

Second Quarter Fiscal 2021 Earnings Call

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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.

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This presentation includes some non-GAAP financial measures, which the Company believes are useful in evaluating our performance. You should not consider the presentation of this additional information in isolation or as a substitute for results compared in accordance with GAAP. The Company has provided a discussion of these non-GAAP financial measures and reconciliations of comparable GAAP to non-GAAP measures in tables found in the Supplemental Information portion of this presentation.



Financial Overview

Jeff Glajch
Vice President and CFO

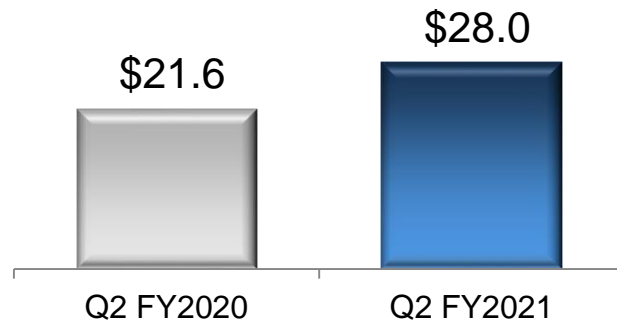
Second Quarter Fiscal 2021 Summary

- **Q2 fiscal 2021 sales of \$28.0 million**
 - Defense industry sales up \$6.8 million; 34% of total sales
 - Includes one-time quick turn material only order
 - Sales to previously underserved markets
- **Net income of \$2.7 million, more than doubled compared with last year period**
- **Cash and short-term investments at September 30, 2020 was \$67.9 million**
- **Backlog at September 30, 2020 was \$114.9 million**
 - 50% from Defense industry
 - Backlog Supports remaining two quarters of FY21

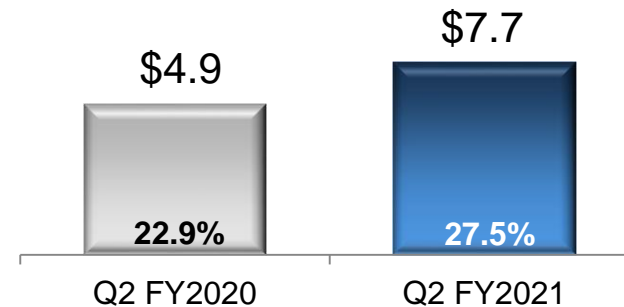
Q2 FY 2021: Strong Results Reflect Growth in Defense

(\$ in millions, except per share data)

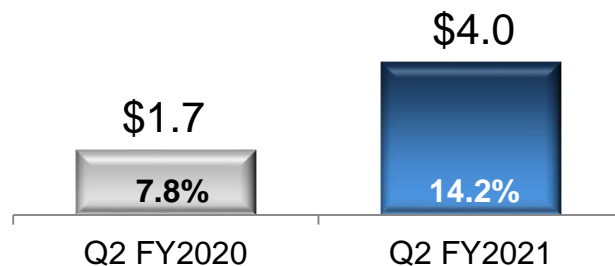
Sales



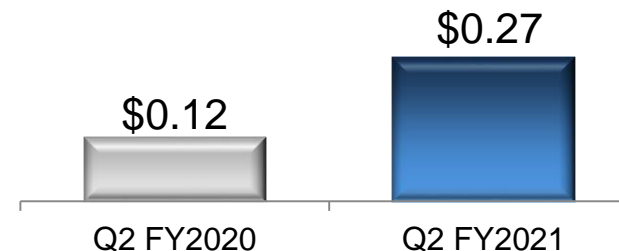
Gross Profit and Margin



EBITDA and Margin⁽¹⁾



Diluted EPS

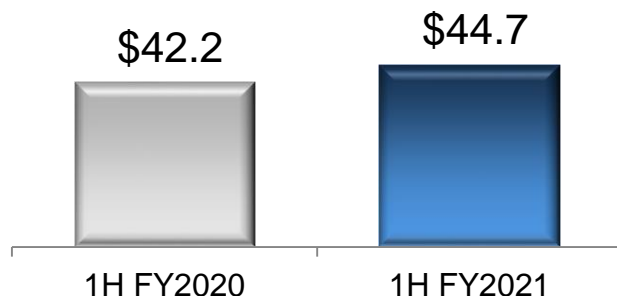


(1) See supplemental slide for EBITDA reconciliation and other important disclaimers regarding Graham's use of EBITDA

