Operator: Greetings, and welcome to the Graham Corporation Fourth Quarter and Fiscal Year 2016 Financial Results conference call. At this time, all participants are in a listen-only mode. A brief question and answer session will follow the formal presentation. [Operator Instructions] As a reminder, this conference is being recorded.

I would now like to turn the conference over to Karen Howard, Investor Relations for Graham Corporation. Thank you. Please go ahead.

Karen L. Howard: Thank you, Brenda, and good morning, everyone. Thank you for joining us to discuss the results for the Fiscal 2016 Fourth Quarter and Full-Year. We certainly appreciate your time today. You should have a copy of the news release that crossed the wire this morning, detailing Graham's results. We also have slides associated with the commentary that we're providing here today. If you don't have the release or the slides, you can find them at the company's website at www.graham-mfg.com.

On the call with me today are Jim Lines, our President and Chief Executive Officer; and Jeff Glajch, our Chief Financial Officer. Jim and Jeff will review the results for the quarter and fiscal year as well as our outlook. We will then open the lines for Q&A.

As you are aware, we may make some forward-looking statements during this discussion as well as during the Q&A. These statements apply to future events and are subject to risks and uncertainties as well as other factors, which could cause actual results to differ materially from what is stated on the call. These risks and uncertainties and other factors are provided in the earnings release and in the slide deck, as well as with other documents filed by the company with the Securities and Exchange Commission. These documents can be found on our website or at www.sec.gov.

With that, I am going to turn the call over to Jim to begin. Jim?

James R. Lines: Thank you, Karen, and thank you everyone for joining our fourth quarter results conference call. I will begin my prepared remarks starting at slide three.

For the full-year, our cash increased $5 million to $65 million after returning nearly $13 million to our shareholders. Backlog on March 31 was $108 million, down $5.8 million from the same time last year. This reduction in backlog is largely due to $12 million in cancellations that occurred during the year as customers stopped certain projects because of uncertainty in the oil refining and oil sands markets.

Revenue in the fourth quarter was $22.3 million and for the full-year, revenue was $90 million. Revenue was impacted by weak market conditions within our oil refining and chemical and petrochemical sectors. We also experienced a decline in short cycle sales, along with lower capital spares and replacements to oil refining customers. Net income in the fourth quarter was $500,000 and for the full-year, net income was $6.1 million or $0.61 per share.

Please turn to slide four. The chart on this slide illustrates the sharpness and abruptness of the disruption in the energy markets over the past 18 months. The year-over-year comparison is markedly off due to dramatic reductions in sales to the oil refining and chemical/petrochemical markets. As percentages of overall sales, refining and chemical and petrochemical sales are within customary ranges. However, in absolute terms, they are off considerably with refining down about one-third from a year earlier and chemical and petrochemical down about one-half from the year earlier. Domestic and international sales split is typical with domestic sales at 60%, and international at 40%. Sales to power markets were up, due to conversion of a large geothermal project for Southeast Asia.

Jeff, I'm passing the call over to you to review detailed financial information. Jeff?

Jeffrey F. Glajch: Thank you, Jim, and good morning, everyone. As Jim mentioned, the fourth quarter sales were $22.3 million or down to 40% compared with $37.4 million in last year's very strong fourth quarter. The sales split was 60% domestic, 40% international, compared to last year's fourth quarter which was 64% domestic, 36% international. Gross margin was 20.4%, down from 34.1% last year; EBITDA was 5% for Q4, down from 23% last year. Fourth quarter net income and EPS were $500,000 or $0.05 per share, compared with $4.2 million or $0.41 last year.

On slide seven, looking at the full-year, sales were down one-third to $90 million; sales were 63% domestic and 37% international, very similar to last year which was 64% domestic and 36% international. Gross profit dollars were $23.3 million, down from $41.8 million last year due to lower volume and lower gross margin. Gross margin was down to 25.8% from 30.9% last year.

SG&A was down $1.9 million or approximately 10% to $16.6 million, down from $18.5 million last year. EBITDA margin for the full-year was 12.1%, down from 18.9% last year, while net income was $6.1 million, or $0.61 per share, compared with last year's $1.45 EPS.

On to slide eight. As Jim mentioned, we returned nearly $13 million to shareholders in fiscal 2016, a combination of repurchasing $9.4 million of shares, or approximately 5% of all outstanding shares, as well as paying $3.3 million in dividends. In addition, our cash position for the year, despite the $13 million returned to shareholders, still increased by nearly $5 million to $65.1 million.

As we discussed throughout the year, our accounts receivable and unbilled revenue at the end of last fiscal year was quite high and we had expected this to convert to cash. That occurred over the first three quarters of the year.

