



May 20, 2016

CURRENT PRICE: \$5.68
RATING: BUY
PRICE TARGET: \$15
CURRENT YIELD: N/A

EPS Estimates - GAAP

	DEC 15A	DEC 16E
1Q	(\$0.32)	(\$0.22)A
2Q	(\$0.31)	(\$0.17)
3Q	(\$0.05)	(\$0.15)
4Q	(\$0.05)	(\$0.14)
	(\$0.73)	(\$0.68)

Trading Data

52-WEEK PRICE RANGE: **\$8.04-\$4.06**
SHARES OUTSTANDING: **31.7(M)**
MARKET CAP: **\$180.1(M)**
AVG. DAILY TRADING VOLUME: **0.2(M)**
S&P 500: **2,052**

Valuation Data

BOOK VALUE: **\$3.59**
PRICE TO BOOK: **1.58x**
DIVIDEND: **n/a**

MAXWELL TECHNOLOGIES, Inc. (NSDQ: MXWL)

1Q16 Earnings report

Highlights

- Earnings improved to (\$0.22)/share vs.(\$0.32)/share
- Improved results from higher revenues/lower expenses
- Diversifying revenue/customer base
- Potential revenue growth in 4Q16 or FY17
- Maintain BUY rating & \$15 price target

Investment Thesis

The recent sell-off in this stock has created an attractive entry point for speculative/aggressive investors seeking 50%-100% appreciation potential, or higher, from MXWL's shares during the next 3-18 months. We believe MXWL is a revenue/earnings growth story, based on rising demand for the company's products on both a short-term and long-term basis. Specifically, increased demand for the company's ultracapacitor products could drive earnings growth as auto/truck/rail industries move towards "greener" options to increase mileage and lower emissions.

Company Summary

Maxwell Technologies (MXWL), headquartered in San Diego CA, develops, manufactures, and markets advanced energy storage/power delivery products. These products are used in the transportation, renewable energy, industrial, information technology sectors and the company also offers microelectronic products for space/satellite applications. MXWL's produces three primary items; ultracapacitors, high-voltage capacitors, and radiation-hardened microelectronic products. Internal manufacturing is done at facilities in CA/AZ, and Rossens Switzerland. Low-cost offshore assembling of MXWL's ultracapacitor products is done by Belton Technology (Hong Kong China) and Lishan Battery Company (Tianjin China). Sales offices are located in San Diego CA, Norfolk UK, Rossens Switzerland, Munich Germany, and Shanghai China.

For Important Disclosure information regarding the Firm's rating system, valuation methods and potential conflicts of interest, please refer to the last two pages of this report.



BUSINESS OVERVIEW

MXWL has two primary products: Ultracapacitors, High-Voltage Capacitors, and recently sold its Microelectronic Products unit.

Ultracapacitors (UC) are energy storage devices which possess high power density (having the ability to charge/discharge energy at a fast rate) and a long operational life. MXWL's ultracapacitor cells and multi-cell packs/modules supply high energy storage/power delivery solutions for application in many industries. These products are used in the transportation, energy, consumer, industrial electronics, and information technology industries. Ultracapacitors are the "lion's share" of MXWL's business comprising 62% of 2011's sales.

High-Voltage Capacitors (HVC) are devices designed/manufactured to perform reliably in all types of climates for electric utility infrastructures for long periods of time. This product group includes grading/coupling capacitors and capacitive voltage dividers used for safety, and reliability, in electric utility infrastructures. Other applications for this product group are used in the transmission, distribution, and measurement of high-voltage electrical energy.

Radiation-Hardened Microelectronic Products (RMP) include high-performance/high-density power modules, memory modules, and single board computers. RMPs are used primarily in orbiting satellites and other space crafts. The company announced the sale of this unit and is expected to be completed by June of this year.

MXWL TRANSITIONING ITS SALES/GROWTH EFFORTS

During the past 2 years there has been a change in MXWL's management team and sales strategy with the objective of diversifying its targets markets and grow revenues. CEO, Dr. Franz Fink joined the company in May 2014 and hired a new CFO, David Lyle, and employed new people for key/strategic positions. Recently Jorg Buckheim was named Senior Vice President/Chief Sales Officer after spending 13 years at Hella, a global leading in lighting/electronic components and systems for the automotive industry, where he had been serving as CEO/President of Hella China. Dr. Henning Hauenstein became MXWL's Vice President of Strategy/Marketing after working at Infineon Technologies for 10 years as Senior Vice President /General Manager of the automotive business segment.

