NYSE: GHM • June 1, 2017

Fourth Quarter Fiscal 2017 Earnings Call

James R. Lines
President & Chief Executive Officer

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Vice President & Chief Financial Officer

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CORPORATION

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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,” “confidence,” “projects,” “typically,” “outlook,” “anticipates,” “believes,” “appears,” “could,” “opportunities,” “seeking,” “plans,” “aim,” “pursuit,” 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, expected expansion and growth opportunities within its domestic and international markets, anticipated revenue, the timing of conversion of backlog to sales, market presence, profit margins, tax rates, foreign sales operations, its ability to improve cost competitiveness, customer preferences, changes in market conditions in the industries in which it operates, changes in commodities prices, the effect on its business of volatility in commodities prices, changes in general economic conditions and customer behavior, forecasts regarding the timing and scope of the economic recovery in its markets, its acquisition and growth strategy and the expected performance of Energy Steel & Supply Co. and its operations in China, 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, included under the heading entitled “Risk Factors.”

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Fourth Quarter & Fiscal 2017 Highlights

- Fourth Quarter
  - Revenue was $25.6 million, up 15% vs PY Q4
  - Growth driven by completion of large non-typical Naval order, initiated in Q3, which also benefited gross profit and margin
  - Net income was $1.8 million, $0.18 per share
- FY 2017
  - Revenue was $91.8 million, virtually flat vs FY 2016
  - Net income was $5.0 million, $0.52/share,
vs FY 2016 of $6.1 million, $0.61/share
    - FY 2017 impacted by competitive pricing and unfavorable mix, partially offset by favorable margin on large non-typical order in 2H
    - FY 2016 benefited from cancellation charge income

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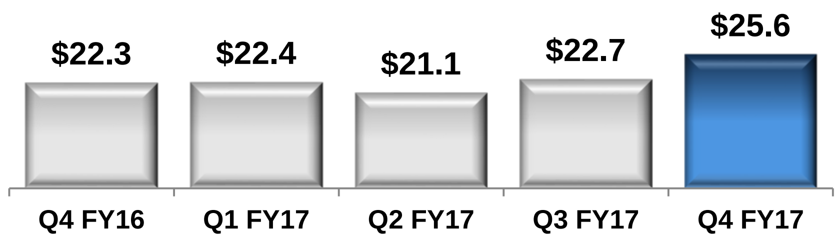
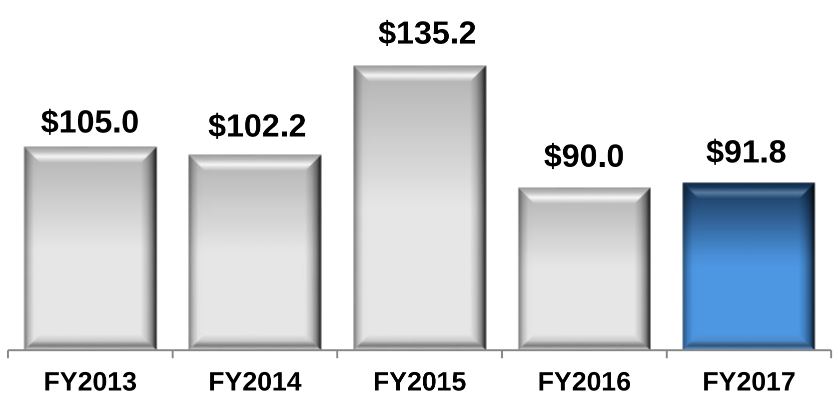
Fourth Quarter & Fiscal 2017 Sales

($ in millions)

Quarterly Revenue



Annual Revenue



- Q4 sales growth was driven by U.S. Navy:
  - Refining industry: $4.0 million, down 49%
  - Chemical/petrochemical industry: $6.9 million, up 15%
  - Power industry: $4.8 million, down 8%
  - Other commercial, industrial and defense: $9.9 million, up from $3.3 million
- Strong Q4 U.S. Navy sales also drove geographic weighting
  - Sales to the U.S. were $20.0 million, 78% of total
  - Sales to all international market regions declined
- ~30% of FY2017 revenue from Navy and nuclear revenue diversification strategies