The reduction in cash in the fourth quarter was expected and primarily due to the repurchase of shares. Our year-end cash position was where we expected it would be, given those share repurchases. Capital spending for the year was $1.2 million, down from $5.3 million in fiscal 2015. The higher level of capital spending in fiscal 2015 included the investments in Batavia to support our U.S. Navy activity.

We continue to look to utilize our strong balance sheet with $65 million worth of cash and no bank debt to opportunistically identify acquisitions. In this regard, we have hired a Director of Business Development who will work with Jim and me to further drive our acquisition efforts. He will also assist Graham in looking at organic growth opportunities including, but not limited to, market expansions, sales partnerships and other avenues to take advantage of our strong brand and reputation in our key markets.

Jim will complete our presentation and comment on our view for fiscal year 2017.

James R. Lines: Thank you, Jeff. I'm now referring to slide 10. Like the sales slide discussed previously, here too the severity of the energy market downturn is evident in order rates. Orders for fiscal 2016 were $84 million. Net orders reflect the impact of energy market cancellations from backlog. In the past 12 months, we have had $12 million of orders cancelled, and $17 million of orders cancelled during the past five quarters. All were from the oil refining and oil sands markets.

This is a particularly difficult downturn. While it always feels brutal when we are in the middle of a downturn, this current downturn is more severe than the 2008-09 downturn and the 1997-98 downturn. It does now look as though it will be worse than the 1981-82 downturn as well. We're not sitting back, waiting for the eventual recovery. We will continue to fight aggressively for every order and defend vigorously our market share. We are also deploying sales resources into the plants.

Customers delayed maintenance and turnaround spending over the past 12 months to 18 months. We feel that spending at the plant level has to come, as they cannot risk on-schedule shutdowns or safety issues. Our early involvement will be important to capitalizing on revamp, turnaround and ordinary maintenance spending from the refining and chemical sectors.

Market diversification actions certainly have helped on a consolidated basis deal with the energy sector pullback. We continue to experience improvement in our pipeline of opportunities and orders for the nuclear utility market. Orders are up about 50%, comparing fiscal 2015 to fiscal 2016, for the nuclear utility market.

Our strategies to secure market share within the U.S. Navy Nuclear Propulsion Program have delivered strong results. We continue to actively bid significant opportunities for the U.S. Navy, some of which are expected to close in fiscal 2017. Our bid pipeline has contracted approximately 20%. Trailing 12-month quotation activity is between $600 million and $800 million, rather than $800 million to $1 billion as it had been in our previous few fiscal years.

Procurement decisions have also slowed. Our bid pipeline size and quality has remained a strong leading indicator. We will continue to monitor our pipeline closely to be ready for the eventual recovery within energy markets.

Please move on to slide 11. The importance of our diversification strategies is shown in the top pie chart. Naval and nuclear market backlog is approximately 60% of total backlog. These are markets or customers, we did not serve five years ago. This has provided backlog stability and will result in reduced financial volatility over time. Our backlog has a longer conversion duration than prior to five years ago, when 85% to 90% of backlog would convert over 12 months.

We project that 45% to 50% of our current backlog will convert within 12 months, 10% to 20% of backlog will convert within 12 months to 24 months and the remainder will convert two years out or further.

I'm on slide 12. We are operating in a challenging period with a great deal of uncertainty surrounding our energy markets. We are not intending to play defense or simply weather this downturn waiting for the eventual recovery. What we do now and during the cycle bottom sets the stage for future growth. We're not willing to trade immediate earnings for comprising capabilities, capacity and growth potential coming out of the downturn. We will continue to structure costs with long-term growth as our top priority while managing through an acceptable profit level, considering the reality of where we are in the cycle.

We cannot meaningfully affect demand for our products or control external market forces. We do have clear focus on those aspects of our business that are within our control, such as managing order opportunities and pricing to secure work that is available to leverage our capacity and the investments we have put into our businesses.

Improving our customer value drivers includes our selling processes, order management processes, process and product quality and overall service provided to customers. We're also focused on developing our workforce and unlocking their capabilities to drive productivity, quality, lead time, safety and customer service improvement.

Lastly, we're committed to finding opportunities to deploy our capital to expand and diversify revenue opportunities. We are experiencing greater receptiveness of owners to engage in M&A discussions with us.

We clearly are not on solid footing for developing guidance or near-term projections due to uncertainty within the energy markets. There will be an unevenness to quarterly revenue and income across fiscal 2017. We have developed a range of potential outcomes funded by revenue between $80 million to $95 million. We expect gross margin of 24% to 26%, SG&A between $17.5 million and $18.5 million and we project our effective tax rate will be between 32% and 33%.