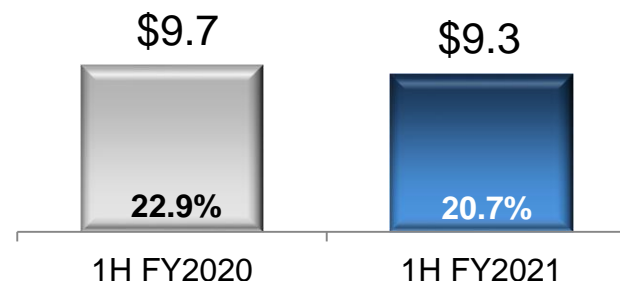
1H FY2021: Second Quarter Results Offset COVID-19 Impact

(\$ in millions, except per share data)

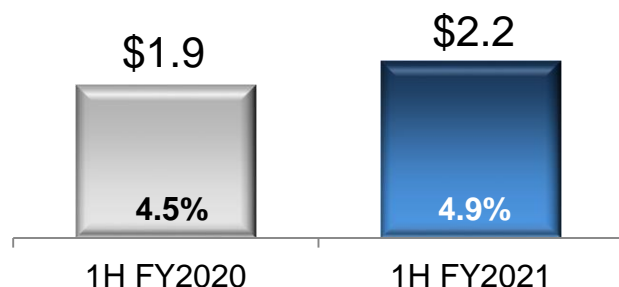
Sales



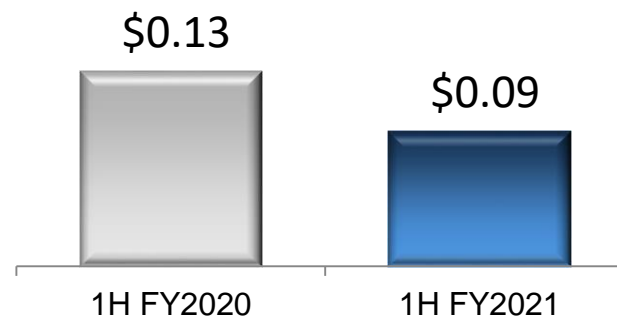
Gross Profit and Margin



EBITDA and Margin⁽¹⁾



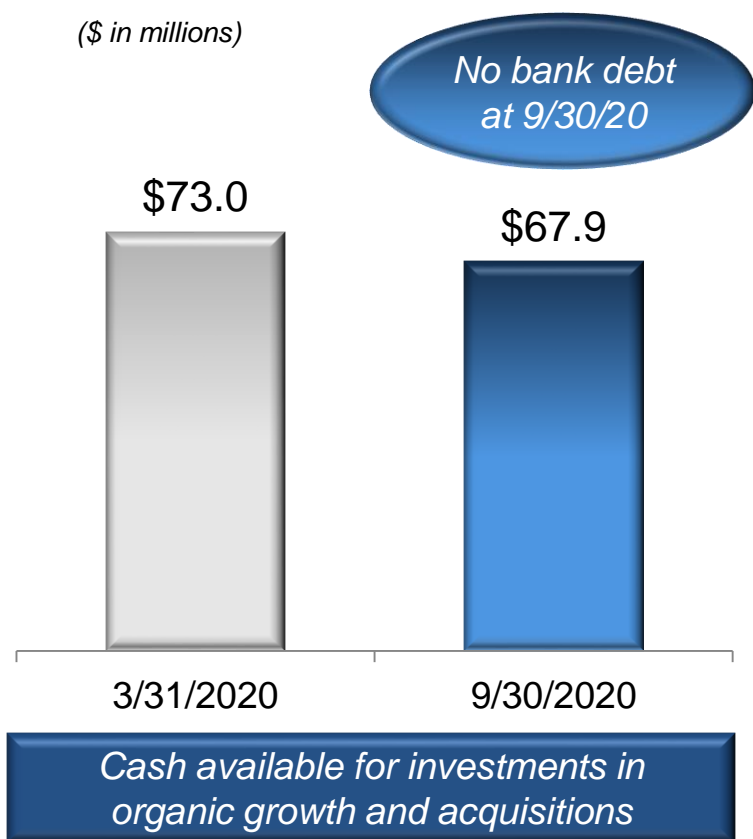
Diluted EPS



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Significant Financial Flexibility

Cash, Cash Equivalents and Investments



- Cash⁽¹⁾ balance decreased \$5.1 million in 1H FY2020
 - Cash used by operations was \$2.3 million due to AR/AP timing
 - Paid \$2.2 million of dividends
 - Cash⁽¹⁾ on hand at quarter end of \$6.80 per share
- Capital expenditures of \$0.8 million in 1H FY2021 compared with \$0.7 million in 1H FY2020
 - FY2021 capital expenditures expected to be between \$2.0 million and \$2.5 million⁽²⁾

(1) Represents cash, cash equivalents, and investments

