

Second 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 and other international locations, 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 slide presentation.

This presentation will discuss some non-GAAP financial measures, which Graham Corporation believes are useful in evaluating its 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.

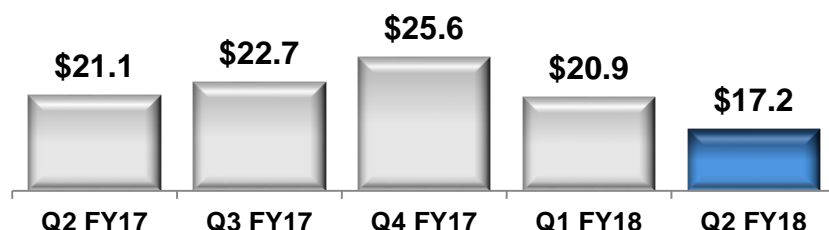
Second Quarter Fiscal 2018 Summary

- Q2 revenue of \$17.2 million
 - Down 18% compared with Fiscal 2017 Q2
- Breakeven Q2 net income
 - Excluding restructuring charges:
 - Q2 FY18 adjusted net income of \$0.2 million compared with Q2 FY17 of \$1.4 million
 - Q2 FY18 EPS of \$0.02 compared with Q2 FY17 of \$0.14
- Steady backlog of \$73 million at quarter end
 - 69% from US Navy
- Revising fiscal 2018 guidance
 - Lowering revenue expectations to between \$75 and \$80 million
 - Lowering gross margin expectations to 21% to 23%

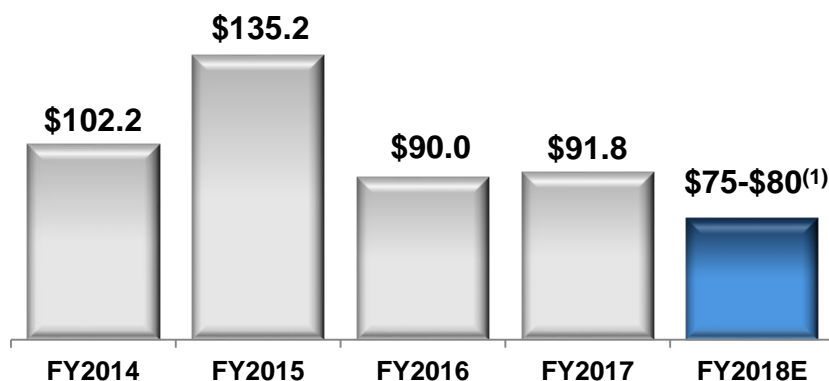
Second Quarter Fiscal 2018 Sales

(\$ in millions)

Quarterly Revenue



Annual Revenue



- Q2 sales declined vs prior year:
 - Refining industry: \$4.7 million, down 30%
 - Chemical/petrochemical industry: \$5.7 million, up 12%
 - Power industry: \$1.9 million, down 69%
 - Other commercial, industrial and defense: \$4.9 million, up 53%
- Q2 sales decline driven by U.S.
 - Sales to the U.S. were down to \$11.1 million, 65% of total
 - Sales to international markets increased to \$6.1 million

⁽¹⁾ FY2018 guidance provided as of October 25, 2017



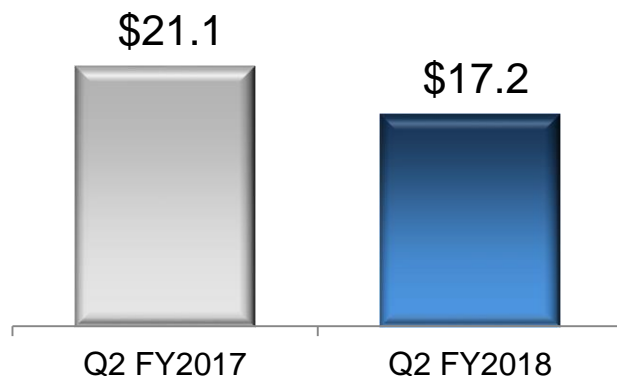
Financial Overview

Jeff Glajch
Vice President and CFO

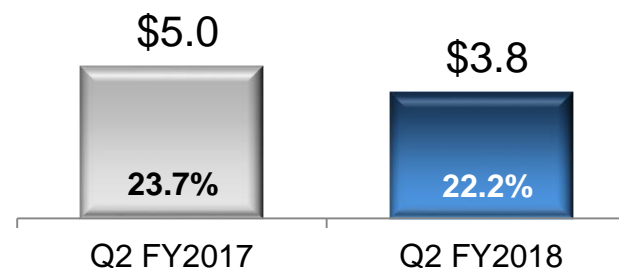
Q2 FY2018 – Weaker Project Mix, Under-absorption

(\$ in millions, except per share data)

