

NYSE:GHM • July 30, 2015



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# First Quarter Fiscal 2016 Earnings Call

James R. Lines

President & Chief Executive Officer

Jeffrey F. Glajch

Vice President & Chief Financial Officer



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# Safe Harbor Statement

This presentation contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended.

Forward-looking statements are subject to risks, uncertainties and assumptions and are identified by words such as “expects,” “estimates,” “projects,” “anticipates,” “believes,” “goal,” “outlook,” “priorities,” “could,” and other similar words. All statements addressing operating performance, events, or developments that Graham Corporation expects or anticipates will occur in the future, including but not limited to, statements relating to revenue, backlog and expected performance of Energy Steel & Supply Co., and expected expansion and growth opportunities within the domestic and international nuclear power generation markets, anticipated revenue, the timing of conversion of backlog to sales, profit margins, foreign sales operations, Graham Corporation’s strategy to build its global sales representative channel, the effectiveness of automation in expanding engineering capacity, the ability to improve cost competitiveness, customer preferences, changes in market conditions in the industries in which Graham Corporation operates, changes in general economic conditions and customer behavior and Graham Corporation’s acquisition and organic growth strategies are forward-looking statements. Because they are forward-looking, they should be evaluated in light of important risk factors and uncertainties. These risk factors and uncertainties are more fully described in Graham Corporation's most recent Annual Report filed with the Securities and Exchange Commission, including under the heading entitled “Risk Factors.”

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# Executing Our Strategy to Expand Earnings

- Leverage assets to capture market share
- Expanding predictable base business
- Use of capital to diversify & strengthen revenue streams
- Key markets:
  - ✓ Refining
  - ✓ Petrochemical
  - ✓ Power
  - ✓ U.S. Navy

**Short-term objective:**  
Drive top-line growth through greater market share

**Near-term objective:**  
\$200 million revenue

**Longer-term objective:**  
Leverage competencies and financial strength to diversify and provide further growth



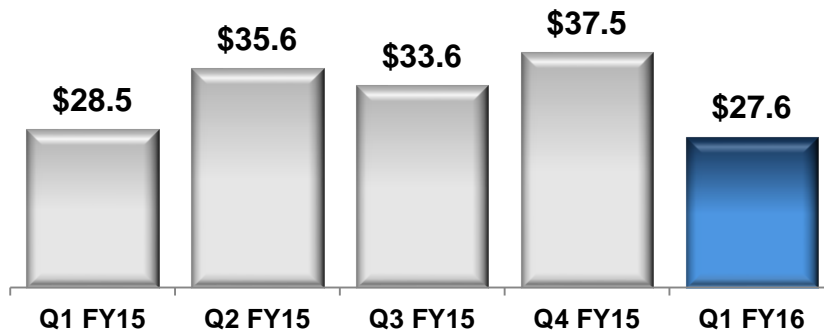
# First Quarter Fiscal 2016 Highlights

- Q1 revenue was \$27.6 million
  - Down 3% compared with \$28.5 million in Q1 FY2015
- Q1 net income was \$2.4 million, \$0.23 per share
  - Consistent with Q1 FY2015 net income of 2.4 million, \$0.24 per share
  - 9% of sales
- Backlog remains strong at \$110.1 million
- Leveled production throughput and scaled back costs

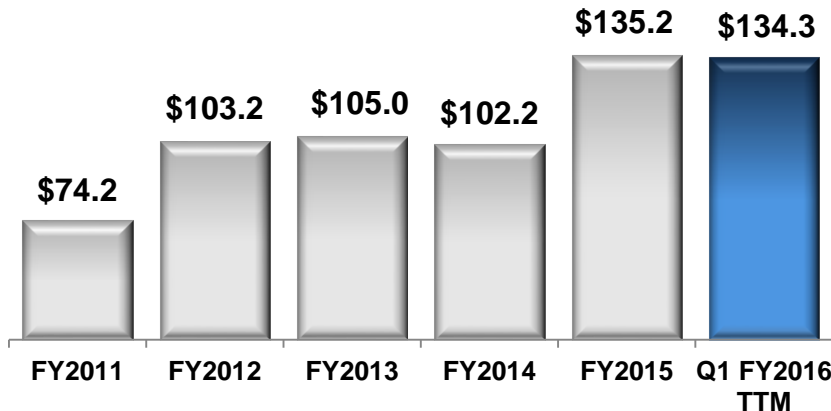
# First Quarter Fiscal 2016 Sales

(\$ in millions)