(2) FY2020 guidance reaffirmed as of October 28, 2020



Operations Overview

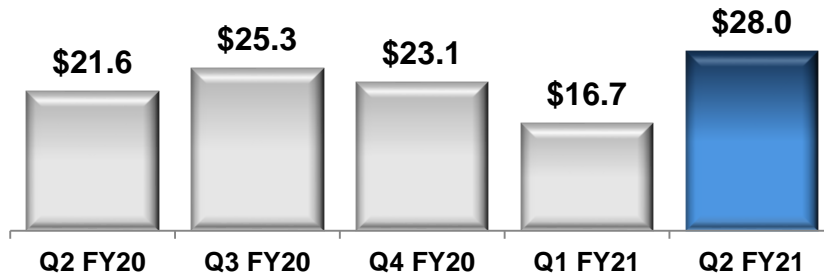
Alan Smith
VP & GM-Batavia

Revenue

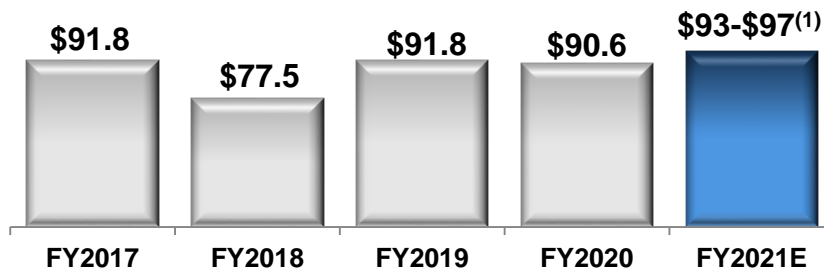
Driven by defense market

(\$ in millions)

Quarterly



Annual



- Q2 sales increased vs prior year
 - Refining industry: \$10.3 million, up from \$6.3 million
 - Chemical/petrochemical industry: \$5.5 million, down from \$10.5 million
 - Defense industry: \$9.4 million, up from \$2.6 million
 - Other commercial: \$2.8 million, up from \$2.2 million
- Q2 sales by geography
 - Sales to the U.S. were up to \$17.3 million, 62% of total; last year was \$15.7 million
 - Sales to international markets were \$10.7 million; up from \$5.9 million last year

⁽¹⁾ FY2021 guidance updated as of October 28, 2020; excludes commercial nuclear utility business divested June 23, 2019