MXWL's new management group saw the need to shift MXWL away from the Chinese government subsidy-dependent hybrid bus business and diversify into other sectors moving towards mandated energy efficient standards set for 2020. These other sectors include electric/utility grid systems, wind generation, railroad systems, automotive, and truck sectors. To this end, plans are to work with existing customers and establish new strategic



partnerships to assist funding of key technologies/ solutions to accelerate the broader commercialization of MXWL's products.

One example of this was the recent agreement with Corning Industries geared to enhance performance of MXWL's electrode technology and new IP potentially allowing ultracapacitors to withstand extreme hot and cold temperatures. Also, the electrification of automobiles, or "emobility" with electric/hybrid vehicles, also creates another potential future revenue stream.

Another example, Duke Energy's (DUK-\$) and Win Inertia commissioned the use of MXWL's hybrid energy storage system in DUK's electric grid system in efforts to increase the overall efficiency of its electrical network. If successful in this case, then other utilities may also consider employing this energy storage system.

Similar to the DUK energy storage system, rail lines have started to employ MXWL's technology in Philadelphia PA (SEPTA metro train system), Spain, and in China. Management believes the new Chinese government subsidy spending will emphasize infrastructure spending and could drive additional revenues towards MXWL as well as other non-Chinese rail systems seeking to capture/store train braking energy and cycle back into its rail grid, thus lowering energy use.

Two of the three US truck OEMs, Kenworth and Peterbilt, now offer MXWL's products and expectations are the third, now in the fifth season of testing, may also offer the same sometime during the next 12 months.

Given the increased use of offshore wind turbines for electrical generation, MXWL has a number of new designs utilizing ultracapacitors to be used on large offshore end remote wind turbines. These products offer an extended life and reduced maintenance expense. MXWL management expects continued global efforts to increase electrical wind generation to be a material contributor to its revenue stream in 2016 and beyond.

RECENT DEVELOPMENTS

Corporate Events:

The company sold its microelectronics product line to Data Device Corporation (DDC) in April 2016 for approximately \$21 million in cash.

An agreement was reached with Viex Capital Advisors to appoint an independent member to MXWL's Board of Directors and have a shareholder vote to consider an annual election of directors with one year terms at the company's 2017 annual stockholders meeting.

As part of its ongoing cost cutting efforts, MXWL consolidated its two manufacturing centers in San Diego and Arizona.



Product News:

ENERGY GRID-MXWL's ultracapacitors were selected by Beijing Huadian Tianren Electric Power Control Technology Company as the core component of a wind farm energy storage demonstration project. This will be the first megawatt-scale ultracapacitor wind farm energy system in the world and will deploy 1,152 of MXWL's 56V/130F ultracapacitor modules.

RAIL-China Railway Rolling Stock Corporation (CRRC) signed an agreement with MXWL to examine multi-year collaboration activities between these two companies to jointly develop new applications-specific/next generation capacitive energy storage solutions for the Chinese rail market. CRRC is a subsidiary of one of the world's largest rail vehicle manufacturers.

RAIL- CAF Power & Automation will use MXWL's UCs as a standard component of the energy-storage system ACR (Rapid Change Accumulator) used to power light-rail cars. CAF is a global manufacturer of railway vehicles/equipment.

AUTOMOTIVE-Last September General Motors (GM-\$) announced the Continental Automotive System's MXWL's voltage stabilization system (VSS) will be a standard feature on 2016 Cadillac ATS and CTS sedans, and some ATS coupes. This is the first North American OEM to integrate the Continental UC-based VSS as part of its enhanced start-stop system geared to lower fuel costs, lower emissions, and improve operating performance.



EQUITY RESEARCH

Recent Earnings

MXWL reported 1Q16 non-GAAP earnings of (\$0.14/share) vs. (\$0.39/share) during 1Q15. The improved results were due to recent cost-cutting efforts by the company, reducing non-GAAP operating expenses (\$13.7 million vs. \$18.2 million) and higher revenues (\$35.2 million vs. \$34.7 million). Higher revenues resulted from increased ultracapacitor sales (\$23.5 million vs. \$21.9 million) and microelectronic sales (\$3.5 million vs. \$2.1 million) and offset lower high voltage sales (\$6.2 million vs. \$10.7 million). Recent changes in bus spending subsidies by the Chinese government caused on buses caused a decline in high voltage sales for MXWL. The decline in China contributed to lower non-GAAP gross profit margin during 1Q16 (28.4%) vs. 4Q15 (29.1%). Total revenues rose to \$35.2 million from \$34.7 million when comparing 1Q16 to 1Q15.

