



HIGHER POTENTIAL
Strategy. Process. Team.

Third Quarter Fiscal 2017 Earnings Call

James R. Lines
President & Chief Executive Officer

Jeffrey F. Glajch
Vice President & Chief Financial Officer

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.”

Should one or more of these risks or uncertainties materialize, or should any of Graham Corporation's underlying assumptions prove incorrect, actual results may vary materially from those currently anticipated. In addition, undue reliance should not be placed on Graham Corporation's forward-looking statements. Except as required by law, Graham Corporation disclaims any obligation to update or publicly announce any revisions to any of the forward-looking statements contained in this presentation.

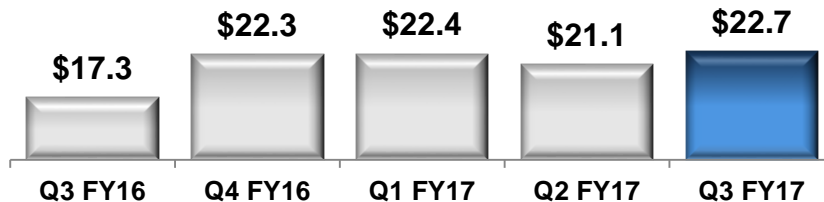
Third Quarter Fiscal 2017 Highlights

- Q3 revenue was \$22.7 million
 - Up 31% compared with prior-year Q3, that had been unusually low
 - Approximately one-third of sales from U.S. Navy and nuclear power markets
 - Gross margin significantly and positively impacted by conversion of a non-typical order
- Q3 net income was \$1.8 million, \$0.19 per share
- Fiscal 2017 revenue expectations tightened to range of \$88 million to \$92 million

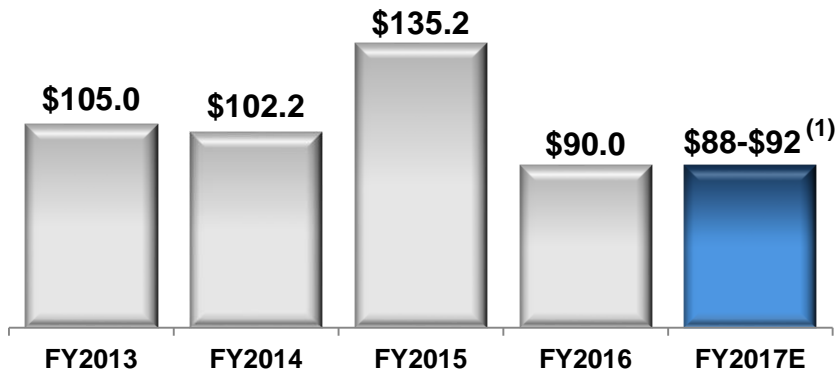
Third Quarter Fiscal 2017 Sales

(\$ in millions)

Quarterly Revenue



Annual Revenue



⁽¹⁾ FY2017 guidance provided as of February 1, 2017

- Ongoing weakness in global energy markets impacted refining and chemical/petrochemical sales:
 - Refining industry sales: \$6.3 million
 - Chemical/petrochemical industry sales: \$4.3 million
 - Power industry sales: \$4.4 million
 - Defense and other industrial sales: \$7.7 million
- Strong US Navy and power sales drove geographic weighting
 - US sales were up 61% to \$17.5 million
 - Sales to Middle East were down 53%; sales to Asia were flat and sales to other regions were down 13%
 - 25-30% of YTD revenue due to Navy and nuclear diversification strategies