I ask that we now open the line for questions. Thank you.

Operator: Thank you. [Operator Instructions] Our first question comes from the line of Joe Mondillo with Sidoti & Company. Please go ahead with your questions.

Joe Mondillo: Hi, Jim and Jeff. How you're doing?

Jim Lines: Good morning, Joe.

Jeff Glajch: We're well, Joe. How are you?

Joe Mondillo: Good. I'm wondering if you could provide some color on what you're hearing in terms of your oil refining customers. I know the downstream part of the sector is doing a whole lot better than the other side of the sector, it seems like that side is actually doing quite well. However, I know the integrated companies are slashing CapEx across the board. But I would think at least that downstream would come back sooner than expected, given the solid fundamentals that they still have, and then on the other side, that maybe you see some projects that are being put on hold. I'm just wondering what you're seeing there, do you see projects that are potentially just being put on hold and that you could see orders start to recover later this year? What are your general thoughts on your oil refining customers?

Jim Lines: It's a good question, Joe. This is Jim. I'm going to answer this across our segmentation of the refining customer base. New capacity largely comes out of state-owned refiners. We're not seeing much in our bid pipeline around new capacity in the immediate term. We do feel, of course, that new capacity investments are necessary to satisfy the underlying demand, however, we don't expect much new capacity from an order point of view over the next several quarters to perhaps four quarters or five quarters out.

It is encouraging that many of our refining customers recognize that this period of time is about asset utilization and leveraging the infrastructure that they have. Therefore, we are having some positive discussions about investments that might be made, which we categorize as revamps and capital spares, to improve the operating economics of the existing assets. We do think that will take place. We did see a pullback in that area in the past 12 months to 18 months; that was a discretionary decision we felt, to a large extent, around maintenance and capital spares. We are expecting that to begin the pickup, and those can be several hundred thousand dollars to a couple of million dollar-type projects. We feel strongly about that and, as such, we've deployed our sales resources and customer facing resources toward the plant to get into the plant level to make sure we've identified those opportunities early. We have a longer period of time of investing our resources and knowledge base toward those opportunities such that we're assured of capitalizing on those when they do materialize.

As I bifurcate our opportunities from refining between new capacity, which we're not seeing much optimism about in the immediate term, and compare that to investments in existing assets, we are more positive about investing in existing assets. If we segment our refining bookings or sales over a ten year period, roughly two-thirds of our sales are categorized as revamps or capital spares and maintenance spares and about one-third is for new capacity. I think that frames the sector fairly well for you.

Joe Mondillo: Okay. That's helpful. When we look back at 2014-15, what was the dynamic between new capacity versus revamp?

Jim Lines: It was very sparse on the new capacity and very large on what we call revamping capital spares. You may have recalled conversations that we had on prior calls about metallurgical upgrades or revamps to improve the run intervals between schedule turnarounds. What's most important to the refiner is downstream and they're trying to push the duration of the scheduled turnarounds which had been historically four year intervals to six years and eight year intervals. We're facilitating that by enhancing or upgrading the metallurgy and the equipment in their facilities, so we saw a very nice burst of business in 2014 and 2015 around that, as the economics changed with the drop in crude oil. We saw some of that pulled back, but we do remain encouraged about that behavior and expect it to come back to some extent as we get into fiscal 2017.

Joe Mondillo: Okay. On the chemical/petrochem side of things, that has certainly pulled back a whole lot of the backlog as well, it's near the low for the year at the end of 2016. I'm a little surprised, given some of the fertilizer in the agricultural sector and elsewhere. But, obviously the industrial sector overall has been struggling a lot, so what is your general outlook on that part of your business?

Jim Lines: We're not as surprised about where that market is right now because, as you might recall in mid-2013, there was a substantial surge of chemical/petrochemical orders we secured that were for North American ethylene plants, fertilizer plants, and that was a massive wave of new construction and we enjoyed a very high success rate there. We saw that begin to taper off about 24 months ago and it has stayed in that pulled back range. We're not surprised by that because so much new capacity was being built out. What we are seeing and these are smaller projects, but they're very important, because they also drive longer-term aftermarket opportunities due to the type of sale and the type of product. We are seeing now the value-added derivative plants, petrochemical plants that are downstream and the ethylene plant or methanol plant is an example, and those orders are coming in.

