


NYSE:GHM • January 29, 2016



**POSITIVE PERFORMANCE**

# Third Quarter Fiscal 2016 Earnings Call

**James R. Lines**  
President & Chief Executive Officer

**Jeffrey F. Glajch**  
Vice President & Chief Financial Officer



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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.

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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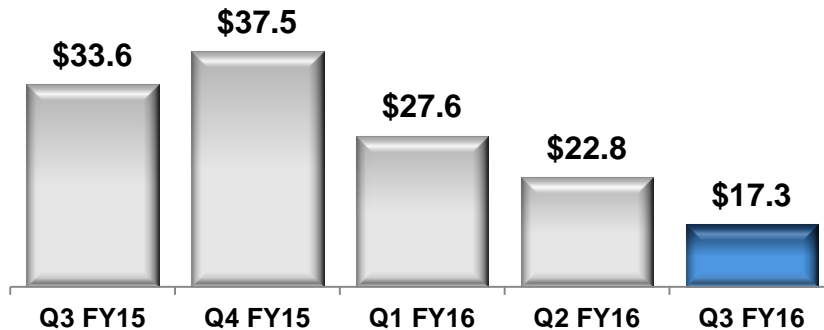
# Third Quarter Fiscal 2016 Highlights

- Q3 revenue was \$17.3 million
  - Impacted by engineering iterations, isolated to Q3
- Fiscal 2016 revenue guidance lowered to \$90 million to \$95 million due to low Q3 revenue
  - Maintained gross margin and SG&A margin guidance
- Backlog grew to \$113.2 million
- Q3 net income was \$1.3 million, \$0.13 per share
  - Benefited from \$1.8 million pre-tax cancellation charges
- Repurchased ~141,000 shares for \$2.5 million

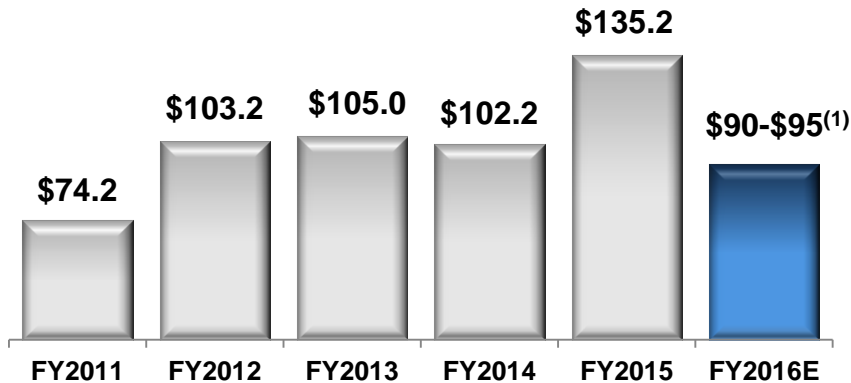
# Third Quarter Fiscal 2016 Sales

(\$ in millions)

## Quarterly Revenue



## Annual Revenue



<sup>(1)</sup> FY2016 Guidance provided as of January 29, 2015

- FY2016 Q3 sales realized declines in all industries and geographies
  - Impacted by weak backlog conversion, believed to be isolated to Q3
  - International sales were 38%, compared with 45% in FY2015 Q3
- Q3 reflects normal mix by industry
  - Refining industry sales: \$6.2 million
  - Chemical/Petrochemical industry sales: \$4.8 million
  - Power industry sales: \$2.7 million
  - Other Commercial and Industrial sales, including U.S. Navy: \$3.6 million



# Financial Overview

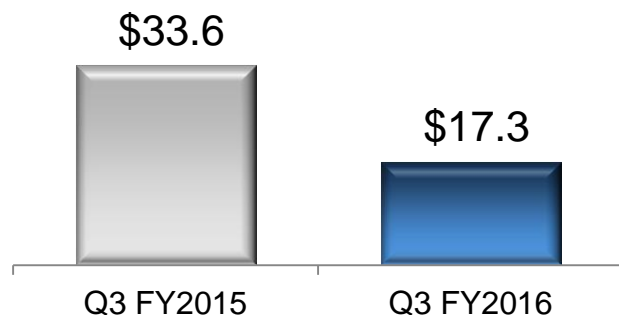
Jeff Glajch

Vice President and CFO

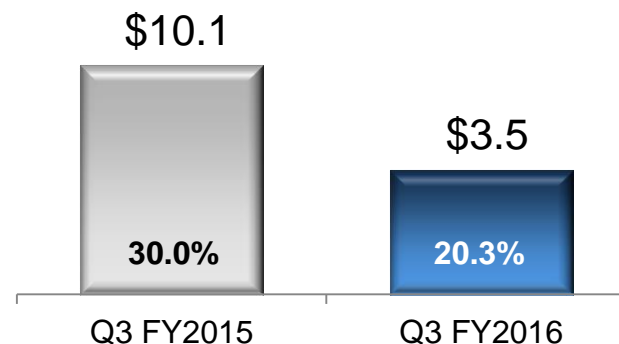
# Q3 FY2016 – Weak Revenue

(\$ in millions, except per share data)