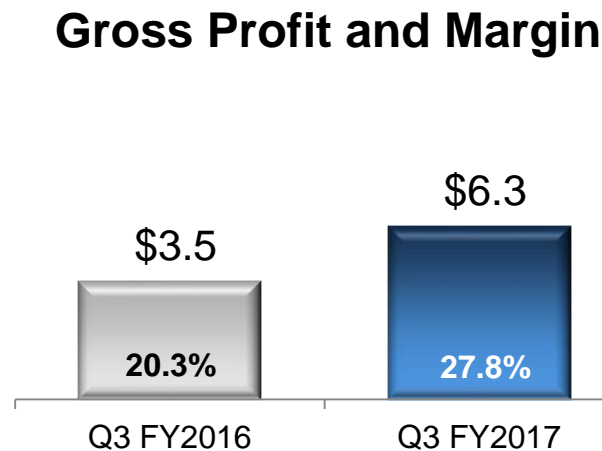
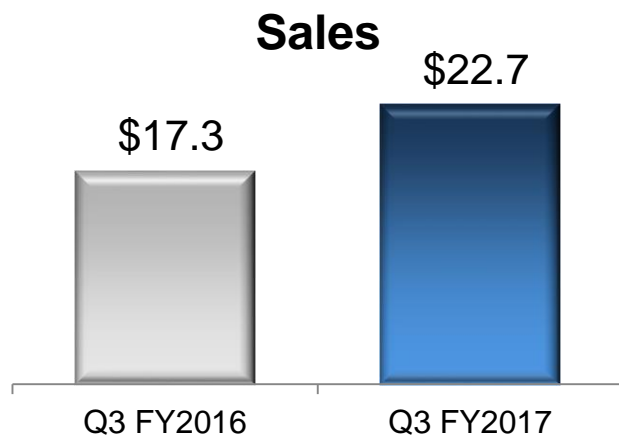
Financial Overview

Jeff Glajch

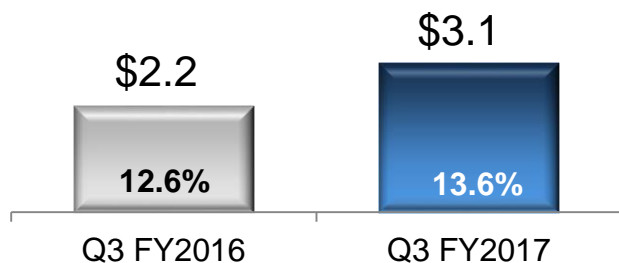
Vice President and CFO

Q3 FY2017 – Driven by U.S. Navy Sales

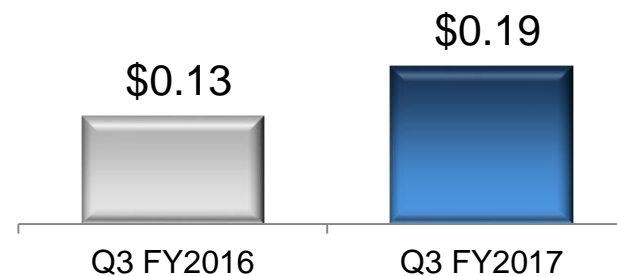
(\$ in millions, except per share data)



EBITDA and Margin⁽¹⁾



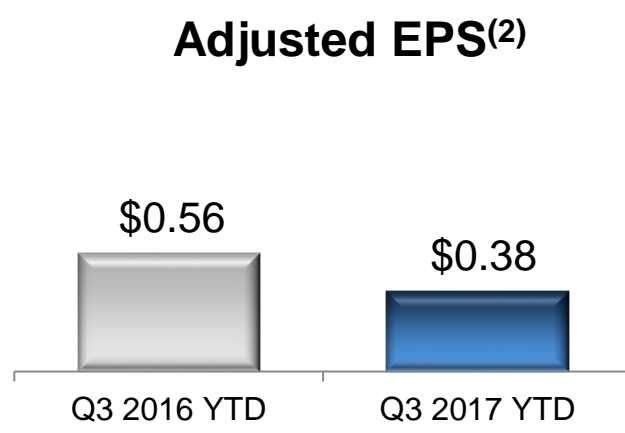
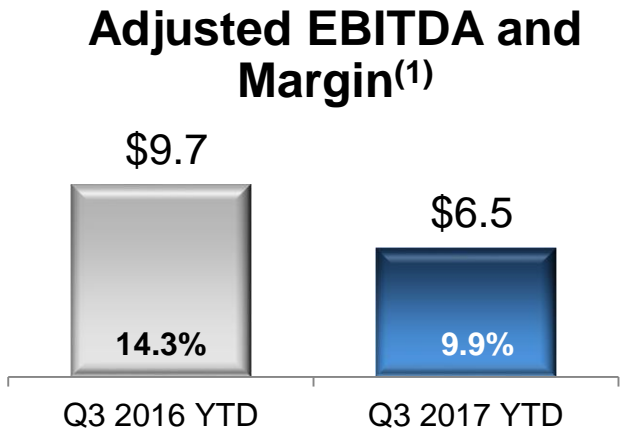
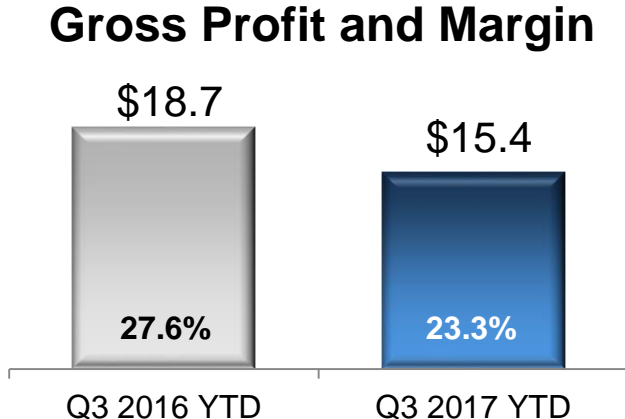
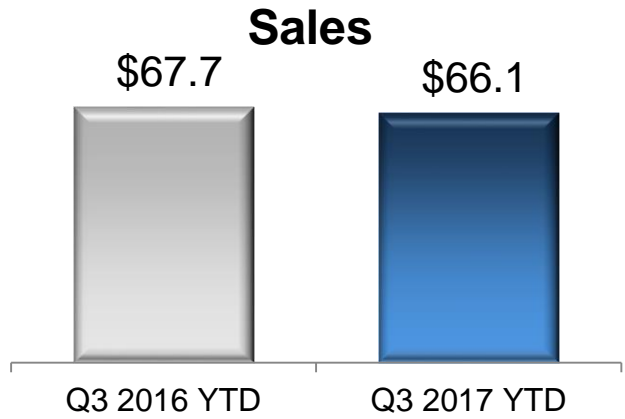
EPS