Margin Improvement Initiatives

Initiative	Actions
Vendor Management	<ul style="list-style-type: none"> Negotiate to lower costs <ul style="list-style-type: none"> COVID creates procurement opportunities
Hire and train skilled workers to drive production volume	<ul style="list-style-type: none"> Implement on site Graham Weld School On-site weld lab and test facility Improve on-boarding of skilled workers- training and OJT
Differentiate defense program execution to earn sole source status	<ul style="list-style-type: none"> Risk identification and mitigation Ensure software and hardware on time delivery Strengthen quality culture high first pass yield
Optimize defense program production	<ul style="list-style-type: none"> Complete first-article orders and production Standardize operations and procedures for repeat fabrication
Leverage IT	<ul style="list-style-type: none"> Create management dashboards Streamline workflows
Leverage increased outsourcing	<ul style="list-style-type: none"> Build-out organizational structure Further strengthen vendor oversight



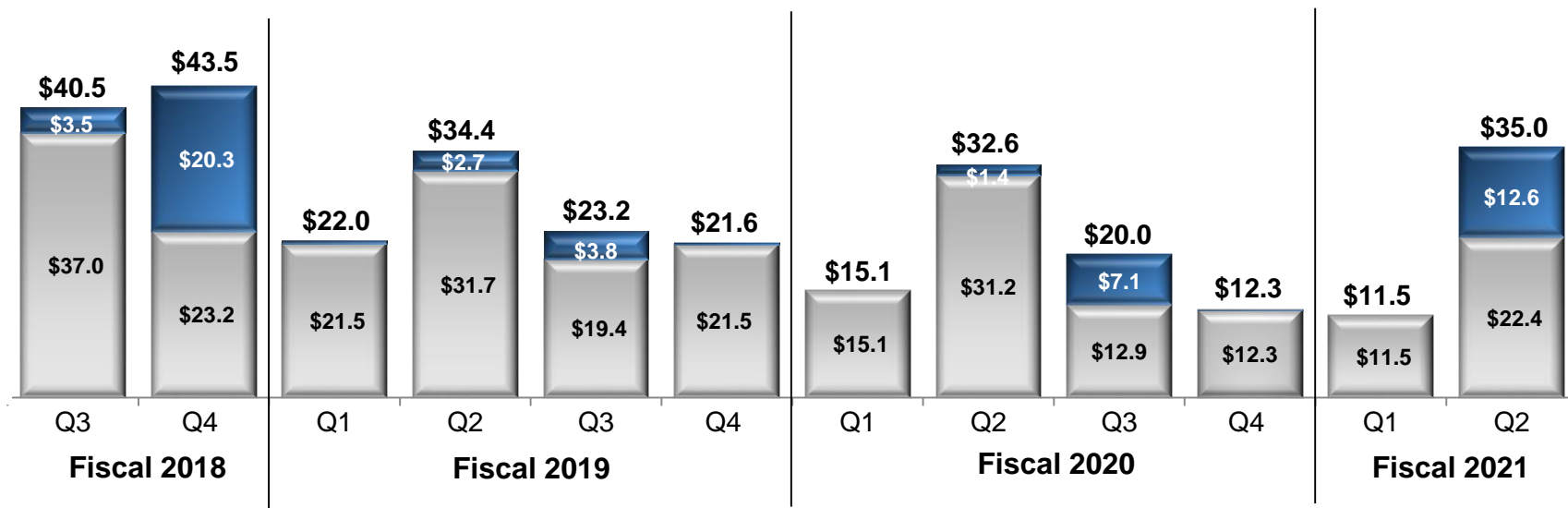
Strategic Overview & Outlook

Jim Lines
President & CEO

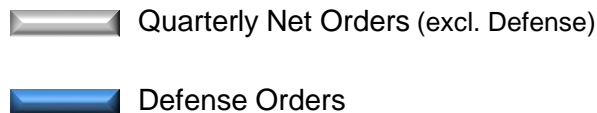
Variable Quarterly Order Activity

Quarterly Orders

(in millions)