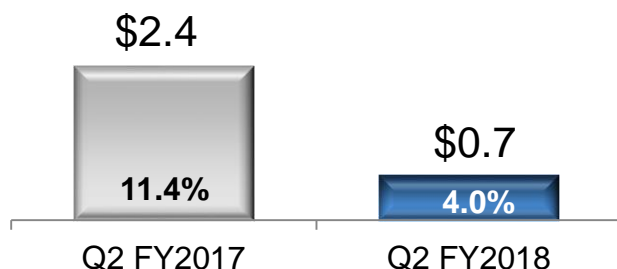
Sales



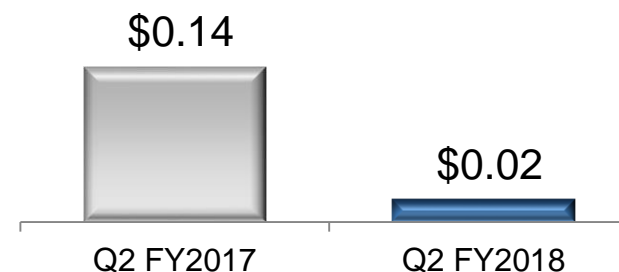
Gross Profit and Margin



Adjusted EBITDA and Margin⁽¹⁾



Adjusted EPS⁽²⁾

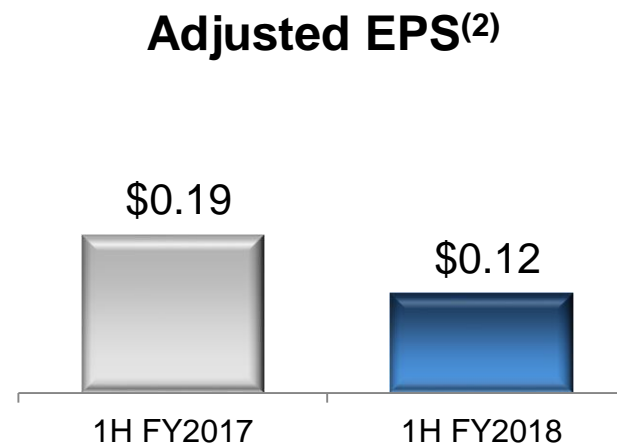
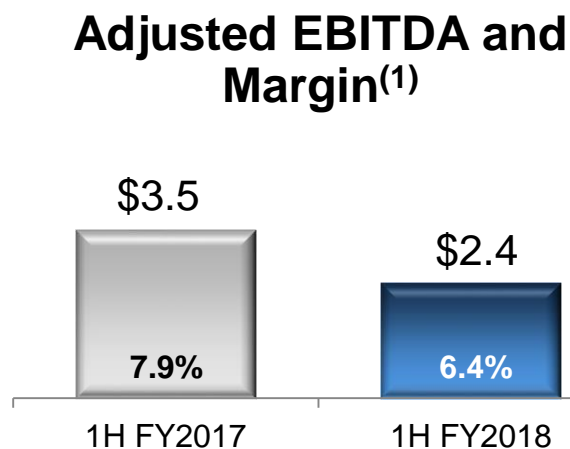
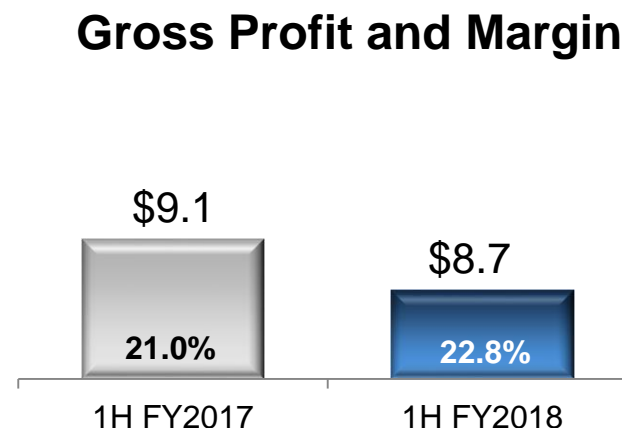


(1) See supplemental slide for Adjusted EBITDA reconciliation and other important disclaimers regarding Graham's use of Adjusted EBITDA

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

1H FY2018 – Impacted by Timing of Lower Overhead

(\$ in millions, except per share data)



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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

Capital for Growth

Cash, Cash Equivalents and Investments

(\$ in millions)



- Cash balances decreased \$1.4 million in 1H FY2018
 - Cash provided by operations was \$0.8 million
 - Paid \$1.8 million of dividends
 - Cash on hand at quarter end of \$7.38 per share
- Capital expenditures in 1H FY2018 of \$0.4 million compared with \$0.2 million in 1H 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 October 25, 2017



