



HIGHER POTENTIAL
Strategy. Process. Team.

First Quarter Fiscal 2018 Earnings Call

James R. Lines
President & Chief Executive Officer

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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,” “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.” 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 news release.

This presentation will discuss some non-GAAP financial measures, which Graham Corporation believes are useful in evaluating our performance. You should not consider the presentation of this additional information in isolation or as a substitute for results compared in accordance with GAAP. Graham Corporation has provided reconciliations of comparable GAAP to non-GAAP measures in tables found in the Supplemental Information portion of this presentation.

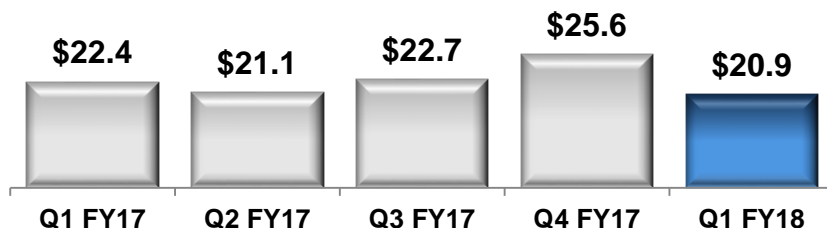
First Quarter Fiscal 2018 Summary

- Q1 revenue of \$20.9 million
 - Accelerated certain projects from Q2 FY18
 - Down 7% compared with PY Q1
- Q1 net income of \$0.9 million, \$0.10 per share
 - Q1 FY17 of \$0.1 million, \$0.01 per share;
Excluding a nonrecurring restructuring charge, Q1 FY17 adjusted net income was \$0.5 million, \$0.05 per share
- Uncertainty in downstream energy markets affects order and backlog levels
 - Q1 orders of \$11.1 million vs \$14.6 million in PY Q1
 - Backlog of \$72.9 million at quarter end; 64% from US Navy

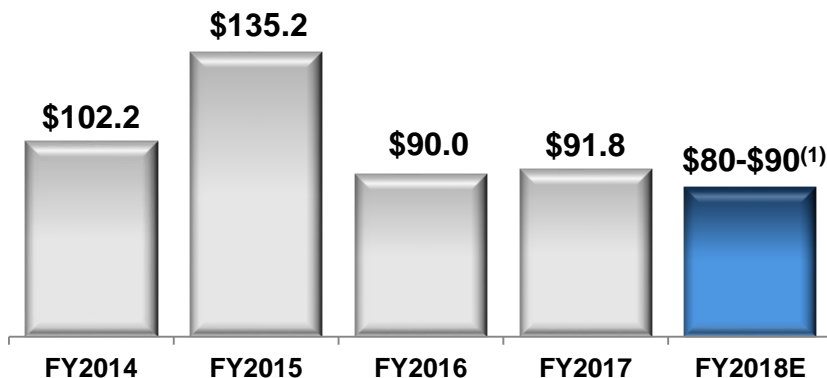
First Quarter Fiscal 2018 Sales

(\$ in millions)

Quarterly Revenue



Annual Revenue



- Q1 sales declined vs prior year:
 - Refining industry: \$3.6 million, down 50%
 - Chemical/petrochemical industry: \$7.2 million, up 38%
 - Power industry: \$4.0 million, down 15%
 - Other commercial, industrial and defense: \$6.1 million, up 16%
- Q1 sales decline driven by U.S. and South America markets
 - Sales to the U.S. were down to \$14.8 million, 71% of total
 - Sales to almost all international regions declined, except Asia and Canada

