NYSE: GHM • November 1, 2016

Second Quarter Fiscal 2017 Earnings Call

James R. Lines
President & Chief Executive Officer

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Vice President & Chief Financial Officer

GRAHAM CORPORATION

www.graham-mfg.com

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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Second Quarter Fiscal 2017 Highlights

- Q2 revenue was $21.1 million
  - Down 7% compared with prior-year Q2
  - Benefited from nuclear market orders in backlog
  - Difficult energy-related market conditions cause delays and pricing pressure for major project work and short cycle projects
- Q2 net income was $1.3 million, $0.13 per share
- Orders increased 20% over prior year to $24.8 million
  - Driven by diversification strategy
- Backlog grew to $104 million from $100 million at end of first quarter

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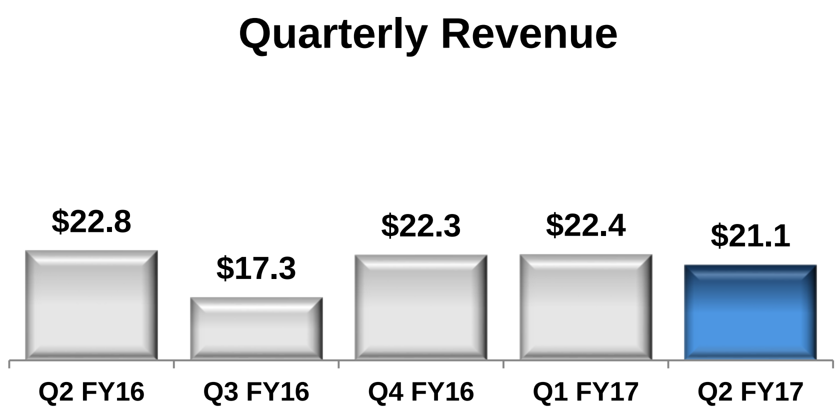
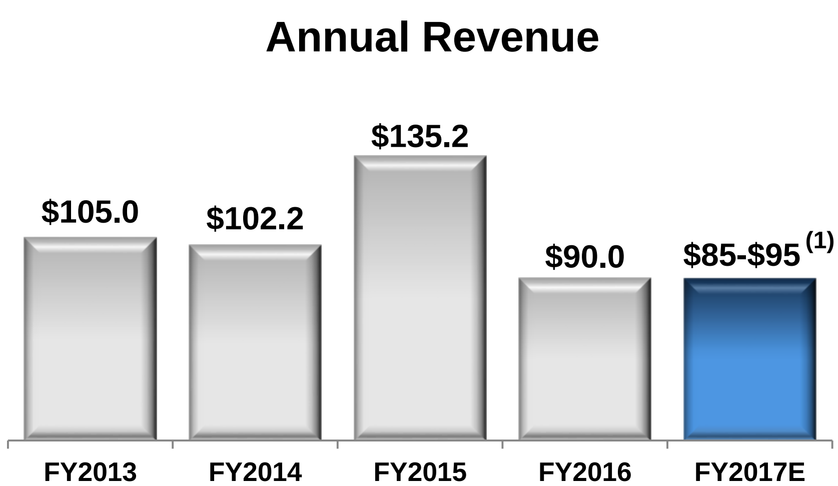
Second Quarter Fiscal 2017 Sales

($ in millions)





(1) FY2017 guidance provided as of November 1, 2016

- Q2 FY2017 sales declined in most markets vs prior year
  - Refining industry sales: $6.7 million
  - Chemical/petrochemical industry sales: $5.1 million
  - Power industry sales: $6.1 million
  - Defense and other industrial sales: $3.2 million
- Comparison by geography varied
  - US sales were up 1% to $15.4 million
  - Sales to Asia and other regions were up 50% and 33%, respectively; sales to Middle East were down 87%