The company generated 1Q16 GAAP earnings (\$0.22./share) vs. (\$0.32/share) during 1Q15. Higher revenues (\$35.2 million vs. \$34.7 million) and lower operating expenses (\$15.9 million vs. \$18.9 million) offset a decline in the gross profit margin (27.4% vs. 29.7%). The largest decline in operating expense came from R & D (\$5.6 million vs. \$7.9 million) followed by SG&A (\$10.1 million vs. \$11.0 million). Restructuring/exit costs were \$118,000 vs. \$0 and EBIT improved to -\$6.4 million from \$8.6 million. On 4/27/16 MXWL announced the sale of its microelectronics business for \$21 million and the company expects to recognize a \$7 million gain. Following the close of this sale, management expects to have \$40 million in cash on MXWL's balance sheet, and no debt.

Our Thoughts

MXWL's earnings were in-line with Wall Street expectations, however, revenues generated during 1Q16 were higher than expected. The new management team has taken strides to reposition the company for future potential revenue/profit growth and made strategic alliances to improve its product quality/marketability. Management believes revenues could improve later this year and create a path to positive earnings growth starting in 2017 based on product acceptance in the wind, rail, automotive, truck, electric grid, and bus sectors. For now, investors appear patient giving the new MXWL management a chance to execute their game plan of potential earnings growth materializing in 2017-2018.

During the 1Q16 conference call Management provided 2Q16 guidance of \$34 million-\$36 million in revenues, sequential revenue growth from 1Q16's high voltage capacitor products (\$6.2), non-GAAP gross profit margin of 29%-31%, and non-GAAP earnings of (\$0.09)/share). To attract investors to its stock, it is vital for MXWL to hit its forward guidance targets and show it is pointed towards profitability in 2017-2018. If this comes to fruition, then profit expectations by Wall Street could dramatically increase and create substantial upside to MXWL's stock as momentum investors rush back into these shares.



We rate this speculative stock a BUY with a \$15/share price target equating to 13.6x our Enterprise Value/Revenue multiple based on our 2016 revenue estimate. However, investors should expect continued volatility in MXWL's stock as short-term traders react to both earnings reports and news regarding product acceptance/deployment by current and new customers.

Risks

There are no guarantees MXWL will be able to grow future earnings. Declining customer orders, increasing commodity prices, and rising operating costs could negatively affect the company's profits. Economic slowdowns, or political change, in Europe and Asia could have adverse effects on earnings. Given the majority of its revenues come from overseas, fluctuations in currency values could impact MXWL's profitability. New products from competitors, or changing industry trends, are risks for MXWL's ability to sell its products. Negative equity markets, rising interest rates, terrorist attacks, and failure to comply with the Sarbanes Oxley Act could cause a decline in MXWL's share price. Given the relatively small amount of daily trading activity in MXWL's stock, any increase in trading volume could significantly accelerate the volatility of its share price movement.

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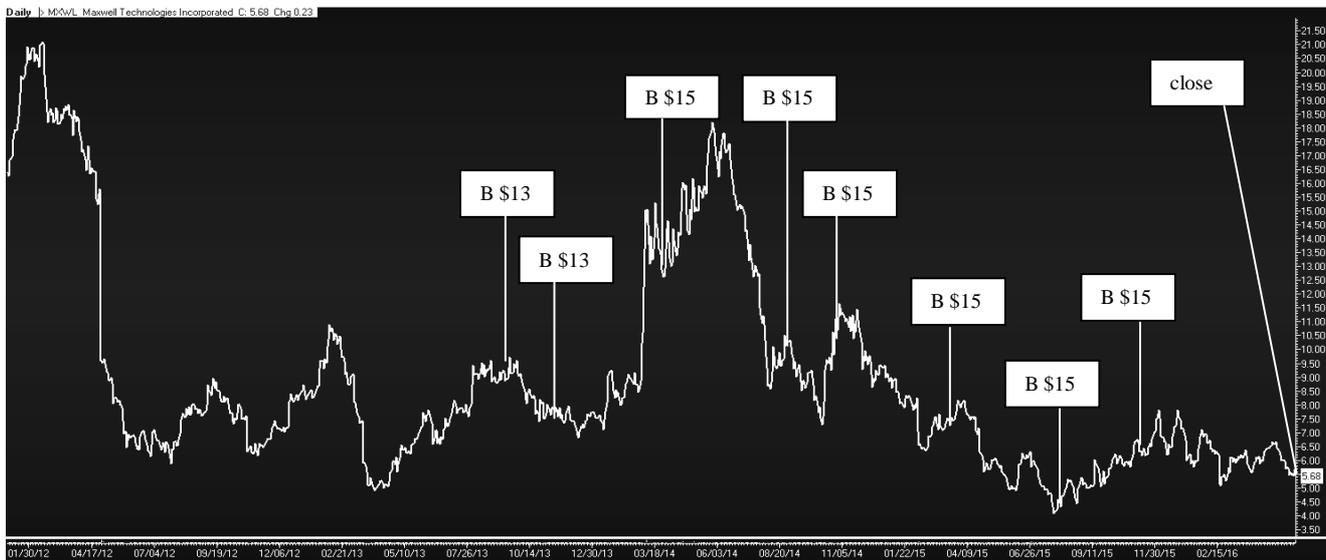