Now those orders can be between $0.25 million and $2 million depending upon the particular process. We are seeing some of that coming into our backlog. Again, from a higher level point of view, we're seeing the North American petchem market play out as we would have envisioned it would play out, what's happened with oil notwithstanding. There was just so much capacity that was coming on, six, seven or eight ethylene plants, four or five fertilizer plants in North America. That's an immense amount of investment and we capitalized on that. We had a fantastic success rate. However, that did not have any endurance really beyond the first wave of business. We do expect it to be followed up by a second wave of new capacity. We just haven't fully identified when that second wave will come.

Joe Mondillo: Right. Jim, I believe on the conference call you stated that the bid pipeline is down 20% and your commentary indicated that this downturn was potentially worse than 1980-81, certainly you're expressing a little more certain realism about this downturn and how severe it is. Has anything really changed over the last six to nine months? It seems like your revenue has been fairly stable, the gross margin has been fairly stable. Has anything changed over the last quarter or two quarters to make you feel maybe a little more cautious or concerned going forward?

Jim Lines: The lead measure in which we place a great deal of confidence and directionality is our bid pipeline. We saw it begin to contract appreciably, relatively quickly here, but not until the last one quarter or two quarters. Also, as we look at the quality of our pipeline, you might recall that we have spoken about those three or four sales stages, and how our large capital projects move through the sales process: concept, FEED, EPC bid, purchase and then construction. Not only have we seen the bid pipeline contract a little bit, we've also seen projects disbanded by owners. Or sponsors are stopping the projects or we're seeing the projects move not toward procurement, but move or stay in the FEED or pre-EPC stage.

We've looked at the directionality of our pipeline and the size of our pipeline and have always felt that measure has been our most reliable leading indicator and that it gave us confidence to speak more definitely about how we feel this downturn will rollout. It was not something we could have done six months ago or nine months ago, it was too early.

Joe Mondillo: Okay. Was that over the last say, three-month to five-month period?

Jim Lines: Yes. As I look at some statistics that our team has put in front of me it looks like the inflecion point was around the November, December time frame.

Joe Mondillo: Okay. Regarding this $6.4 million order that was on hold. What are your general thoughts on it? Could that be cancelled?

Jim Lines: There are two orders, both for Latin American state-owned refiners. One of the orders is actually is the remaining half of a larger order, which was somewhere around $8 million to $10 million. They've chosen to cancel half and proceed forward with the second half. However, we haven't been able to clearly define their schedule. Is there risk? There certainly can be some risk. However, they've gone through their project evaluation step, the projects they did want to proceed with, and we're waiting for release to get into production and move through revenue conversion on that.

For the other order, that's a bit around our credit risk profile, and we wanted to make sure that cash flow is reliable, and the way we're operating with this particular segment of the Latin American refining base is, we demand cash before we commit costs. We're waiting on the cash flow to come in and we can't predict that timing. That's how we're managing the credit risk around that particular customer. We don't want to get out ahead of ourselves on extending credit and it's an order that we've had for a bit of time, but we won't really move forward until there is a progress payment made to us.

Joe Mondillo: Okay. Great. I'll hop back in queue for now. Thanks a lot. Appreciate it.

Jim Lines: You're welcome.

Operator: Thank you. Your next question comes from the line of Chris McCampbell with Hilltop Securities. Please go ahead with your question.

Chris McCampbell: Good morning. I want to first say that obviously you've all done an exceptional job in managing through this cycle and really through a number of them, but have we reached a point where employees and shareholders would be better served by being part of a larger company through an auction process and if not, what would drive that decision?

Jim Lines: This is Jim. My view is no. Clearly, we are in a contraction. There's a contraction all around the peers that are serving the energy sector and we look at our strategies for growth, such as the Naval strategy, and the traction we have there. The diversification strategy into the nuclear market is beginning to have traction as well as the deployment of capital strategies that we have and the conversations that we're having with M&A targets. Management and the Board's firm belief is the best value creation is to stick to the strategy, keep a long-term view and execute to the strategy and that will deliver the value creation that's necessary. We don't feel now is the time to lose our independence and drop our strategy.

Chris McCampbell: Okay. Thanks.

Operator: Our next question comes from the line of Peter Rabover with Artko Capital. Please go ahead with your question.

Peter Rabover: If somebody came along and gave you a pretty good offer, would you consider it?

Jim Lines: Of course, that's our fiduciary responsibility. Certainly, we have had discussions among the management and the Board that if an offer were to be made, it would be given due consideration. That's our responsibility. We're not narrow-minded around value creation for the shareholder, short-term or long-term. And if there was a bonafide, legitimate offer that created value more quickly than our strategy, that would be given due consideration. I will assure you of that.

Peter Rabover: Great, thanks. I know in the past you've talked that the path to Graham stability is with the stability of oil prices. What's the new metric to look for?