## Quarterly Revenue



## Annual Revenue



- FY2016 Q1 sales driven by geographic diversity
  - International sales were 36%, compared with 22% last year
  - Driven by increases to Middle East and Other markets
- Strong refining industry sales
  - Refining industry sales: \$7.8 million
  - Chemical/Petrochemical industry sales: \$11.3 million
  - Power industry sales: \$3.7 million
  - Other Commercial and Industrial sales: \$4.8 million



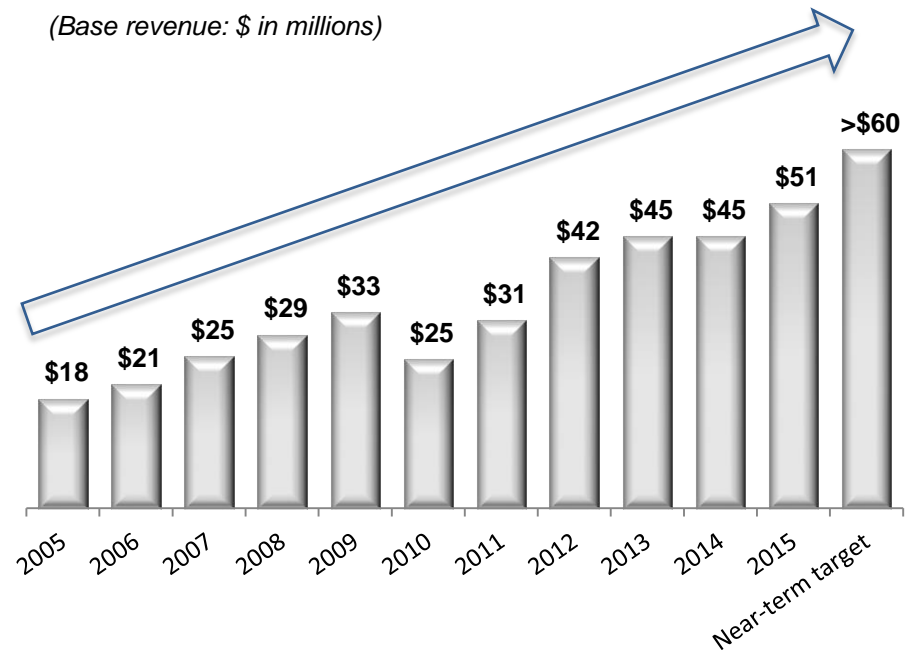
# Strengthening Stable Revenue Base

## *Reducing Volatility*

- Expected to exceed \$60 million in near-term, through organic growth strategies to capture greater market share:
  - Nuclear market MRO
  - Executing Naval strategy
  - Aftermarket strategy
  - Short-cycle product strategies
- Stronger predictable base of sales reduces earnings volatility

### Annual Predictable Base Business

(Base revenue: \$ in millions)



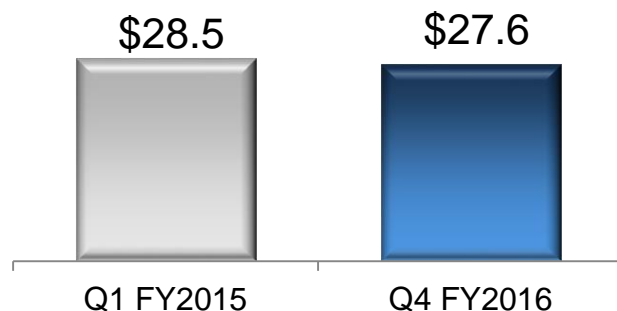
# Financial Overview

Jeff Glajch  
Vice President and CFO

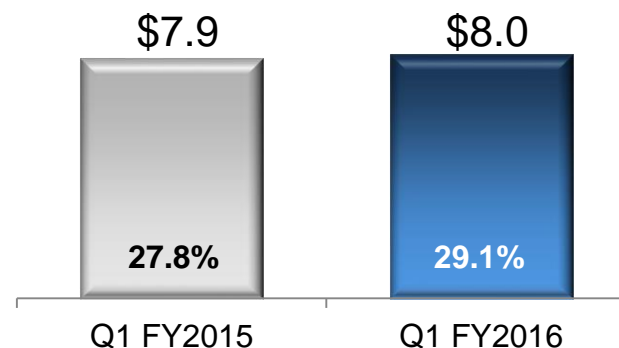
# Q1 FY2016 – Solid Performance

(\$ in millions, except per share data)