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Financial Overview

Jeff Glajch

Vice President and CFO

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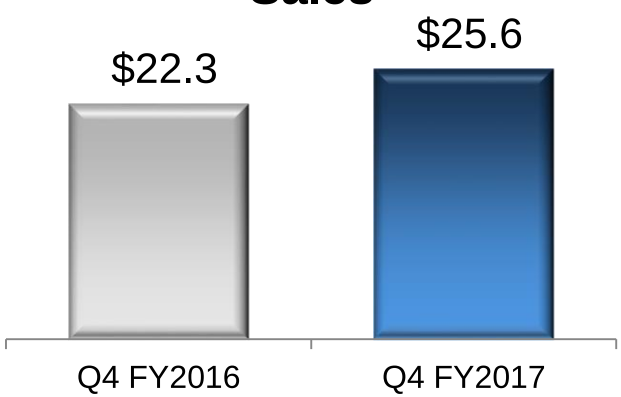
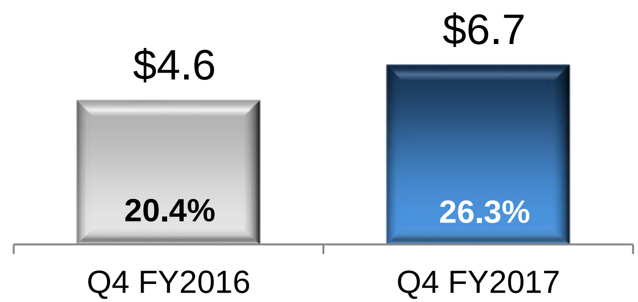
Q4 FY2017 – Driven by U.S. Navy Sales

($ in millions, except per share data)

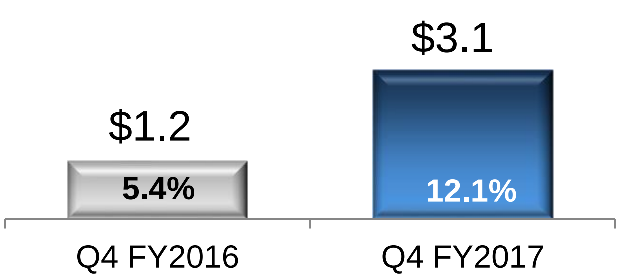
Sales



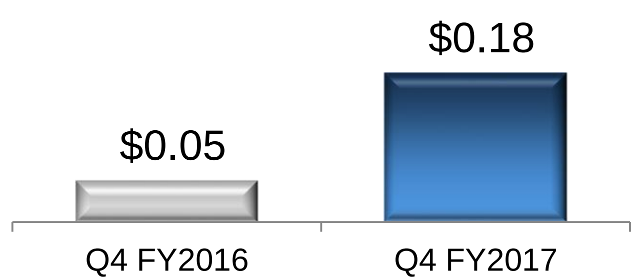
Gross Profit and Margin



EBITDA and Margin[1]



EPS

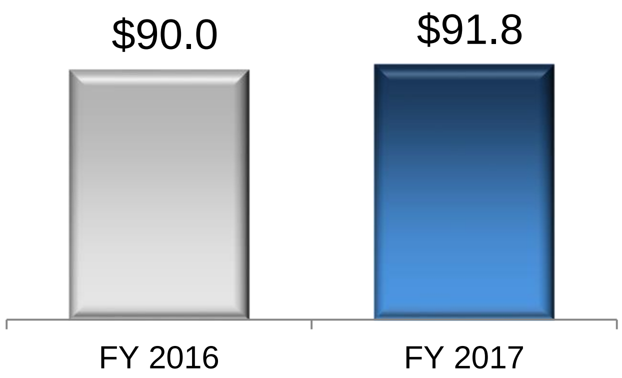


[1] *See supplemental slide for EBITDA reconciliation and other important disclaimers regarding Graham's use of EBITDA*

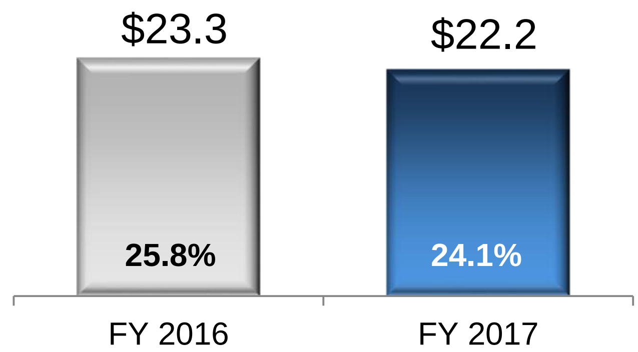
FY2017 – Diversification Reduces Volatility

($ in millions, except per share data)