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Financial Overview

Jeff Glajch

Vice President and CFO

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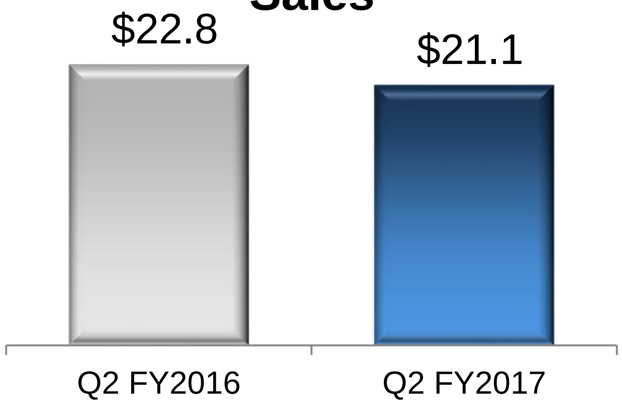
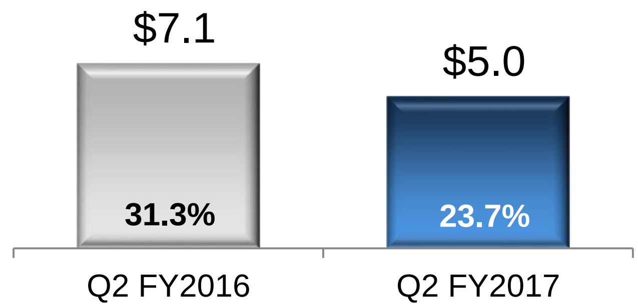
Q2 FY2017 – Challenging Margins

($ in millions, except per share data)

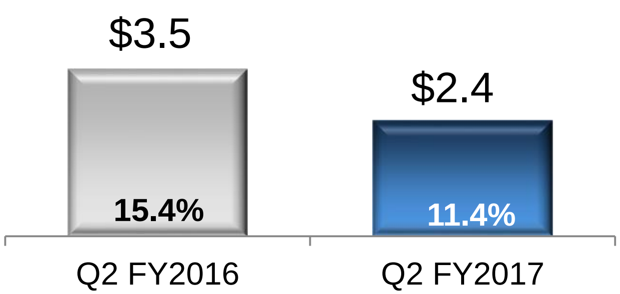
Sales



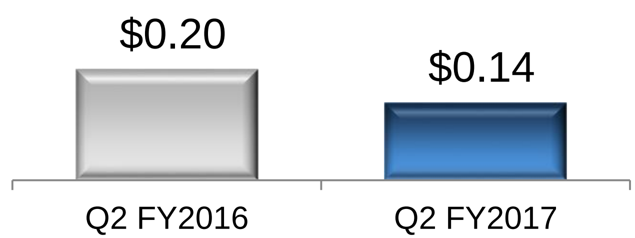
Gross Profit and Margin



Adjusted EBITDA and Margin(1)



Adjusted EPS(2)



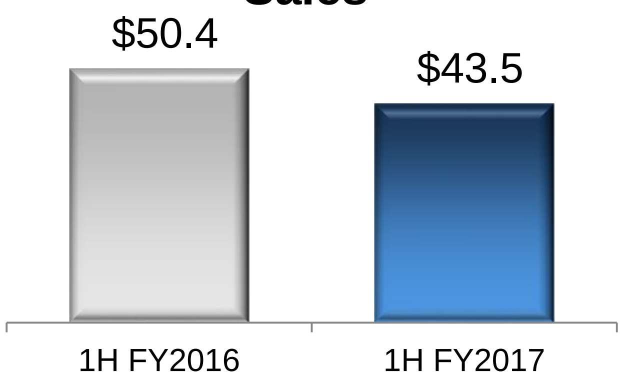
(1) See supplemental slide for Adjusted EBITDA reconciliation and other important disclaimers regarding Graham's use of Adjusted EBITDA

(2) See supplemental slide for Adjusted Net Income reconciliation and other important disclaimers regarding Graham's use of Adjusted Net Income

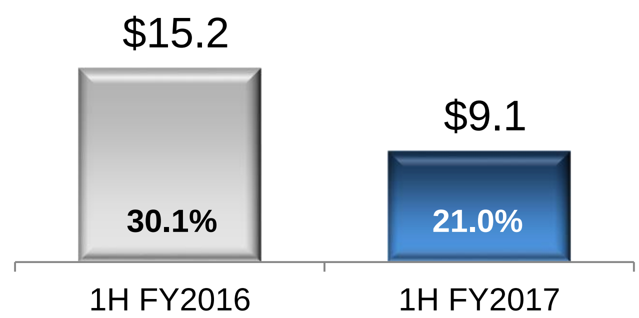
Q2 FY2017 YTD – Ongoing Profitability

($ in millions, except per share data)