Q2 FY2021 orders by industry vs Q2 FY2020



- Defense industry up \$11.2 million to \$12.6 million
- Refining industry down \$5.9 million to \$16.8 million
- Chemical/petrochemical industry down \$2.9 million to \$3.3 million
- Market expansion strategy resulted in new customers placing greater 1/3 of new orders in Q2

Totals shown in graph may not equal the sum of the segments due to rounding

Market Outlook: Cautiously Optimistic

Refining

- Active pipeline in Asia
 - Secured ~\$20m YTD. Pipeline needs to rebuild
- North America weak
 - A few active projects and less short cycle work
 - Customers focused on cash preservation
 - Limited activity currently
- Mid East & Latin America
 - Next wave of projects after FY21

US Navy

- Healthy pipeline of bids
- Active in all three programs
 - CVN Carrier
 - SSN Virginia Class Subs
 - SSBN Columbia Class Subs
- Certain bids are new components

Chemical/Petrochemical

- Customer priority is conserving cash
 - Reluctance to commit to orders
 - Delaying spending
 - Need global economies to stabilize post COVID
- Next wave of ethylene capacity is setting up
 - World-scale integrated refineries in MidEast/Asia
 - North America may be less relevant

Short cycle

- Spare parts showing signs of improvement
 - Inquiries appear to be on upturn
- OEM work is down - lack of demand
- Involvement in new markets is steady, but slow
 - H2 fuel, compress natural gas, supercritical fluids

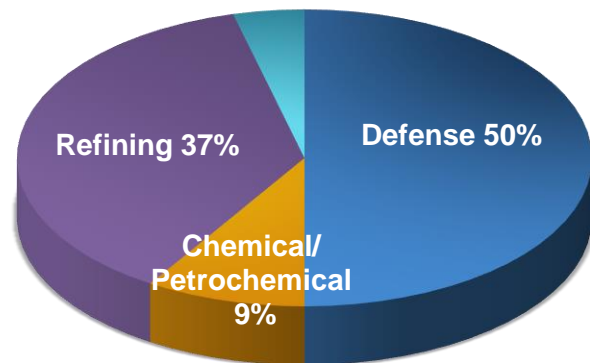
Backlog Supports Revenue Expectations

Defense becoming larger contributor to revenue

Backlog by Industry

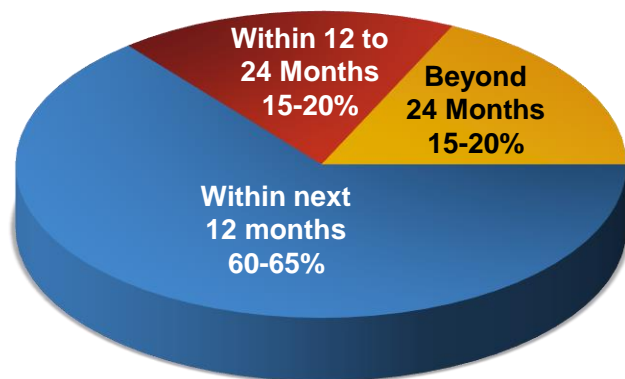
September 30, 2020

Other Commercial 4%



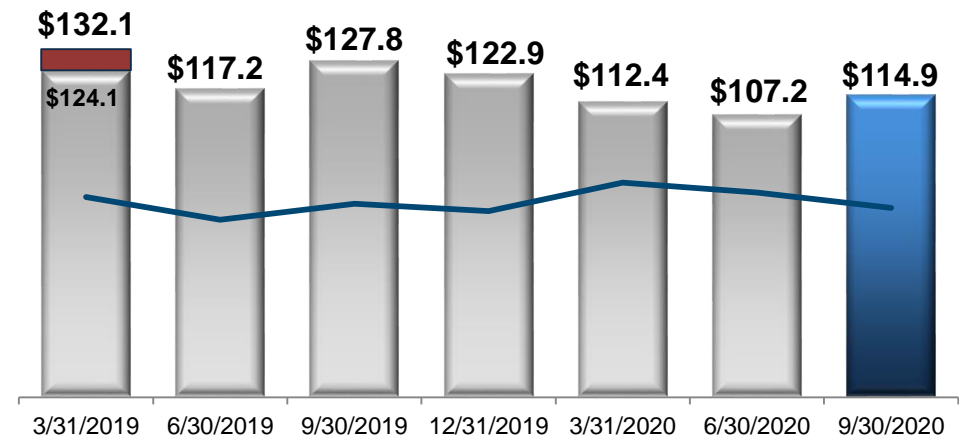
Projected Backlog Conversion

September 30, 2020



Backlog

(\$ in millions)