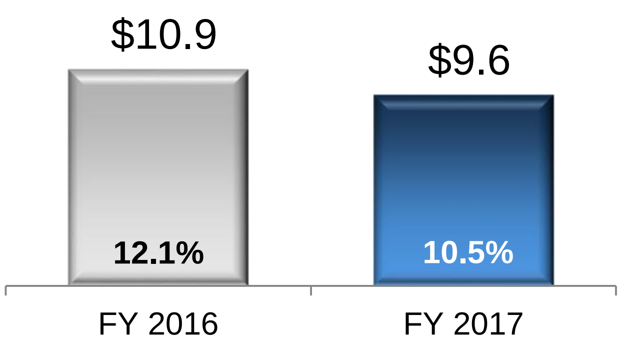
Sales



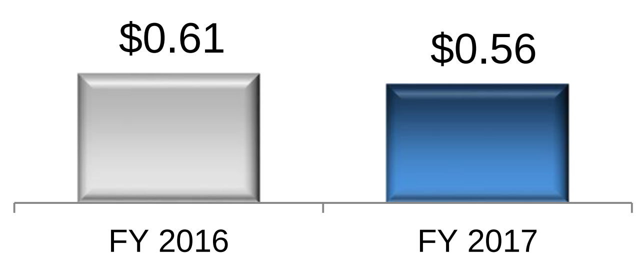
Gross Profit and Margin



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*

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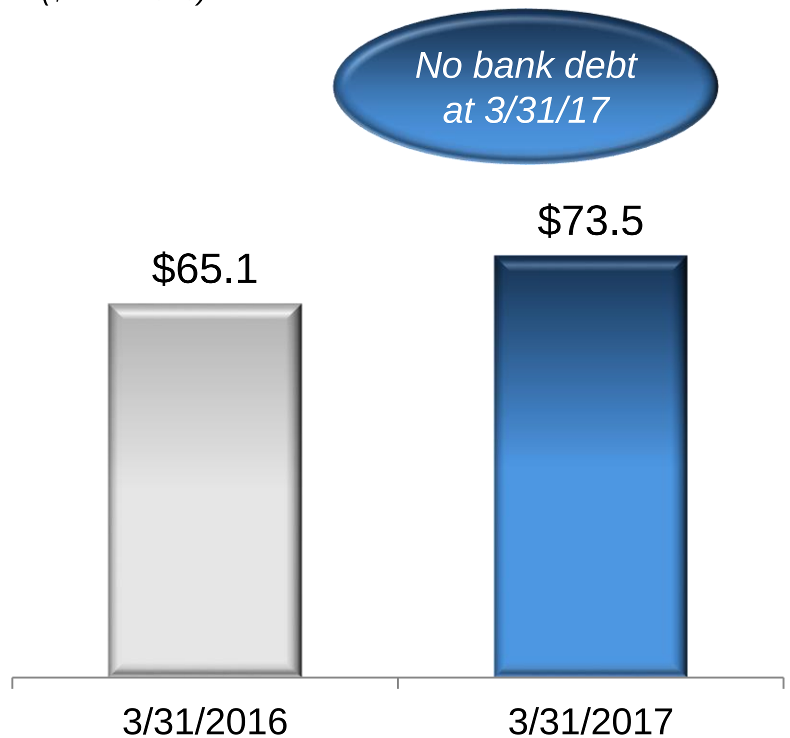
Balance Sheet Review

Cash, Cash Equivalents and Investments

($ in millions)



Cash available for investments in organic growth and acquisitions

- Cash balances increased $8.4 million during FY2017
  - Cash provided by operations was $12.4 million; reduction from PY reflected unusually high cash flow from working capital LY
  - Paid $3.5 million of dividends
  - Cash on hand at year end was $7.54 per share
- FY2017 capital expenditures were $0.3 million compared with $1.2 million in FY2016
  - FY2018 capital expenditures expected to be between $2.5 million - $3.0 million(1)