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

Q3 FY2017 YTD – Weak Pricing Environment

(\$ in millions, except per share data)

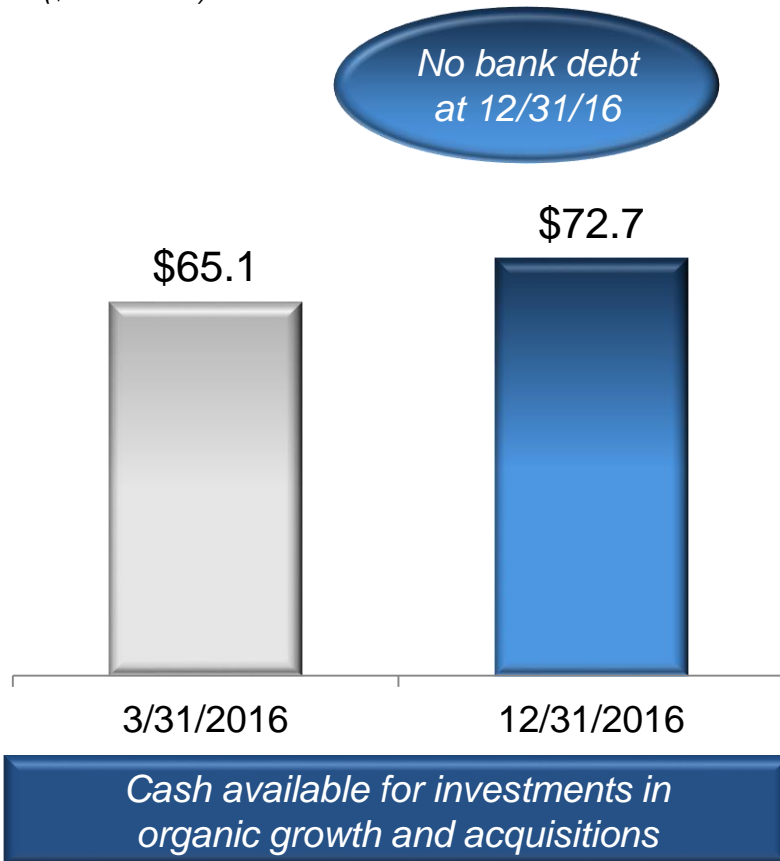


⁽¹⁾ See supplemental slide for Adjusted EBITDA reconciliation and other important disclaimers regarding Graham's use of Adjusted EBITDA
⁽²⁾ See supplemental slide for Adjusted Net Income reconciliation and other important disclaimers regarding Graham's use of Adjusted Net Income

