform while also reducing expenses



### **RETURN CAPITAL TO SHAREHOLDERS:**

Evaluate options and execute on continued progress for additional return of capital to shareholders, including:

- Stock repurchases (open market and/or one-time tender offers)
- Dividends (one-time and/or incremental recurring)



### **EVALUATE ALTERNATIVE OPTIONS:**

Evaluate options, including:

- Monetization of current or future tax assets
- Look to build upon current public platform
- Properly position for market transformation





# APPENDIX

## Appendix A: 10-Q Balance Sheet<sup>(1)</sup>

<i>(in thousands, except share data)</i>	As of	
	March 31, 2018	December 31, 2017
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 34,757	\$ 30,693
Receivables, net	1,522	1,113
Receivables, related parties, net	3,230	3,247
Prepaid expenses and other assets	1,650	1,835
Total current assets	41,159	36,888
Property and equipment, net of accumulated depreciation of \$1,061 and \$1,486, respectively	337	410
Equity method investments	3,154	4,351
Deferred tax assets	36,186	38,661
Other long-term assets	2,006	2,308
Total Assets	\$ 82,842	\$ 82,618
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 1,297	\$ 1,000
Accrued payroll and related liabilities	763	1,384
Billings in excess of costs on uncompleted contracts	—	1,830
Other current liabilities	3,212	2,664
Total current liabilities	5,272	6,878
Other long-term liabilities	265	2,285
Total Liabilities	5,537	9,163
Commitments and contingencies (Note 5)		
Stockholders' equity:		
Preferred stock: par value of \$.001 per share, 50,000,000 shares authorized, none outstanding	—	—
Common stock: par value of \$.001 per share, 100,000,000 shares authorized, 22,637,029 and 22,465,821 shares issued, and 20,774,046 and 20,752,055 shares outstanding at March 31, 2018 and December 31, 2017, respectively	23	22
Treasury stock, at cost: 1,862,983 and 1,713,766 shares as of March 31, 2018 and December 31, 2017, respectively	(18,039)	(16,397)
Additional paid-in capital	100,187	105,308
Accumulated deficit	(4,866)	(15,478)
Total stockholders' equity	77,305	73,455
Total Liabilities and Stockholders' Equity	\$ 82,842	\$ 82,618

(1) See complete, unaudited Condensed Consolidated Financial Statements and Notes related thereto within the Quarterly Report on Form 10-Q for the period ended March 31, 2018.

## Appendix B: 10-Q Income Statement<sup>(1)</sup>

<i>(in thousands, except per share data and percentages)</i>	<b>Three Months Ended March 31,</b>	
	<b>2018</b>	<b>2017</b>
Revenues:		
Chemicals	\$ 621	\$ 2,281
License royalties, related party	3,230	1,755
Equipment sales	48	5,108
Total revenues	<u>3,899</u>	<u>9,144</u>
Operating expenses:		
Chemicals cost of revenue, exclusive of depreciation and amortization	711	1,758
Equipment sales cost of revenue, exclusive of depreciation and amortization	(148)	4,143
Payroll and benefits	2,214	2,182
Rent and occupancy	268	45
Legal and professional fees	1,548	1,035
General and administrative	882	1,263
Research and development, net	20	192
Depreciation and amortization	116	482
Total operating expenses	<u>5,611</u>	<u>11,100</u>
Operating loss	<u>(1,712)</u>	<u>(1,956)</u>
Other income (expense):		
Earnings from equity method investments	12,253	13,814
Interest expense	(336)	(693)
Other	26	2,909
Total other income	<u>\$ 11,943</u>	<u>\$ 16,030</u>
Income before income tax expense	10,231	14,074
Income tax expense	2,569	5,386
Net income	<u>\$ 7,662</u>	<u>\$ 8,688</u>
Earnings per common share (Note 1):		
Basic	\$ 0.37	\$ 0.39
Diluted	\$ 0.37	\$ 0.39
Weighted-average number of common shares outstanding:		
Basic	20,502	22,056
Diluted	20,584	22,243
Cash dividends declared per common share outstanding:	\$ 0.25	\$ —

(1) See complete, unaudited Condensed Consolidated Financial Statements and Notes related thereto within the Quarterly Report on Form 10-Q for the period ended March 31, 2018.



## Appendix C: 10-Q Cash Flow<sup>(1)</sup>

<i>(in thousands)</i>	Three Months Ended March 31,	
	2018	2017
<b>Cash flows from operating activities</b>		
Net income	\$ 7,662	\$ 8,688
Adjustments to reconcile net income to net cash used in operating activities:		
Depreciation and amortization	116	482
Stock-based compensation expense	335	607
Earnings from equity method investments	(12,253)	(13,814)
Other non-cash items, net	163	455
Changes in operating assets and liabilities:		
Receivables	(206)	6,874
Prepaid expenses and other assets	185	(415)
Costs incurred on uncompleted contracts	15,945	3,883
Deferred tax asset, net	1,587	5,386
Other long-term assets	—	(805)
Accounts payable	297	(717)
Accrued payroll and related liabilities	(741)	(1,137)
Other current liabilities	638	(219)
Billings on uncompleted contracts	(15,945)	(4,605)
Other long-term liabilities	(44)	143
Legal settlements and accruals	—	(9,126)
Distributions from equity method investees, return on investment	2,400	1,500
Net cash provided by (used in) operating activities	139	(2,820)

(1) See complete, unaudited Condensed Consolidated Financial Statements and Notes related thereto within the Quarterly Report on Form 10-Q for the period ended March 31, 2018.

## Appendix C: 10-Q Cash Flow (continued)<sup>(1)</sup>

<i>(in thousands)</i>	Three Months Ended March 31,	
	2018	2017
<b>Cash flows from investing activities</b>		
Distributions from equity method investees in excess of cumulative earnings	11,050	13,175
Acquisition of property, equipment and intangibles, net	(74)	(142)
Net cash provided by investing activities	10,976	13,033
<b>Cash flows from financing activities</b>		
Dividends paid	(5,142)	—
Repurchase of common shares	(1,642)	—
Repurchase of common shares to satisfy tax withholdings	(267)	(179)
Borrowings on Line of Credit	—	808
Repayments on Line of Credit	—	(808)
Net cash used in financing activities	(7,051)	(179)
Increase in Cash and Cash Equivalents and Restricted Cash	4,064	10,034
Cash and Cash Equivalents and Restricted Cash, beginning of period	30,693	26,944
Cash and Cash Equivalents and Restricted Cash, end of period	\$ 34,757	\$ 36,978
Supplemental disclosure of cash flow information:		
Cash paid for interest	\$ —	\$ 191
Cash paid for income taxes	\$ 39	\$ 100
Supplemental disclosure of non-cash investing and financing activities:		
Dividends declared, not paid	\$ 46	\$ —

(1) See complete, unaudited Condensed Consolidated Financial Statements and Notes related thereto within the Quarterly Report on Form 10-Q for the period ended March 31, 2018.