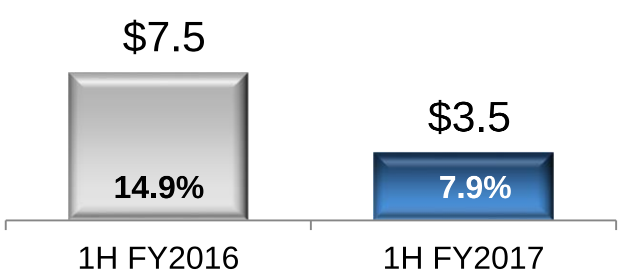
Sales



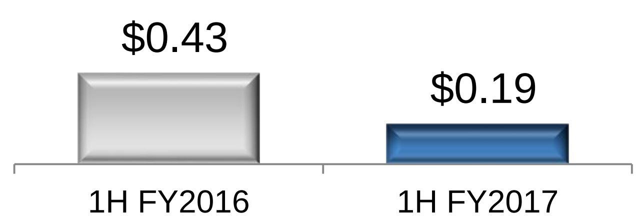
Gross Profit and Margin



Adjusted EBITDA and Margin[1]



Adjusted EPS[2]



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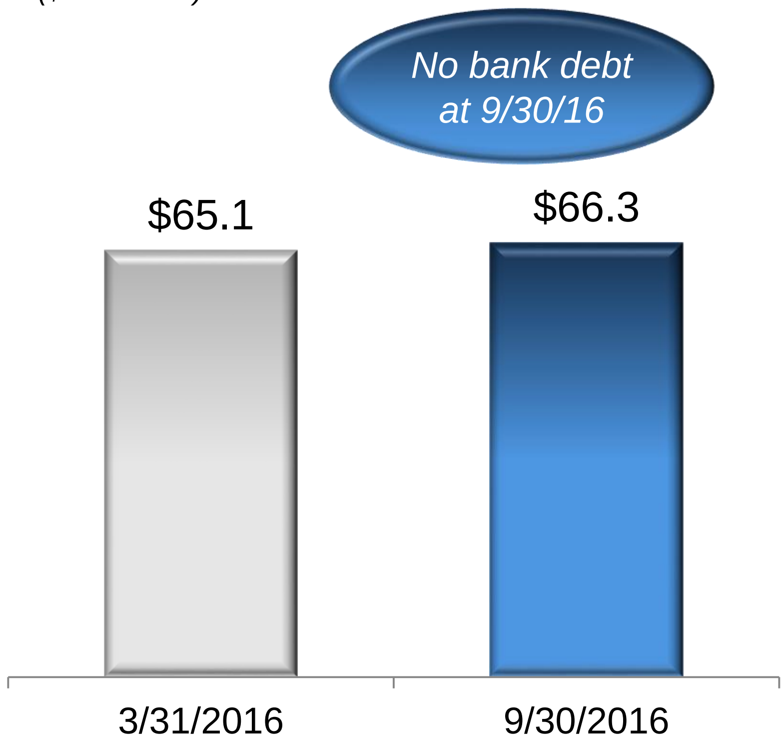
(2) See supplemental slide for Adjusted Net Income reconciliation and other important disclaimers regarding Graham's use of Adjusted Net Income

Balance Sheet Remains Strong

Cash, Cash Equivalents and Investments

($ in millions)



Cash available for investments in organic growth and acquisitions

- Cash balances increased $1.2 million during 1H FY2017
  - Cash provided by operations was $3.3 million
  - Paid $1.7 million of dividends
  - Cash on hand at end of Q2 was $6.81 per share
- Capital expenditures in 1H FY2017 were $0.2 million compared with $0.5 million in 1H FY2016
  - FY2017 capital expenditures now expected to be between $0.5 million and $1 million[(1)]