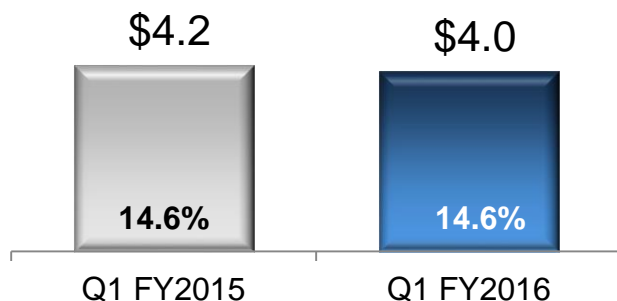
## Sales



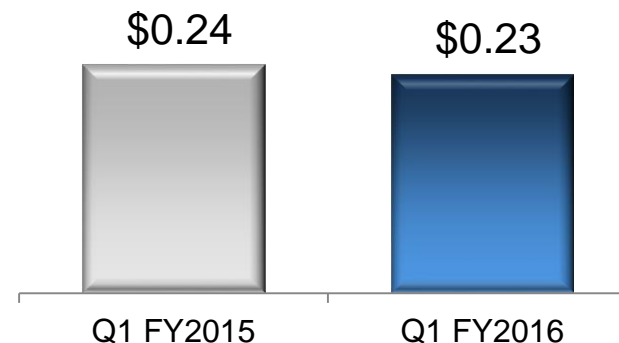
## Gross Profit and Margin



## EBITDA and Margin<sup>(1)</sup>



## EPS



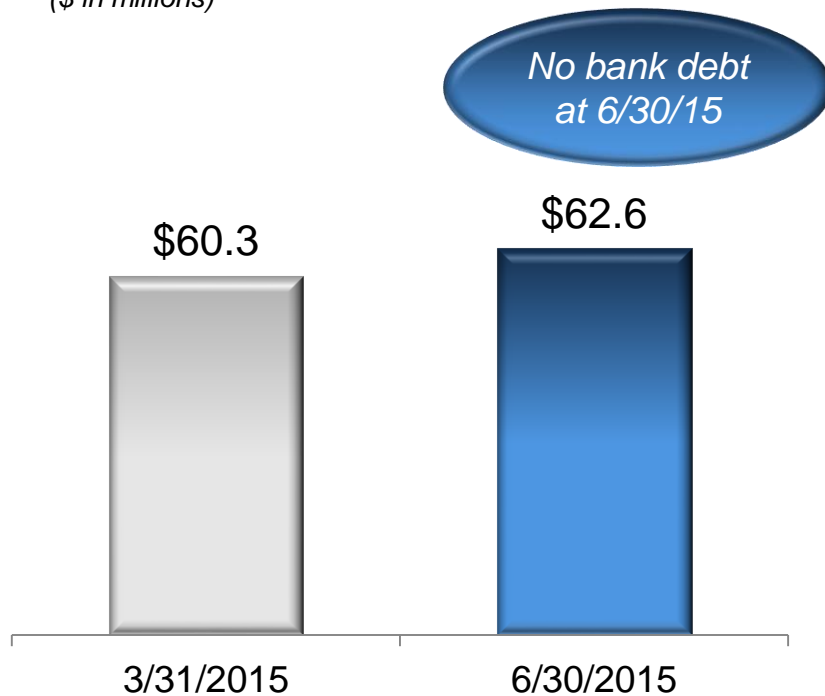
<sup>(1)</sup> See supplemental slide for EBITDA reconciliation and other important disclaimers regarding Graham's use of EBITDA