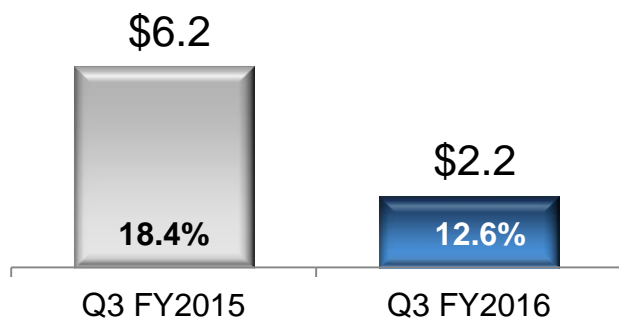
## Sales



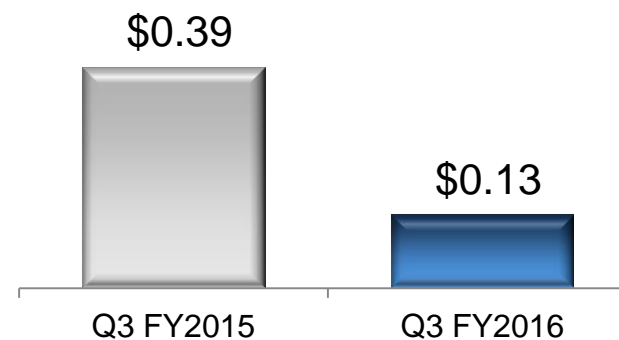
## Gross Profit and Margin



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



## EPS

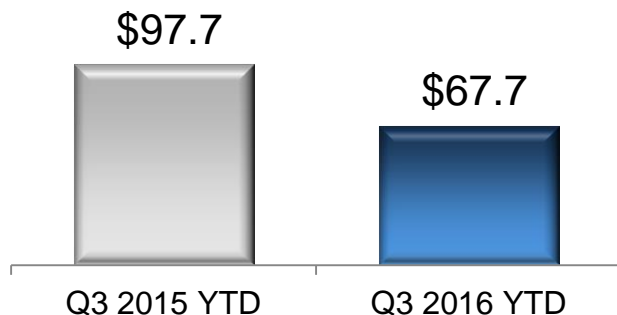


<sup>(1)</sup> See supplemental slide for EBITDA reconciliation and other important disclaimers regarding Graham's use of EBITDA

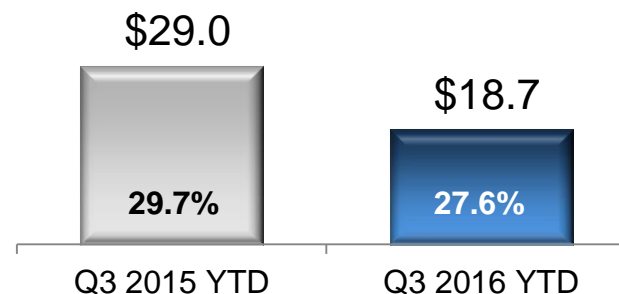
# Q3 FY2016 YTD – Solid Management

(\$ in millions, except per share data)