Jim Lines: The stability of oil prices is a constant question that we're testing. We don't have a way to definitively project where oil is going. We continue to believe the underlying drivers that will create the need for new capacity are population growth, rising urbanization and growing middle class globally. The necessary refining investments and chemical investments must continue to be made over time.

Are we in a cyclical downturn? Yes. Is underlying demand expanding? We certainly believe so. The view that I have and our team has follows the historical response that occurred in the pullback from 1999 through 2004. We believe the longer the contraction and the lack of investment in new capacity, the stronger the wave of investment that will be in front of us. If this is a two year, three year or four year duration pullback, we believe that duration will impact the recovery. If it's like what happened in the last downturn, which spanned four years or five years of underinvestment, the super cycle that followed was just extraordinary and we saw it forming in our bid pipeline about two years before it materialized. I believe that, if this is a long duration downturn, it will play out in a similar manner. This time though we will be ready, because we've made the investments in people, we've made the investments in infrastructure and we've made the investments in quality and process change. We'll be more ready this time than we were last time.

Jeff Glajch: Okay. I have one follow-up to that. During this time period we will be looking at obviously continuing our investments in our core businesses and our historic businesses, but we are also looking at growth in our business on the Navy side and on the nuclear side, which are new markets for Graham. We also have some other growth engines that we're going after right now and we expect to see growth.

We already have Navy opportunities in our backlog and we expect as we get into fiscal year 2018 that we'll see growth there. On the nuclear side, as Jim mentioned, we've seen a pickup in orders for our nuclear business and we expect to see growth in the nuclear business. We're not just sitting and waiting for the markets to eventually recover, we're going after some other markets also.

Peter Rabover: Okay. Thanks for all the color. You have said on past calls that you know the path to growth is less volatility of oil prices from your customers and so that's why I followed up on that. What would you say to guide us as outside investors, as we look at capacity utilization on the refinery side. How long can your refining customers keep running whatever they're running at?

Jim Lines: They're running at a very high utilization and that certainly is something that they will be looking at. It could put some strain on the overall capacity, if there are unscheduled shutdowns or planned turnarounds that tighten up the supply, when they're already running at 90% plus utilization. Again, we'll be as transparent as we can on the transformation of our bid pipeline. As we go forward that's always been our best lead measure. What we do look at as a management lead measure is how our customer base is changing. Are the EPCs starting to build their backlogs? So it may be beginning to win the FEED concept work or the EPC work, once they win it then it moves into the supply chain, such as us, as an example.

That's also a nice lead measure that's more readily available to someone like yourself than our bid pipeline, if you will, but we will be openly discussing that on subsequent conference calls. And also the financial help of the state-owned refiners and the major integrator refiners with E&P operations, and then what they're saying as to their capital plans. If we look at a macro of the composite of investment by the energy integrated companies, year-over-year successive declines in capital spending on the order of one-third last year and projecting another one-third this year, that's a pretty meaningful reduction in capital investment and new capacity, planned maintenance, revamps. I would look for the directionality of our capital investment plans to hit an inflection point and move up. That would also be a lead measure that might happen ahead of our bid pipeline or ahead of the EPCs.

Notwithstanding where oil is long-term, whether oil is at $40, $30, $50, investment must be made. If we reflect back upon where oil was in 2003, it was about $25 a barrel. Even at that price point, a massive mega cycle setup of infrastructure build-out was something like we hadn't seen any time before that. That was where it all began. Obviously, a stronger oil price might advance that more quickly. However, supply and demand has to be satisfied long-term and the underlying demand is increasing and therefore new capacity and investments in existing assets must come. There's not a disruptive technology that's displacing crude oil.

Peter Rabover: Great. Hey, I really appreciate all the color. I'll hop off now, but, yes, keep weathering the downturn. Thanks.

Operator: Our next question comes from the line of Tim Curro with Value Holdings. Please go ahead with your questions.

Tim Curro: Yes, hello. I'm new to analyzing the company, so forgive me. You guided $18 million on SG&A and that's about the level when your revenue was about 50% higher than what you are guiding to. Can you explain that?

Jeff Glajch: I am sorry, can you repeat your question again?

Tim Curro: In 2014, you had $18.5 million in SG&A and $135 million in revenue. Now you are guiding to increased SG&A from $16.5 million to $18 million but your revenue is going to be $85 to $95 million, about $45 million lower than in 2014.