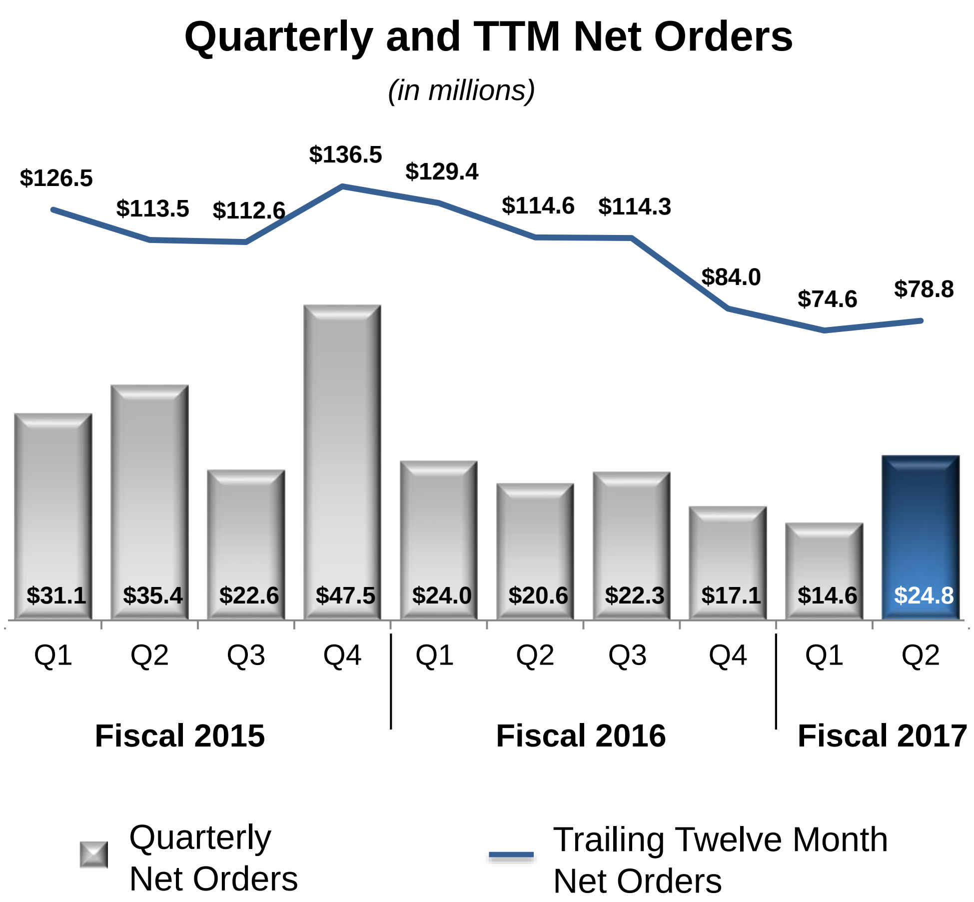
[(1)] *FY2017 guidance provided as of November 1, 2016*

Outlook

Jim Lines

President & CEO

Weak Traditional Order Climate



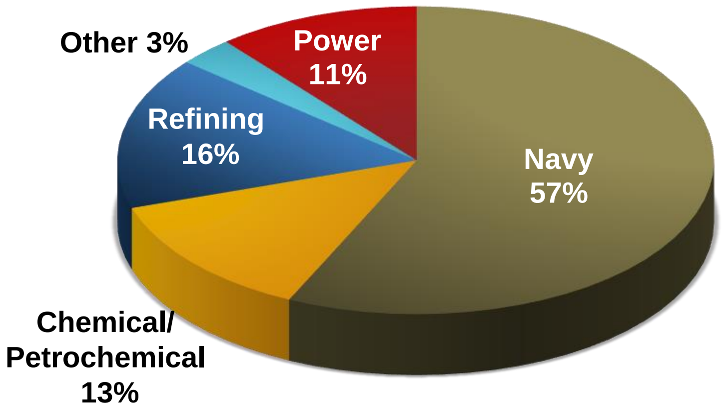
- Q2 FY2017 orders by industry vs prior-year Q2:
  - Defense and other industrial orders were up $8.0 million
  - Chemical/petrochemical industry orders were up $2.8 million
  - Refining and power industry orders were down $5.9 million and $0.7 million, respectively, due to market conditions
- $6.9 million of orders on hold at Q2
- TTM comparison impacted by:
  - Large U.S. Navy orders in Q4 FY2015
  - $18 million of orders cancelled between Q4 FY2015 and Q4 FY2016
- Bidding pipeline of ~$600 million to ~$800 million is active, but movement to order status remains slow