(1) *FY2018 guidance provided as of June 1, 2017*

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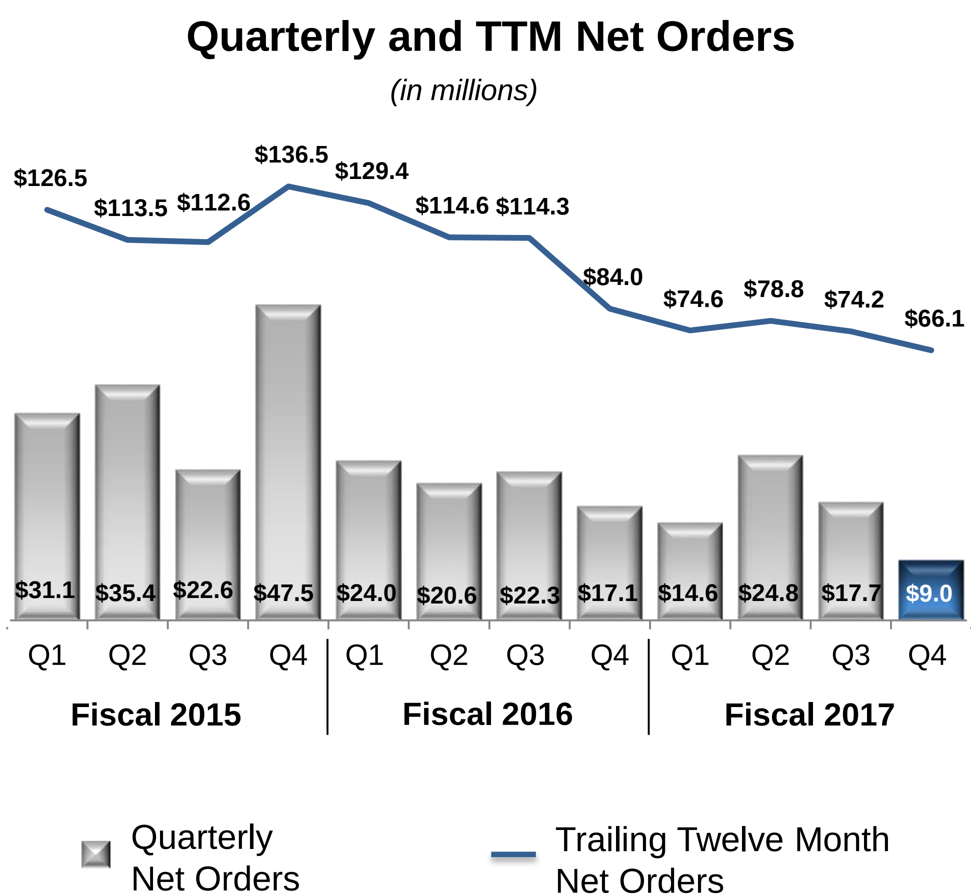
Outlook