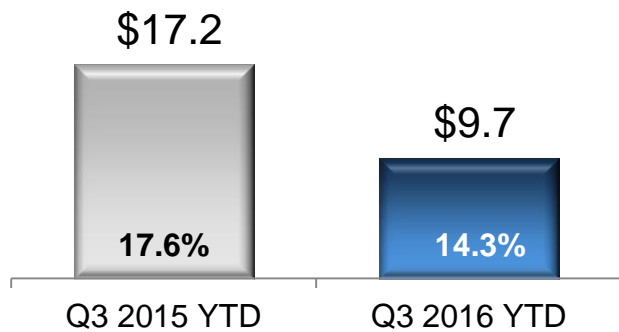
## Sales



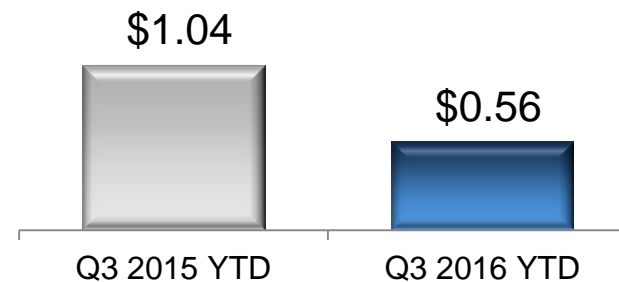
## Gross Profit and Margin



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



## EPS

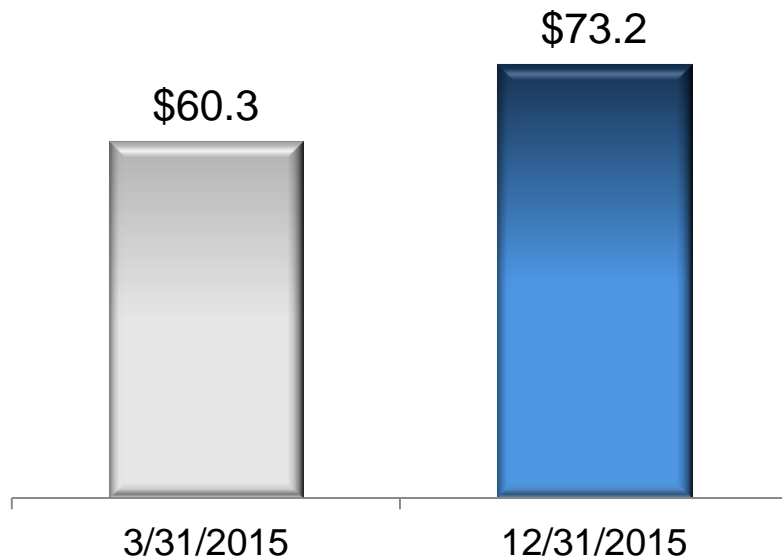


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# Strong Cash Position to Support Growth

## Cash, Cash Equivalents and Investments

(\$ in millions)



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

- Returned \$8.3 million to shareholders YTD FY2016
  - Purchased ~328,000 shares for \$5.9 million under \$18 million stock repurchase program
  - Paid \$2.4 million of dividends
- Increased cash balances by \$12.9 million YTD
  - Cash provided by operations was \$22.2 million
- Capital expenditures YTD FY2016 were \$0.9 million
  - FY2016 capital expenditures expected to be between \$1.5 million and \$2 million





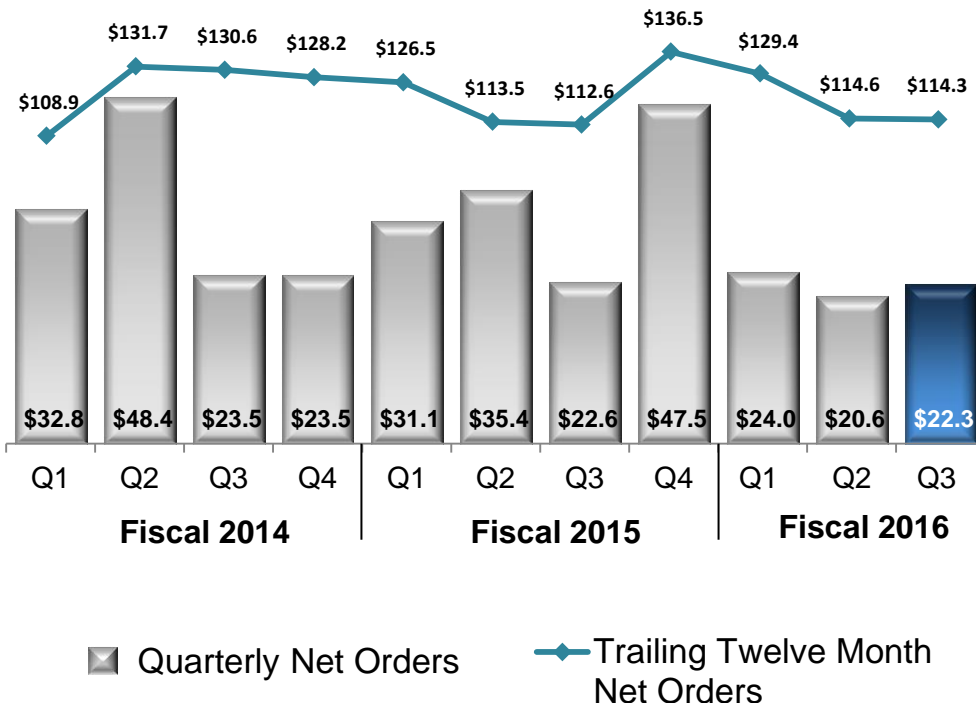
# Outlook

Jim Lines  
President & CEO

# Order Climate Stabilizes

## Quarterly and TTM Net Orders

(in millions)