⁽¹⁾ FY2018 guidance provided as of August 4, 2017



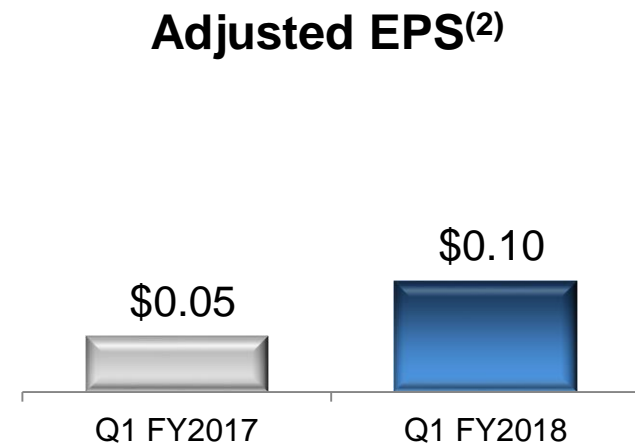
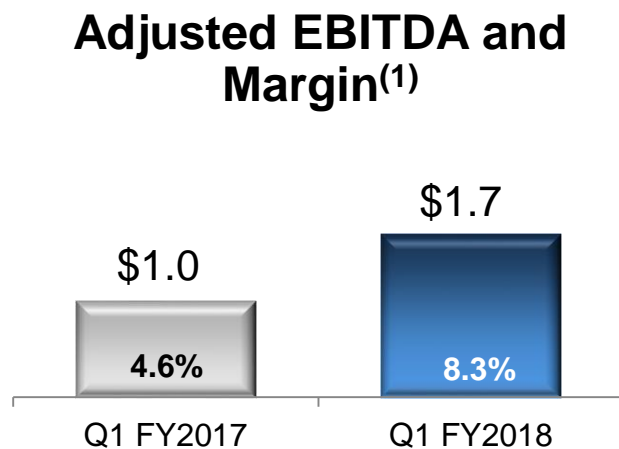
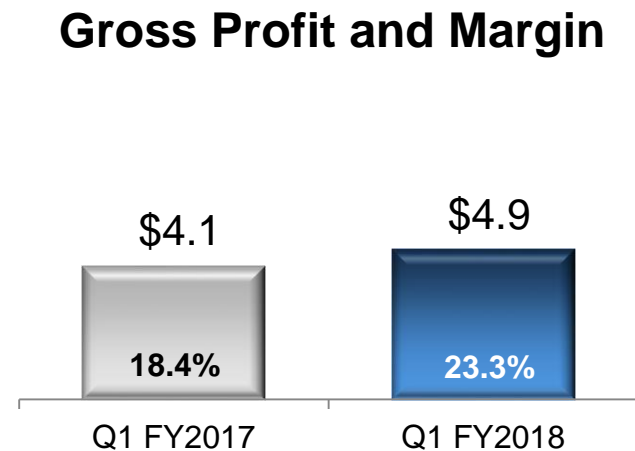
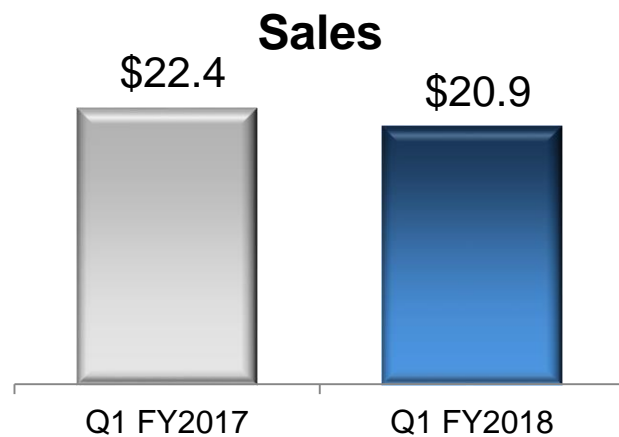
Financial Overview

Jeff Glajch

Vice President and CFO

Q1 FY2018 – Solid Productivity

(\$ in millions, except per share data)



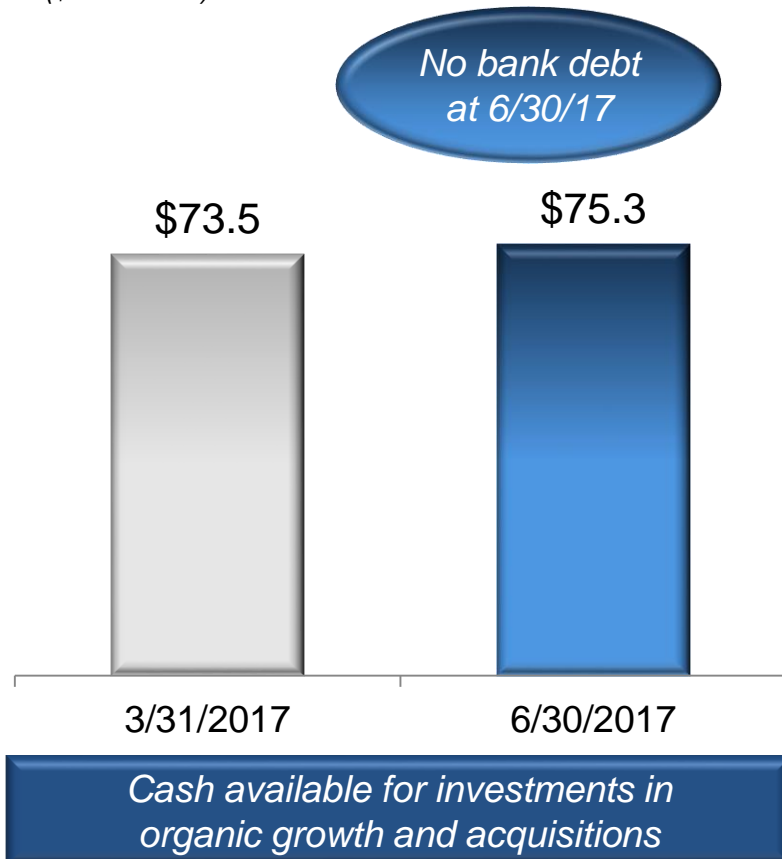
(1) See supplemental slide for Adjusted EBITDA reconciliation and other important disclaimers regarding Graham's use of Adjusted EBITDA