# Strong Cash Position to Support Growth

## Cash, Cash Equivalents and Investments

(\$ in millions)



***Cash available for investments in organic growth and acquisitions***

- \$18 million stock repurchase program approved January 29, 2015
  - Subsequent to quarter end and through July 29, 2015, the Company purchased approximately 75,000 shares for \$1.4 million
- Cash provided by operations was \$3.3 million in FY2016 Q1
- Capital expenditures in FY2016 Q1 of \$0.3 million
  - FY2016 capital expenditures expected to be between \$2 million and \$2.5 million

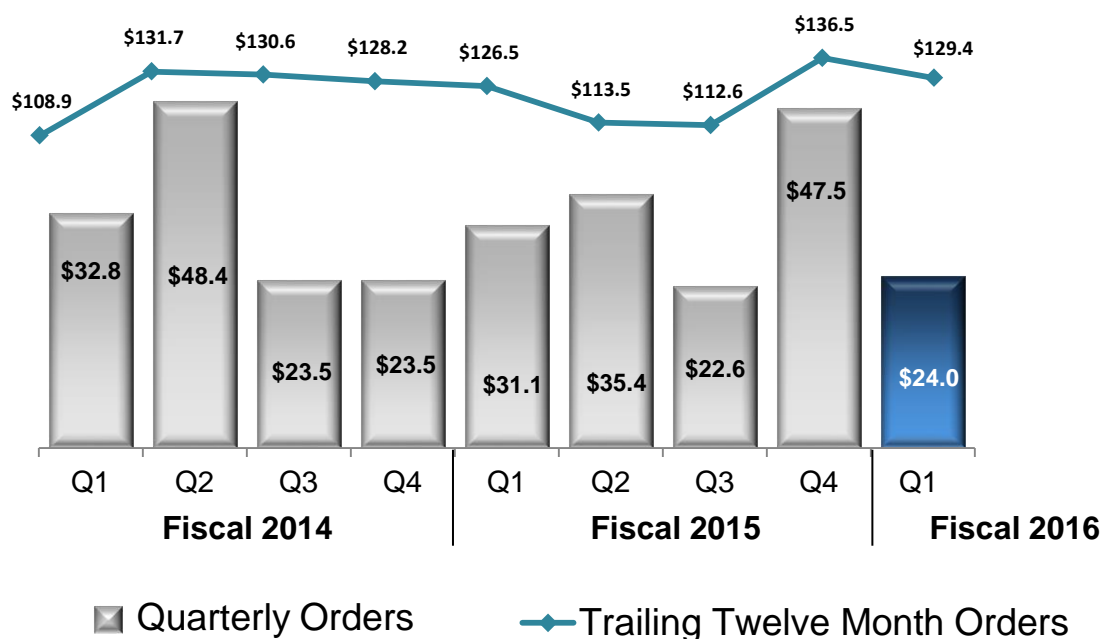


# Outlook

Jim Lines  
President & CEO

# Volatile Order Activity

**Quarterly and TTM Orders**  
(in millions)



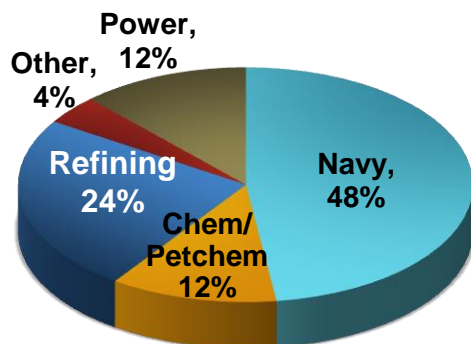
- Approximately 32% of Q1 FY2016 orders were from the refining industry
- Refining and chemical/ petrochemical industry orders reflect market uncertainty
- Q1 FY2016 geographic mix of orders:
  - US: 63%
  - International: 37%