EQUITY RESEARCH

MAXWELL TECHNOLOGIES, INC. & SUBSIDIARIES
condensed consolidated statements of operations
(in thousands, except per share data - unaudited)

	1Q15	2Q15	3Q15	4Q15e	2015e	1Q16	2Q16e	3Q16e	4Q16e	2016e
Revenue	\$34,670	37,796	45,076	\$47,264	\$164,806	\$35,203	\$35,416	\$35,927	\$36,427	\$142,973
Cost of revenue	24,284	25,643	30,820	32,140	112,887	25,550	24,792	24,790	24,771	99,903
Gross profit	10,386	12,153	14,256	15,124	51,919	9,653	10,624	11,137	11,656	\$43,070
Operating expenses:										
Selling, general, & administrative	11,368	10,142	9,070	9,268	39,848	10,098	10,005	9,921	9,629	39,653
Research & development	7,918	5,930	5,781	5,792	25,421	5,607	5,123	5,243	5,403	21,376
Amortization of intangibles										
Restructuring/exit costs		2,340	56	915	3,311	188	63			251
Total operating expenses	19,286	18,412	14,907	15,975	68,441	15,893	15,191	15,164	15,032	61,280
Income/(loss) from operations	-8,900	-6,259	-651	-851	-16,661	-6,240	-4,567	-4,027	-3,376	-18,210
Interest expense, net	-89	-75	-25	-22	-211	70	52	44	73	239
Other Income						84				84
Amort of debt discount/prepaid debt costs			5							
Gain on embedded derivatives & warrants										
Debt discount amort/prepaid debt costs	-5	-2			-7					
For. Currency loss, gain		-85	97		12	130	63			193
Income before income taxes	-8,994	-6,421	-584	-829	-16,828	-6,365	-4,566	-4,071	-3,449	-18,441
Income taxes	347	2,955	865	801	4,968	483	776	813	926	2,998
Net income	(\$9,341)	-9,376	(\$1,449)	(\$1,630)	(\$21,796)	(\$6,848)	(\$5,332)	(\$4,884)	(\$4,375)	(\$21,549)
Net income per share (diluted)	(\$0.32)	(\$0.31)	(\$0.05)	(\$0.05)	(\$0.73)	(\$0.22)	(\$0.17)	(\$0.15)	(\$0.14)	(\$0.68)
Shares outstanding (diluted)	29,445	30,232	31,529	31,529	31,529	31,650	31,650	31,650	31,650	31,650

Important Disclosures



5/1/12 \$9.58 initiate BUY & \$13 price target
 4/2/13 \$4.98 lower to HOLD
 9/9/13 \$9.12 raise to BUY & \$13 price target
 4/8/14 Raise price target to \$15
 Ratings-
 BUY: B
 HOLD: H
 SELL: S

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Our price target is \$15/share, equating to 13.6x our Enterprise Value/Revenue multiple based on our 2016 revenue estimate

Stock ratings used in this report are defined as follows:

- (1) Buy – The stock's total return including dividends is expected to exceed the industry or market average by at least 10% over the next twelve months.
- (2) Hold – The stock's total return including dividends is expected to be in line with the industry or market average of +/- 10% over the next twelve months.
- (3) Sell – The Stock's total return including dividends is expected to be below the industry or market average by 10% or more over the next twelve months.

The distribution of investment ratings for all companies in our coverage universe are as follows: (1) 43%, (2) 57%, (3) 0%

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