- Commercial Nuclear, divested 6/24/2019
- Ongoing Graham business
- Backlog expected to convert within 12 months

- Healthy backlog driven by defense and refining market
- Strength of orders next 3 qtrs sets up FY2021

FY2021 Guidance⁽¹⁾

Excludes divested Energy Steel business

Revenue: \$93 million to \$97 million

- Implies \$48.3 to \$52.3 of revenue in remaining two quarters

Gross Margin: 21% to 23%

SG&A: \$17.0 million to \$17.5 million

Effective tax rate: ~22%

(1) FY2021 guidance updated as of October 28, 2020. Guidance modeling assumes COVID impact does not worsen.

Focused on Long-term: Strategic Update

Goals	Objectives and Progress
Increase predictable revenue streams	<ol style="list-style-type: none"> 1. Execute on Defense backlog; Gain greater share of wallet <ul style="list-style-type: none"> ▪ <i>FY21 revenue expected to grow >50%</i> 2. Focus on core installed base <ul style="list-style-type: none"> ▪ <i>COVID-driven pause</i> 3. Acquisitive additions of new products for Core and Defense markets <ul style="list-style-type: none"> ▪ <i>High quality, active discussion ongoing</i> ▪ <i>Focused on stable revenue streams</i>
Improve competitive position in cost-focused segments of current markets	<p>Expand business model for cost-focused markets</p> <ul style="list-style-type: none"> ▪ <i>Build outsourced sales, engineering and manufacturing capabilities</i> ▪ <i>Establishing execution capabilities in India, China and other regions</i>
Strengthen financial results and margins	<ol style="list-style-type: none"> 1. Increase skilled labor to expand throughput capacity in Batavia <ul style="list-style-type: none"> ▪ <i>~20 open positions</i> 2. Earn sole source bidding opportunities <ul style="list-style-type: none"> ▪ <i>Backlog and pipeline quality improving</i> 3. Beyond 1st article cost structure: Standardized Defense manufacturing processes <ul style="list-style-type: none"> ▪ <i>Production R&D nearing completion</i> 4. Balance near-term vs. long-term requirements for cost structure <ul style="list-style-type: none"> ▪ <i>Monitor markets, customers, pipeline and project wins for fiscal 2022 opportunities and COVID-19 impacts</i> 5. Acquire strong performing business or tuck in that provides volume <ul style="list-style-type: none"> ▪ <i>High quality, active discussions</i>



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Strategy. Process. Team.

Supplemental Information

EBITDA Reconciliation

(Unaudited)

(\$ in thousands)

	Three Months Ended September 30,		Six Months Ended September 30,	
	2020	2019	2020	2019
Net income	\$ 2,744	\$ 1,205	\$ 926	\$ 1,287
Net interest income	(23)	(359)	(112)	(755)
Income taxes	773	342	401	367
Depreciation & amortization	486	490	972	991
EBITDA	\$ 3,980	\$ 1,678	\$ 2,187	\$ 1,890
<i>EBITDA margin %</i>	<i>14.2%</i>	<i>7.8%</i>	<i>4.9%</i>	<i>4.5%</i>

Non-GAAP Financial Measure:

EBITDA is defined as consolidated net income before net interest income, income taxes, depreciation, and amortization and EBITDA margin is defined as EBITDA as a percentage of sales. EBITDA and EBITDA margin are not measures 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. Moreover, 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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