# Backlog Remains Strong

*Reflects benefits of diversification strategy*

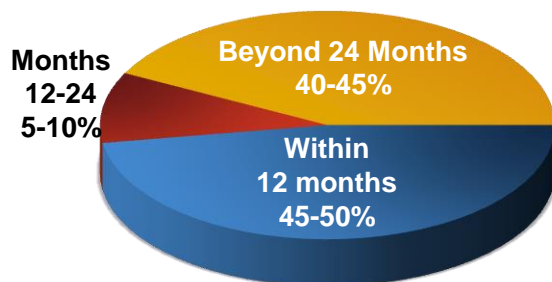
## Backlog by Industry

June 30, 2015



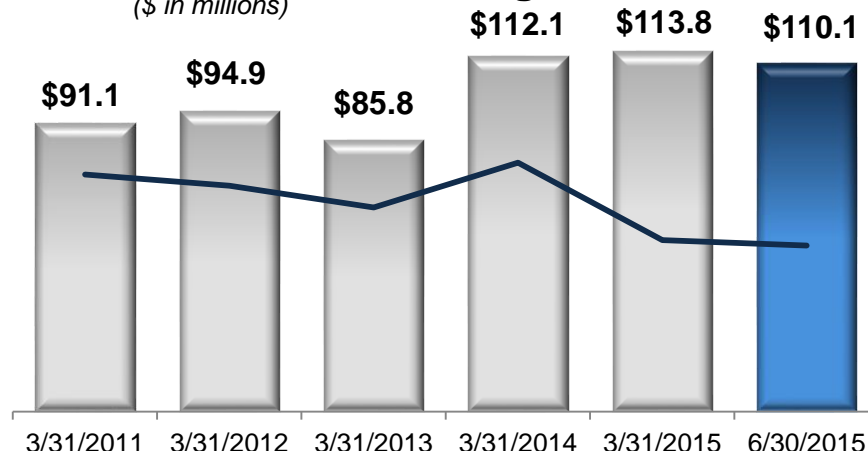
## Projected Backlog Conversion

June 30, 2015



## Backlog

(\$ in millions)



Backlog

Backlog expected to convert within 12 months

- Strong backlog mix with high percentage of U.S. Navy projects
- 55% from markets or customers not served by the Company five years ago
  - Reducing the impact of more cyclical sales in the energy industry


# FY2016 Guidance Reiterated<sup>(1)</sup>

- Revenue \$95 million – \$105 million
- Gross margin 26% – 28%
- SG&A 17% – 18% of sales
- Effective tax rate 32% – 33%

***Strategic Target: Exceed \$200 million in organic revenue***

<sup>(1)</sup> FY2016 Guidance provided as of July 30, 2015

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An aerial photograph of a large industrial manufacturing facility. In the center, a massive cylindrical metal component is being welded. Several welders in protective gear are positioned around the cylinder, with bright sparks emanating from their work. To the left, two workers in business attire stand at a table, reviewing large blueprints. The floor is dark and industrial, with various equipment and materials scattered around.

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# Supplemental Information



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# EBITDA Reconciliation

(Unaudited)

(\$ in thousands)

	Three Months Ended June 30,	
	2014	2015
<b>Net income</b>	<b>\$ 2,392</b>	<b>\$ 2,361</b>
+Net interest income	(43)	(49)
+Income taxes	1,234	1,087
+Depreciation & amortization	574	621
<b>EBITDA</b>	<b>\$ 4,157</b>	<b>\$ 4,020</b>
<i>EBITDA margin %</i>	<i>14.6%</i>	<i>14.6%</i>

*EBITDA is defined as consolidated net income before interest expense and income, income taxes, depreciation and amortization. EBITDA is not a measure determined in accordance with generally accepted accounting principles in the United States, commonly known as GAAP. Nevertheless, Graham believes that providing non-GAAP information such as EBITDA is important for investors and other readers of Graham's financial statements, as it is used as an analytical indicator by Graham's management to better understand operating performance. Graham's credit facility also contains ratios based on EBITDA. Because EBITDA is a non-GAAP measure and is thus susceptible to varying calculations, EBITDA, as presented, may not be directly comparable to other similarly titled measures used by other companies.*

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An aerial photograph of a large industrial manufacturing facility. In the center, a massive cylindrical metal component is being welded. Several welders in protective gear are positioned around the cylinder, with bright sparks emanating from their work. To the left, two workers in business attire stand at a table, reviewing large blueprints. The scene is dimly lit, with the primary light source being the intense welding process.

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