Balance Sheet Remains Strong

Cash, Cash Equivalents and Investments

(\$ in millions)



- Cash balances increased \$7.6 million during FY2017 first nine months
 - Cash provided by operations was \$10.7 million; reflects strong customer deposits expected to unwind over next couple of quarters
 - Paid \$2.6 million of dividends
 - Cash on hand at end of Q3 was \$7.47 per share
- Capital expenditures FY2017 YTD were \$0.2 million compared with \$0.9 million in FY2016 YTD
 - FY2017 capital expenditures expected to be approximately \$0.5 million⁽¹⁾

⁽¹⁾ FY2017 guidance provided as of February 1, 2017



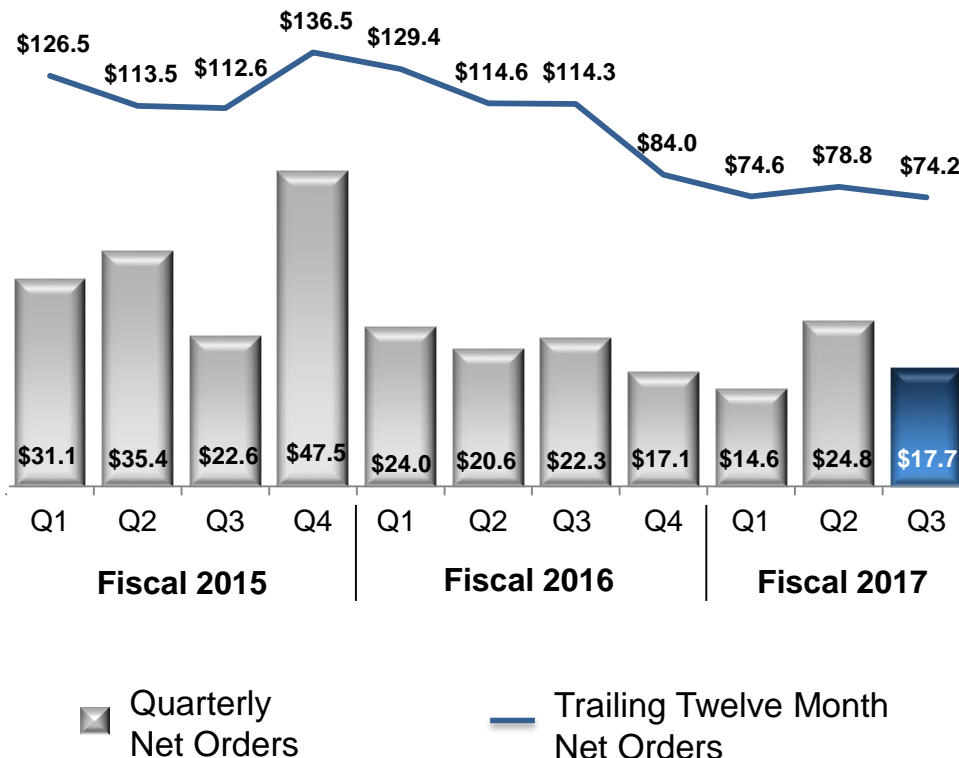
Outlook

Jim Lines
President & CEO

Traditional Order Climate Remains Weak

Quarterly and TTM Net Orders

(in millions)



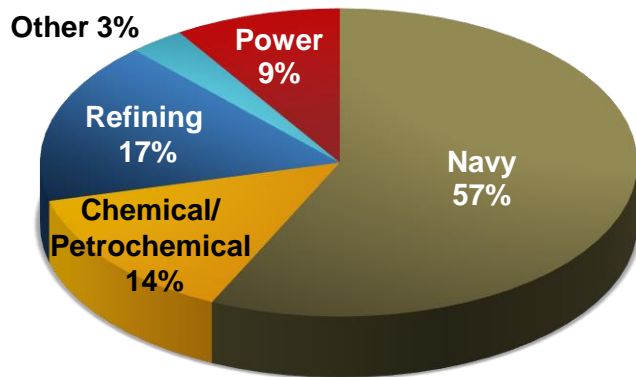
- Q3 FY2017 orders by industry vs prior-year Q3:
 - Refining industry orders were up \$1.8 million
 - Chemical/petrochemical industry orders were down \$4.3 million
 - Power industry orders were down \$4.8 million
 - Defense and other industrial orders were up \$2.7 million
- Aftermarket orders down 20%-30%
- \$6.5 million, two orders, on hold at Q3
- 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 Demonstrates Success