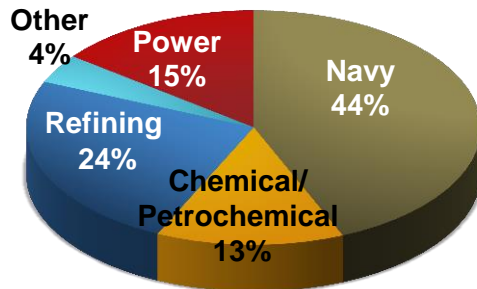
- Q3 orders up slightly from sequential quarter
- Power and chemical/petrochemical industry orders were up \$5.3 million and \$1.3 million, respectively
- Q3 orders are net of a \$3.3 million cancelled domestic refining order from backlog
- Q3 FY2016 geographic mix of net orders:
  - US: 42%
  - International: 58%
- Bidding pipeline remains active

# Stable Backlog Supports Outlook

*Reflects benefits of diversification strategy*

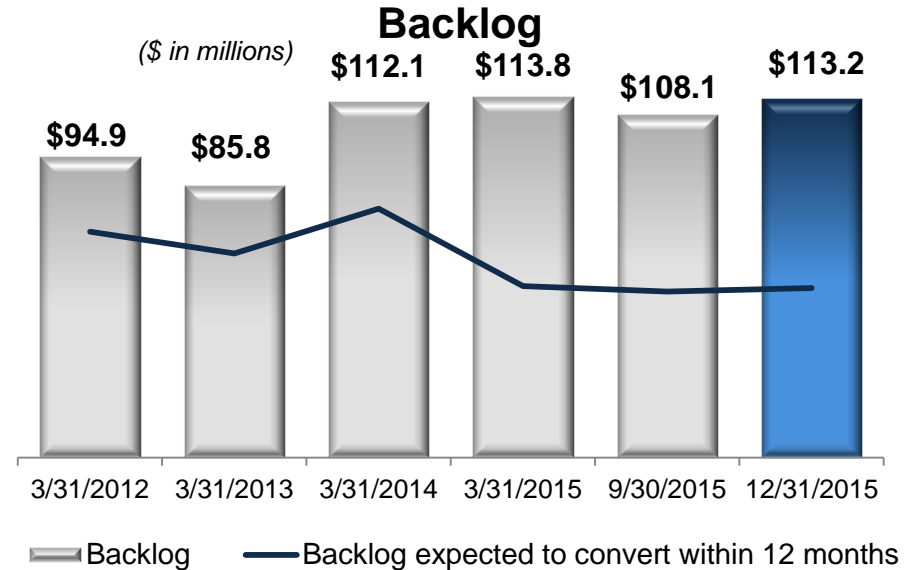
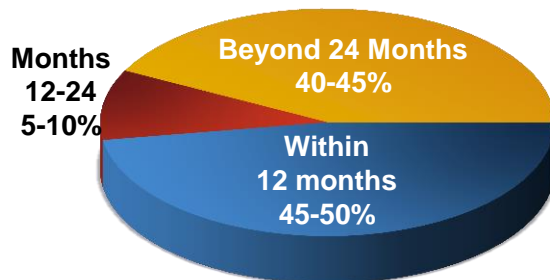
## Backlog by Industry

December 31, 2015



## Projected Backlog Conversion

December 31, 2015



- Continuing to build predictable base; high percentage of U.S. Navy projects in backlog
- ~55% from markets or customers not served by the Company five years ago
  - Reducing the impact of more cyclical sales in the energy industry

# Lowered FY2016 Revenue Guidance<sup>(1)</sup>


*Maintained gross margin and SG&A margin guidance*

- Revenue \$90 million – \$95 million
- Gross margin 27% – 28%
- SG&A 17% – 18% of sales
- Effective tax rate 30% – 31%

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

<sup>(1)</sup> FY2016 Guidance provided as of January 29, 2015

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# Supplemental Information



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# EBITDA Reconciliation

(Unaudited)

(\$ in thousands)

|                              | Three Months Ended<br>December 31, |                 | Nine Months Ended<br>December 31, |                  |
|------------------------------|------------------------------------|-----------------|-----------------------------------|------------------|
|                              | 2015                               | 2014            | 2015                              | 2014             |
| <b>Net income</b>            | <b>\$ 1,274</b>                    | <b>\$ 3,992</b> | <b>\$ 5,611</b>                   | <b>\$ 10,570</b> |
| +Net interest income         | (68)                               | (48)            | (169)                             | (131)            |
| +Income taxes                | 364                                | 1,676           | 2,416                             | 4,996            |
| +Depreciation & amortization | 607                                | 579             | 1,850                             | 1,732            |
| <b>EBITDA</b>                | <b>\$ 2,177</b>                    | <b>\$ 6,199</b> | <b>\$ 9,708</b>                   | <b>\$ 17,167</b> |
| <i>EBITDA margin %</i>       | 12.6%                              | 18.4%           | 14.3%                             | 17.6%            |

*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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