Jeff Glajch: Sure. Some of that is tied to variable compensation directly correlated to sales, which includes employee and independent representative commissions and how that sales mix might vary from the past cycle to what we're rejecting going forward. There was also was a large component in this past fiscal year tied to variable compensation. I'll call it pay for performance and the performance metrics weren't met, so therefore that aspect of expense contracted appreciably and whether or not the pay for performance is met in fiscal 2017 or 2018, that would have to be seen at the year-end close, but there was a large contraction in variable expense in fiscal 2016 tied to revenue and pay for performance.

Tim Curro: All right. Thank you.

Operator: Our next questions come from the line of Bill Baldwin of Baldwin Anthony Securities. Please go ahead with your questions.

Bill Baldwin: Hi, good morning and thank you for your time. Jim, with the lifting of the export ban and narrowing of the spreads now between the Brent and the WTI and so forth, is that going to change the competitive dynamics between our domestic refineries and refineries in Europe and Latin America?

Jim Lines: That is a possible consequence of lifting the export ban, that rather than feeding the domestic refineries, the crude oil will feed international refineries. We have a rich installed base around the world, and we look at it this way: if the new capacity is being sited in the Middle East or South America or in certain locations in Asia or also in North America, we have shown an ability to capture a strong percentage of that share. However, I do feel a consequence of what's occurred with policy change potentially will change the investments that were to be made in the North American refining assets.

Bill Baldwin: Could you repeat that last statement, I missed that, what was that again about change in investment?

Jim Lines: I think it will have an effect of reducing the investments being made in North American refining assets.

Bill Baldwin: In North America, okay. Do you perceive the Gulf Coast refineries continuing to be primarily dependent on heavy crudes rather than using more of the light crude out of the Permian and Eagle Ford regions? Are they going to continue to import the heavy crude from Mexico and elsewhere?

Jim Lines: Right.

Bill Baldwin: Do you see them making investments perhaps to be able to process more of the lighter crudes? I know Valero has done some investment.

Jim Lines: Sure.

Bill Baldwin: Do you see some other folks perhaps doing that or not?

Jim Lines: They just went through roughly a two decade period of time where they invested in their infrastructure to process the heavy and sour crudes coming out of South America or Mexico. However, the infrastructure is not ideal for processing the sweet or light crudes or the shale oil type crudes.

Bill Baldwin: Right.

Jim Lines: There is a blending dynamic because they're trying to blend that shale oil with their conventional sour crudes. I do feel the industry is trying to figure all this out in terms of how to handle the available light crudes now coming from the shale basins, which are very light, very sweet, easier to process. They produce a different slate of outputs than heavier crudes and I think the industry is still trying to sort out the long-term implications of that.

Bill Baldwin: That would come into some of your product categories, right?

Jim Lines: Right. We're typically on the front end of the refinery, where they start to separate the crude oil into different constituents, and it's called a distillation process. They will configure that to efficiently process the crude slate. Whether the crude slate is heavy, sour, sweet, light or shale-oil based, they'll get that process to be as efficient and economic as possible.

Bill Baldwin: Okay. Lastly, Jim, do you have any insight as to what the dynamics might be or what's going on in the China refinery markets?

Jim Lines: We do. There was a very significant build out in refining capacity from around 2005 through 2012 or 2013 and it was about a 50% increase in refining capacity that was built out. We enjoyed a very strong share of that when that was happening, however, under their current policy and the current growth projections for China, we've seen a three-year stoppage. It's more extreme than a contraction, this stoppage of the capacity investment.

The wave of investment from 2005 to 2012 was state-own driven: PetroChina, Sinopec and CNOOC. Those companies right now aren't investing, due to government imposed constraints regarding investing in new capacity. What we're seeing now though is independent and private refiners permitted by the government to build new refineries. How fast that goes is yet to be seen, but we see a fair amount of bid activity from what we're calling non-state owned refiners in China.

Now, we've been bidding this for a couple of years now. They haven't moved to conclusion. It's been a tough three years in China to predict timing of projects closing, but there has been a dramatic change. If we think about 2005 through 2012 compared to 2013 through 2016, it's a markedly different time.

Bill Baldwin: Does China still import a lot of refined product and diesel or are they self-sufficient in that now, with their own internal product? That 50% increase in capacity today, are they internally self-sufficient and do they run on a pretty high utilization with those refinery assets at this point?

Jim Lines: I believe they are still an import nation and their refineries were built, not with the western orientation, they are good refineries, however they don't have the complexity of a western refiner. They also don't have the efficiency that you typically see in our western refineries, what we think is going to be occurring will be investments in the existing refining infrastructure by Sinopec, PetroChina and CNOOC to leverage those existing refineries to produce higher quality fuels, reduce environmental footprint and be more energy efficient.