Highlights importance of diversification strategy

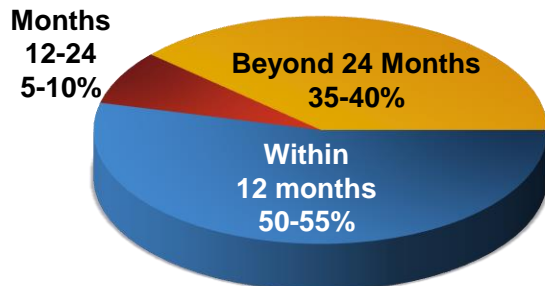
Backlog by Industry

December 31, 2016



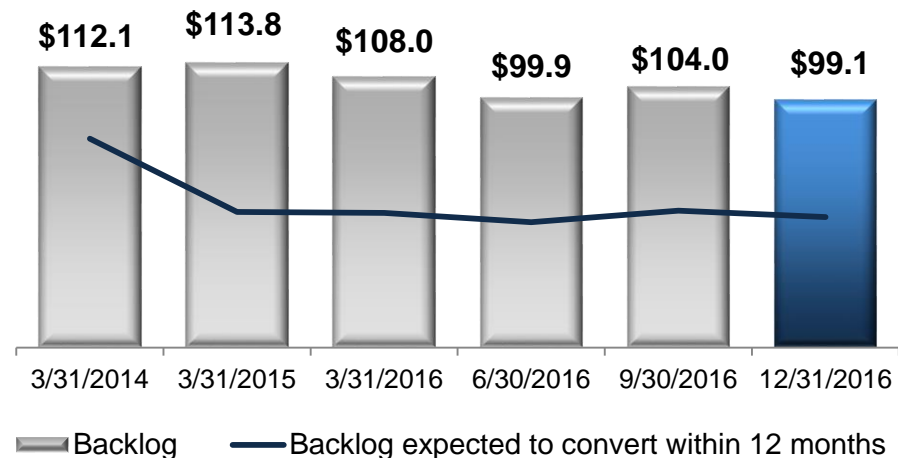
Projected Backlog Conversion

December 31, 2016



Backlog

(\$ in millions)



- 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 \$88 million – \$92 million
- Gross margin 21% – 23%
- SG&A \$15 million – \$15.5 million
- Effective tax rate 28% – 30%

Strategic Target: Exceed \$200 million in organic revenue

(1) FY2017 guidance provided as of February 1, 2017



HIGHER POTENTIAL
Strategy. Process. Team.

Supplemental Information

Adjusted EBITDA Reconciliation

(Unaudited)

(\$ in thousands)

	Three Months Ended December 31,		Nine Months Ended December 31,	
	2016	2015	2016	2015
Net income	\$ 1,840	\$ 1,274	\$ 3,222	\$ 5,611
+ Net interest income	(97)	(68)	(265)	(169)
+ Income taxes	754	364	1,198	2,416
+ Depreciation & amortization	581	607	1,746	1,850
+ Restructuring charge	-	-	630	-
Adjusted EBITDA	\$ 3,078	\$ 2,177	\$ 6,531	\$ 9,708
<i>Adjusted EBITDA margin %</i>	13.6%	12.6%	9.9%	14.3%

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)

	Three Months Ended December 31,				Nine Months Ended December 31,			
	2016		2015		2016		2015	
	Per Diluted Share		Per Diluted Share		Per Diluted Share		Per Diluted Share	
<i>(\$ in thousands, except per share data)</i>								
Net income	\$ 1,840	\$ 0.19	\$ 1,274	\$ 0.13	\$ 3,222	\$ 0.33	\$ 5,611	\$ 0.56
+ Restructuring charge	-	-	-	-	630	0.06	-	-
- Tax effect	-	-	-	-	(189)	(0.02)	-	-
Adjusted net income	<u>\$ 1,840</u>	<u>\$ 0.19</u>	<u>\$ 1,274</u>	<u>\$ 0.13</u>	<u>\$ 3,663</u>	<u>\$ 0.38</u>	<u>\$ 5,611</u>	<u>\$ 0.56</u>

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.



HIGHER POTENTIAL
Strategy. Process. Team.

Third Quarter Fiscal 2017 Earnings Call