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

Capital Supports Growth Opportunities

Cash, Cash Equivalents and Investments

(\$ in millions)



- Cash balances increased \$1.8 million in Q1 FY2018
 - Cash provided by operations of \$2.9 million
 - Paid \$0.9 million of dividends
 - Cash on hand at quarter end of \$7.71 per share
- Capital expenditures in Q1 FY2018 at \$0.1 million were consistent with Q1 FY2017
 - FY2018 capital expenditures expected to be between \$2.5 million - \$3.0 million⁽¹⁾, mostly in the 2nd half of fiscal year

⁽¹⁾ FY2018 guidance provided as of August 4, 2017



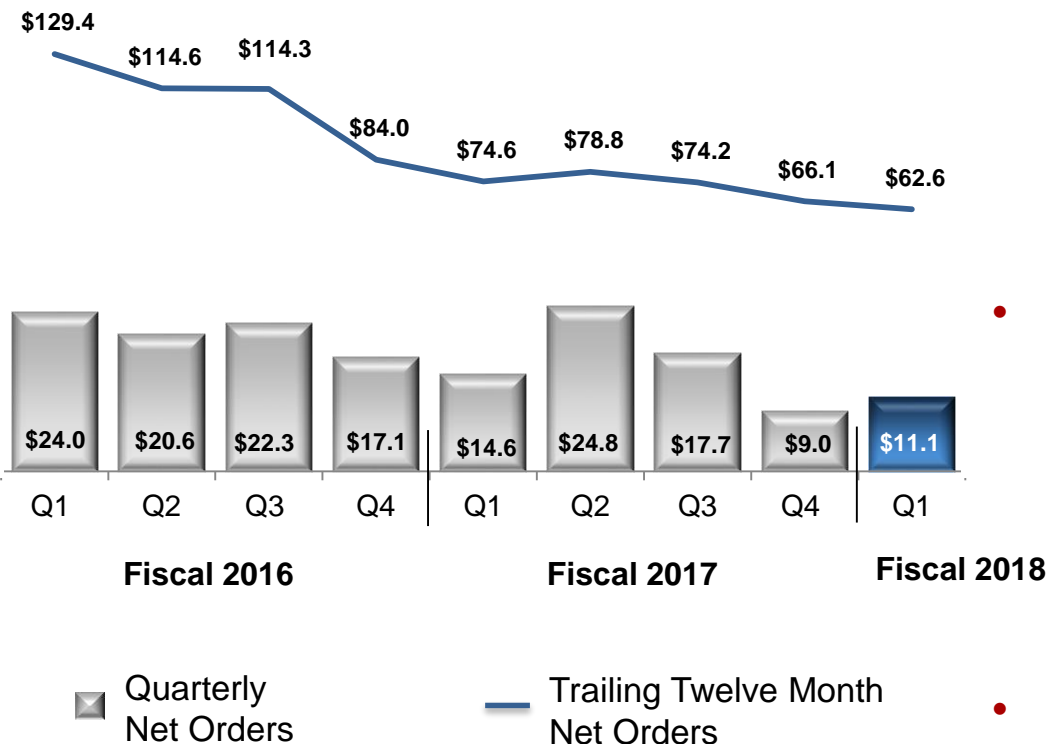
Outlook

Jim Lines
President & CEO

Continued Weakness in Order Levels

Quarterly and TTM Net Orders

(in millions)