Jim Lines

President & CEO

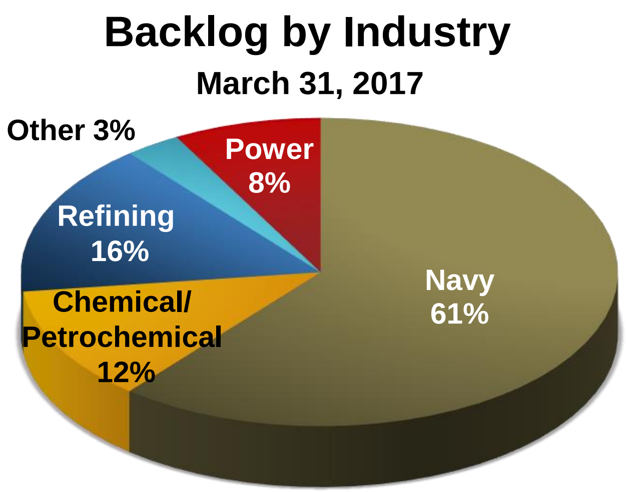
Orders Remain at Trough Levels

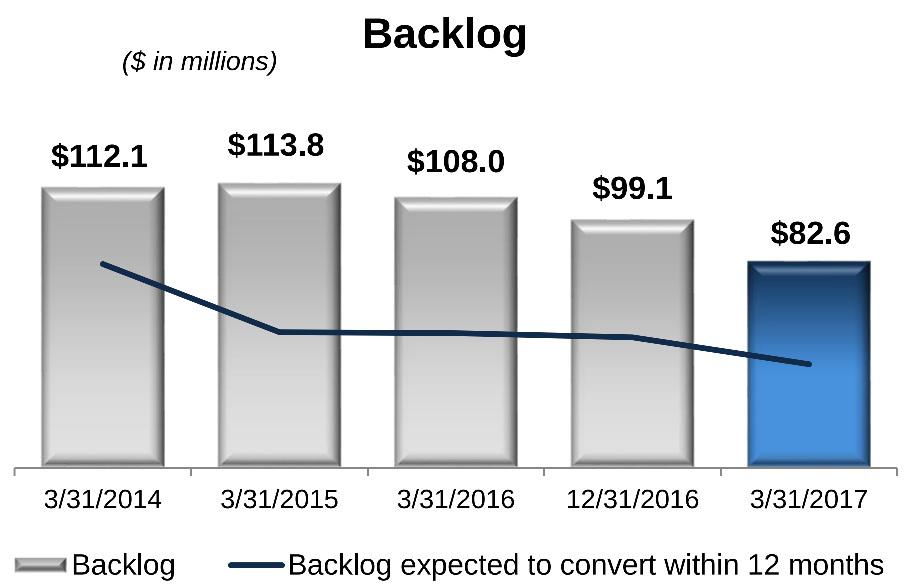


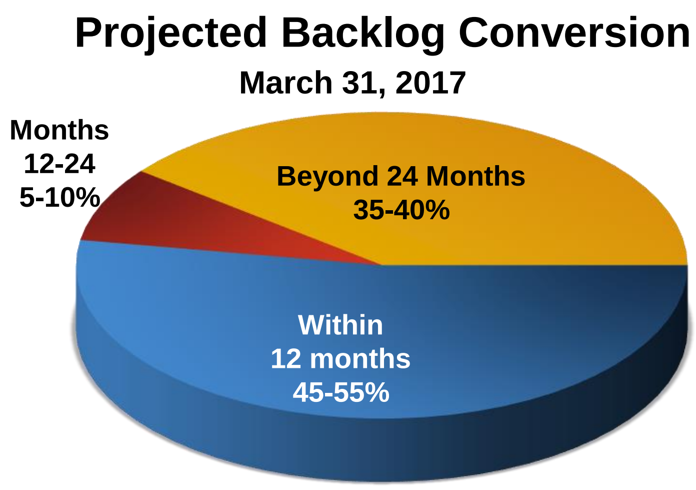
- Q4 FY2017 and FY2016 are net of cancellations of $6.5 million and $4.9 million, respectively
- Q4 FY2017 orders by industry vs Q4 FY2016:
  - Refining industry down $3.2 million
  - Chemical/petrochemical industry up $1.3 million
  - Power industry down $5.0 million
  - Other commercial, industrial and defense down $1.2 million
- TTM comparison impacted by:
  - Large U.S. Navy orders in Q4 FY2015
  - $18 million of orders cancelled between Q4 FY2015 and Q4 FY2016, and $6.5 million cancelled in Q4 FY2017
- Bidding pipeline of ~$600 million to ~$800 million hasn't yet indicated a rebound in the energy markets

Backlog Sets Tone for FY 2018

Mix highlights importance of diversification strategy







- High percentage of U.S. Navy projects in backlog provides stability during extended energy downturn
- ~70% from markets or customers not served by the Company eight years ago
  - Reducing the impact of more cyclical sales in the energy industry

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FY2018 Guidance[1]

- Revenue $80 million – $90 million
- Gross margin 22% – 24%
- SG&A $16 million – $17 million
- Effective tax rate 30% – 32%

Strategic Target: Exceed $200 million in organic revenue

[1] *FY2018 guidance provided as of June 1, 2017*

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Supplemental Information

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Adjusted EBITDA Reconciliation

(Unaudited)

($ in thousands)	Three Months Ended March 31,		Year Ended March 31,	
	2017	2016	2017	2016
Net income	**$ 1,801**	**$ 520**	**$ 5,023**	**$ 6,131**
+Net interest income	(111)	(82)	(376)	(251)
+Income taxes	828	183	2,026	2,599
+Depreciation & amortization	580	585	2,326	2,435
+Restructuring charge	-	-	630	-
Adjusted EBITDA	**$ 3,098**	**$ 1,206**	**$ 9,629**	**$ 10,914**
Adjusted EBITDA margin %	*12.1%*	*5.4%*	*10.5%*	*12.1%*

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.

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Adjusted Net Income Reconciliation

(Unaudited)

($ in thousands, except per share data)	Three Months Ended March 31, 2017		2017 *Per Diluted Share*	Three Months Ended March 31, 2016		2016 *Per Diluted Share*	Year Ended March 31, 2017		2017 *Per Diluted Share*	Year Ended March 31, 2016		2016 *Per Diluted Share*
Net income	$ 1,801	$	0.18	$ 520	$	0.05	$ 5,023	$	0.52	$ 6,131	$	0.61
+ Restructuring charge	-		-	-		-	630		0.06	-		-
- Tax effect	-		-	-		-	(189)		(0.02)	-		-
Adjusted net income	$ 1,801	$	0.18	$ 520	$	0.05	$ 5,464	$	0.56	$ 6,131	$	0.61

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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