Backlog Remains Solid

Highlights importance of diversification strategy

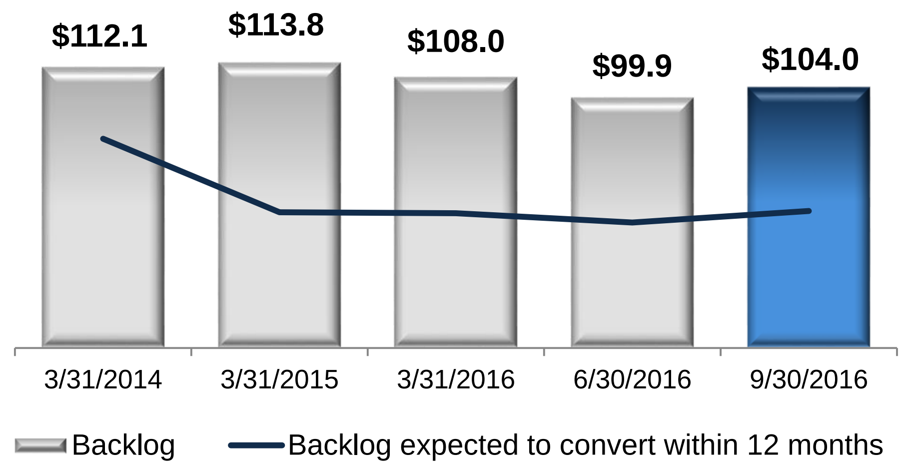
Backlog by Industry

September 30, 2016



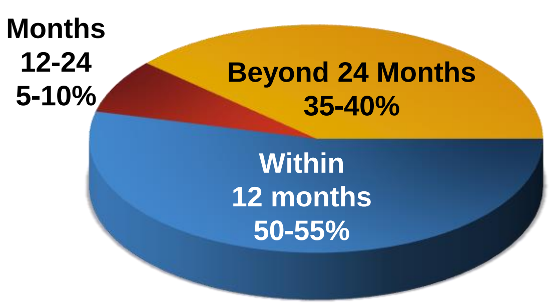
Backlog

($ in millions)



Projected Backlog Conversion

September 30, 2016



- Predictable base supports future growth; high percentage of U.S. Navy projects in backlog
- ~60% from markets or customers not served by the Company five years ago
  - Reducing the impact of more cyclical sales in the energy industry

FY2017 Guidance[1]

• Revenue	\$85 million – \$95 million
• Gross margin	21% – 23%
• SG&A	\$15 million – \$15.5 million
• Effective tax rate	30% – 31%

Strategic Target: Exceed \$200 million in organic revenue

[1] *FY2017 guidance provided as of November 1, 2016*

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Supplemental Information

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Adjusted EBITDA Reconciliation

(Unaudited)

($ in thousands)	Three Months Ended September 30,		Six Months Ended September 30,	
	2016	2015	2016	2015
Net income	**$ 1,297**	**$ 1,976**	**$ 1,382**	**$ 4,337**
+ Net interest income	(83)	(52)	(168)	(101)
+ Income taxes	544	965	444	2,052
+ Depreciation & amortization	583	622	1,165	1,243
+ Restructuring charge	75	-	630	-
Adjusted EBITDA	**$ 2,416**	**$ 3,511**	**$ 3,453**	**$ 7,531**
Adjusted EBITDA margin %	*11.4%*	*15.4%*	*7.9%*	*14.9%*

Non-GAAP Financial Measure:

Adjusted EBITDA is defined as consolidated net income before interest expense and income, income taxes, depreciation and amortization and a nonrecurring restructuring charge. Adjusted EBITDA margin is Adjusted EBITDA divided by sales. Adjusted EBITDA and Adjusted 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 Adjusted EBITDA and Adjusted EBITDA margin are important for investors and other readers of Graham's financial statements, as they are used as analytical indicators by Graham's management to better understand operating performance. Graham's credit facility also contains ratios based on EBITDA. Because Adjusted EBITDA and Adjusted EBITDA margin are non-GAAP measures and are thus susceptible to varying calculations, Adjusted EBITDA and Adjusted EBITDA margin, as presented, may not be directly comparable to other similarly titled measures used by other companies.

Adjusted Net Income Reconciliation

(Unaudited)

($ in thousands, except per share data)	Three Months Ended September 30,								Six Months Ended September 30,							
	2016				**2015**				**2016**				**2015**			
				Per Diluted Share				*Per Diluted Share*				*Per Diluted Share*				*Per Diluted Share*
Net income	$	1,297	$	0.13	$	1,976	$	0.20	$	1,382	$	0.14	$	4,337	$	0.43
+ Restructuring charge		75		0.01		-		-		630		0.06		-		-
- Tax effect		(22)		-		-		-		(189)		(0.02)		-		-
Adjusted net income	$	1,350	$	0.14	$	1,976	$	0.20	$	1,823	$	0.19	$	4,337	$	0.43

Non-GAAP Financial Measure:

Adjusted net income is defined as GAAP net income excluding a nonrecurring restructuring charge. Adjusted net income 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 Adjusted net income 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. Because Adjusted net income is a non-GAAP measure and is thus susceptible to varying calculations, Adjusted net income, as presented, may not be directly comparable to other similarly titled measures used by other companies.

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