While it won't necessarily be new capacity in the classic sense, we do expect to see capital deployed into the existing refining base by those state-owned refiners. We don't think that happens in our calendar 2016 or 2017. But we expect that to be coming and that was being telegraphed by those state-owned refiners.

Bill Baldwin: Okay. Right now they produce what? Higher percentage in the low ends of the barrel than would be a typical U.S. refiner, a lot more distillate and fuel and type of things?

Jim Lines: They've not invested in conversion technology, hydrocrackers, hydrotreaters. We call that bottom of the barrel conversion to get more lift on to the barrel to create a transportation fuel via the value products. They have a refining complex that isn't efficiently processing a barrel of oil and they can do more.

Bill Baldwin: Okay. Thank you very much.

Jim Lines: You're welcome.

Operator: Thank you. Our next question comes from the line of Paul Dircks with William Blair. Please go ahead with your questions.

Paul Dircks: Hi. Good morning, Jim and Jeff.

Jeff Glajch: Hey, Paul.

Jim Lines: Hi, Paul.

Paul Dircks: First, on the Navy strategy, we saw the recent contract for initial advance procurement efforts on the CVN80. Is the timing of this contract within the industry in line with how you have been thinking about your potential timeframe for an award on the carrier program?

Jim Lines: To be candid, Paul, it would be closed and the vendor would have selected it by now for the components that we are providing. However, not too dissimilar to CVN79, there have been several bid extensions and refreshes of the bid and we're in another refresh right now. Our view is we feel that for the CVN order, for what we're bidding, someone will be awarded that business in our fiscal 2017, and we're going after it and we feel we have a good shot to secure it and the timing is fiscal 2017 as best we can judge. But we've gone through two bid extensions now and we're into our third.

Paul Dircks: Did you have similar bid extensions with going after the CVN79 in the past?

Jim Lines: Yes.

Paul Dircks: Okay.

Jim Lines: We did. Correct.

Paul Dircks: Thank you. That's helpful. Shifting to the power market, you have been investing in personnel and executing your growth strategies there. Obviously that market had strong backlog growth in fiscal 2016, particularly here in the back half of the fiscal year. Is the expectation that orders could continue around the kind of level you have been able to book over the last couple of quarters into fiscal 2017, or is this going to be more of a longer term order growth scenario that we should expect from the power market?

Jim Lines: I'll answer in two ways. I have that expectation that the team delivers those bookings, however, I think there'll be some ebb and flow to it just because of project timing and the lumpiness of how that market releases orders. What we are encouraged by is the pipeline of opportunities that continues to expand and be more diverse, evidence that our customer-facing strategies are working. We do expect over a longer period of time to see backlog and bookings growth. It won't necessarily be sequential quarter-to-quarter.

Paul Dircks: Understood, that's helpful. Now switching back to your legacy markets, you've touched upon the difficulty of this downturn, it could be the worst in 30 years. How would you characterize your ability thus far to defend share in North America? How do you characterize the current competitive dynamics? Have they worsened? Since you mentioned your bid pipeline began to contract at the very end of calendar 2015, would you say that competitive dynamics have held steady since that point or have they continued to worsen over the course of calendar 2016?

Jim Lines: We think it's been stable. Anecdotally, we can point to some very harsh competitive situations where we stepped in and held share or where we've lost. We don't necessarily overreact to more anecdotal type situations, although they are real and they do occur. If I look at it on average, sales folks and business leaders don't feel that the competitive dynamics have materially changed over the last three quarters, four quarters, or five quarters.

Paul Dircks: Understood. Given the nature of the downturn and how difficult competitive dynamics are, have you internally considered taking additional cost cuts and/or has the nature of this downturn affected or changed your focus for potential acquisition opportunities?

Jim Lines: We are constantly looking at our cost basis aligned with our long-term strategies. In the prepared remarks, we made a comment that our vision and our direction is more long-term oriented, recognizing of course we have to deal with the realities of this downturn.

We are always looking at our costs. However, we are more inclined to trade some near-term earnings and deal with the cycle bottom with some compromise on financial performance in order to have the capacity and the potential to grow quickly with our strategies that are working extraordinarily well, which are the Naval strategy and the Nuclear strategy. We want to be in a position to capitalize and not limp into a recovery from the energy markets. In our historic past, we limped into a recovery and it took us a couple of years to tool-up and we don't want to miss that this time.

From a market price point of view, we can garner valuation expansion on our multiple by being able to grow more quickly through the diversification strategies that we've invested a considerable amount of money in, and also being ready to capitalize on an eventual recovery.

Having said all that, of course, we'll watch the realities of the near-term financial performance of the business, but our sights are set on executing the strategy and longer-term value creation, not managing quarter-to-quarter. I'm sorry. You had a second question.