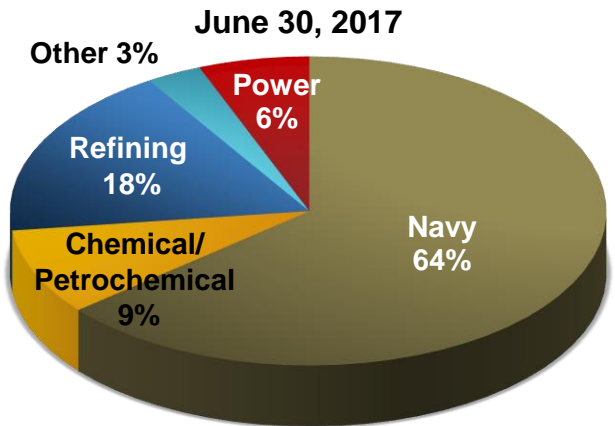


- Q1 FY2018 orders by industry vs Q1 FY2017:
 - Refining industry down \$0.8 million
 - Chemical/petrochemical industry down \$0.2 million
 - Power industry down \$1.0 million
 - Other commercial, industrial and defense down \$1.5 million
- TTM comparison impacted by:
 - Large U.S. Navy orders in Q4 FY2015
 - \$24.5 million of orders cancelled between Q4 FY2015 and Q4 FY2017
- Bidding pipeline of ~\$600 million to ~\$800 million hasn't yet indicated a rebound in the energy markets

FY2018 Challenges Reflected in Backlog

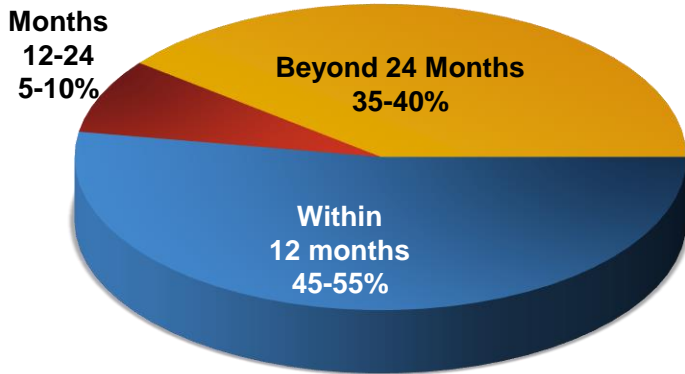
Mix highlights importance of diversification strategy

Backlog by Industry



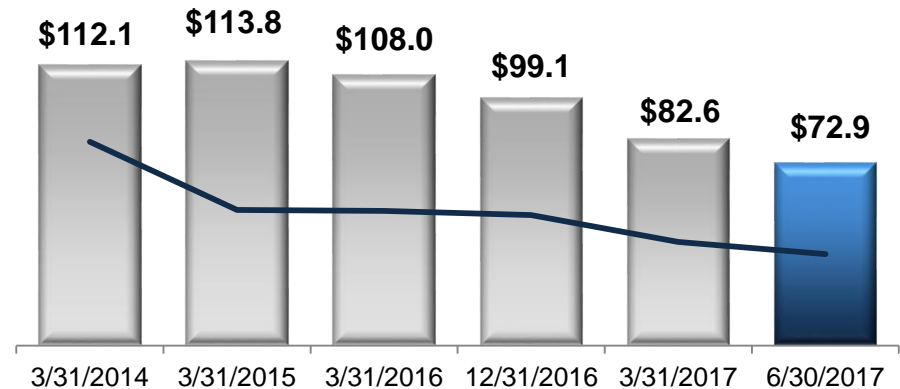
Projected Backlog Conversion

June 30, 2017



Backlog

(\$ in millions)



■ Backlog — Backlog expected to convert within 12 months

- 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

FY2018 Guidance⁽¹⁾

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

(1) FY2018 guidance provided as of August 4, 2017



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Supplemental Information

Adjusted EBITDA Reconciliation

(Unaudited)

(\$ in thousands)

	Three Months Ended	
	June 30,	
	2017	2016
Net income	\$ 935	\$ 85
+Net interest income	(148)	(85)
+Income taxes	398	(100)
+Depreciation & amortization	555	582
+Restructuring charge	-	555
Adjusted EBITDA	\$ 1,740	\$ 1,037
<i>Adjusted EBITDA margin %</i>	<i>8.3%</i>	<i>4.6%</i>

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
June 30,

(\$ in thousands, except
per share data)

	2017		2016	
	Per Diluted Share		Per Diluted Share	
Net income	\$ 935	\$ 0.10	\$ 85	\$ 0.01
+ Restructuring charge	-	-	555	0.06
- Tax effect	-	-	(172)	(0.02)
Adjusted net income	<u>\$ 935</u>	<u>\$ 0.10</u>	<u>\$ 468</u>	<u>\$ 0.05</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.



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