Paul Dircks: I was going to ask, leading into that on the acquisition front, now that you've been able to more accurately diagnose the nature of the downturn, has that changed your M&A focus?

You had mentioned in your prepared remarks about some of the encouraging discussions you're having with potential targets. Is that a byproduct of a more realistic set of valuations being requested by the target companies or are there other factors in play that you think are creating more of an engaging dialog between Graham and potential companies to acquire?

Jeff Glajch: Paul, this is Jeff. On your question, with regard to valuations, it does seem to be improving a little bit, but not quite as quickly as we would like. But they do seem to be improving based on other companies' views of the downturn and its duration. With regard to what we're looking to do, we have been very interested in finding opportunities to grow inorganically and, given the pause in the markets or the downturn in the markets right now, we're certainly more aggressively looking. I think that's probably driving us to be more aggressive on one hand and, with the valuations being a little more realistic, it's certainly helping that also.

Paul Dircks: I appreciate the color. Thanks.

Jeff Glajch: Thanks, Paul.

Jim Lines: Thank you, Paul.

Operator: Thank you. Our next question comes from the line of John Bair with Ascend Wealth. Please go ahead with your questions.

John Bair: Good morning, Jim and Jeff.

Jim Lines: Hi, John.

Jeff Glajch: Good morning, John.

John Bair: Regarding acquisition opportunities, you've been holding pretty steady for the last couple of years looking at targets. I'm wondering if your potential targets are also evaluating this downturn and, in trying to ride it out, are anticipating or hoping for a turnaround and therefore aren't really coming off their valuation metric expectations that might be more appealing for you to move forward. Is that a fair statement?

Jim Lines: John, there's a little bit of a bifurcation from a target perspective. There are some instances where we see valuation getting a little bit better and perhaps some of our potential targets have concerns about the length of the downturn. At the same time, we have seen a handful of targets who are no longer interested in looking at selling because they have seen enough of a reduction in their business that they feel that, at this point in time, perhaps they would be undervalued relative to their expected valuation. So we have seen a few folks take themselves off the market. But for those who are staying on the market, I think they are getting a little more realistic about what the valuations should be and that's encouraging to us.

John Bair: Okay. Along those lines, you mentioned early on that you've hired somebody to help you with those strategic opportunity evaluations. Is there another product line that you might look to go into to complement your nuclear strategy with the traditional petrochemical and refining businesses?

Jim Lines: John that's a good question. First, we have always looked at two avenues from an acquisition standpoint. One would be investing or reinvesting in our historic core markets and the second would be more revenue diversification, whether it's enhancing the markets that we've diversified into already, that being the nuclear market and the U. S. Navy market, or diversification into other markets that have similar characteristics to our business, but maybe a little bit off from where we currently are. That has always been part of our acquisition strategy.

We have an individual coming on board; he is starting in a few days. We're looking to have more resources to focus on the acquisition opportunities. This is a position that we have been looking to fill for quite a while and we were very pleased that we found an individual that has the ability to help us pursue inorganic as well as organic growth opportunities. Again he'll be starting in few days, and he will give us some more resources to go after acquisition opportunities.

John Bair: That's good. Do you anticipate continuing share buyback at this point? What is your outlook on that?

Jim Lines: John, if you recall a little over a year ago when it was approved by the Board, the share buyback was authorized for up to $18 million. We've utilized just over half of that. As I have said, we could end up using a portion of it, we could use half of it, we could use all of it. We haven't changed our view on the buyback. It's still active, but whether or not we buy back shares will continue to be really situational, as it has been throughout the process so far.

John Bair: Right. Very good. One last quick one. Given the wildfire situation in Alberta, have you seen any increased activity or inquiries about replacement of needs from some of the oil sands customers that you might have in that area?

Jim Lines: John, no, we have not.

John Bair: I don't know how badly some of their operations may have been affected, so I wanted to throw that out there as a question for you.

Jim Lines: No, we have not seen an uptick in requests in the oil sands.

John Bair: All right. Very good. That's all I have. Thanks.

Jim Lines: You're welcome.

Operator: Thank you. This concludes today's question and answer session. I would like to turn the floor back over to management for closing remarks.

James R. Lines: Thank you. Thank you, everyone for listening in our conference call and for a good set of questions that we went through subsequent to the prepared remarks. We look forward to updating everyone on our progress and our outlook for the markets in our midsummer conference call. Thank you, again and good afternoon.

Operator: Ladies and gentlemen, this concludes today's teleconference. You may disconnect your lines at this time and thank you for your participation.