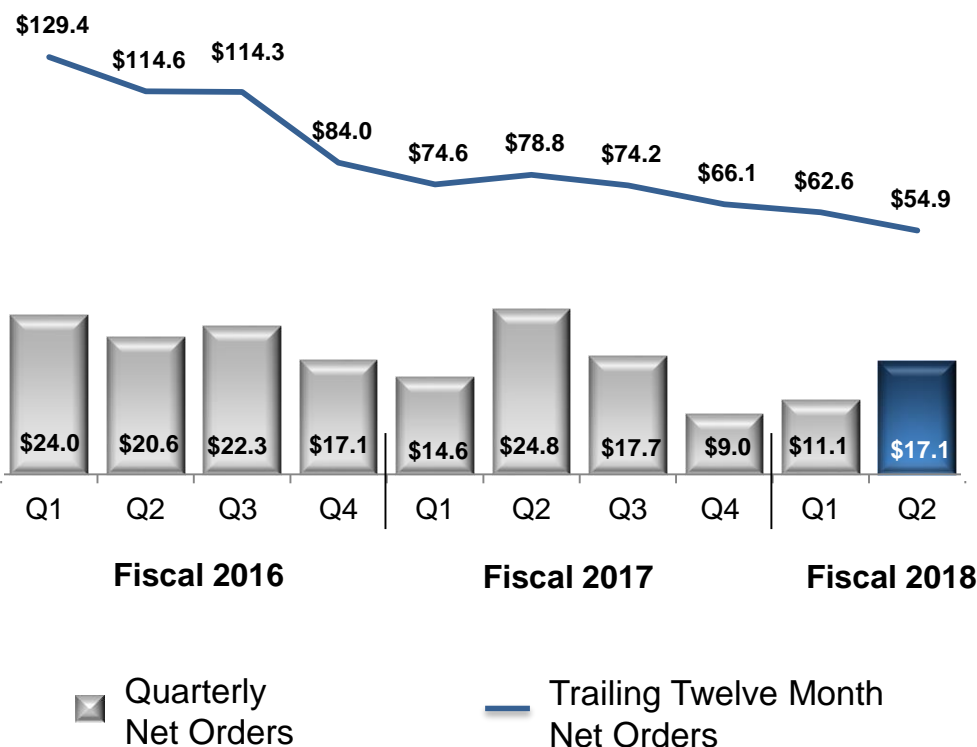
Outlook

Jim Lines
President & CEO

Order Activity Remains Weak

Quarterly and TTM Net Orders

(in millions)



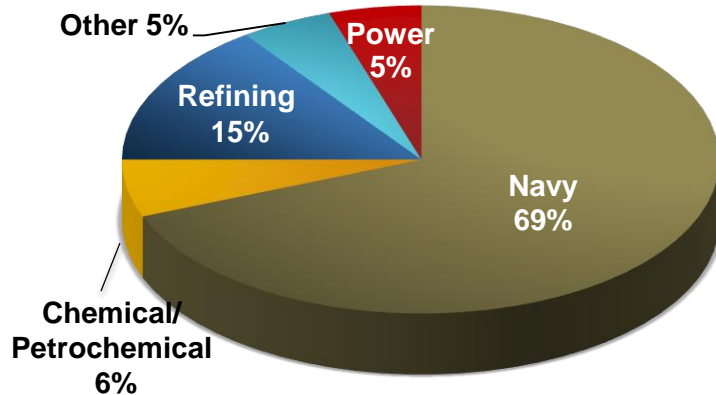
- Q2 FY2018 orders by industry vs Q2 FY2017:
 - Refining industry down \$1.4 million
 - Chemical/petrochemical industry down \$5.3 million
 - Power industry up \$62 thousand
 - Other commercial, industrial and defense down \$1.1 million
- TTM comparison impacted by:
 - Large U.S. Navy orders in Q4 FY2015
 - \$24.5 million of orders cancelled between Q4 FY2015 and Q4 FY2017
- Encouraged by strength reported by early cycle businesses

Sequential Backlog Remains Flat

Mix highlights importance of diversification strategy

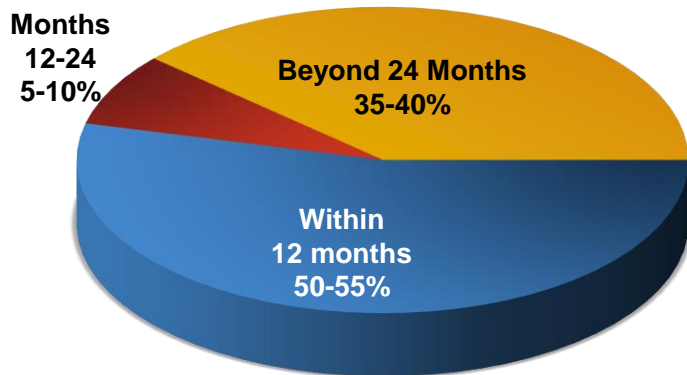
Backlog by Industry

September 30, 2017



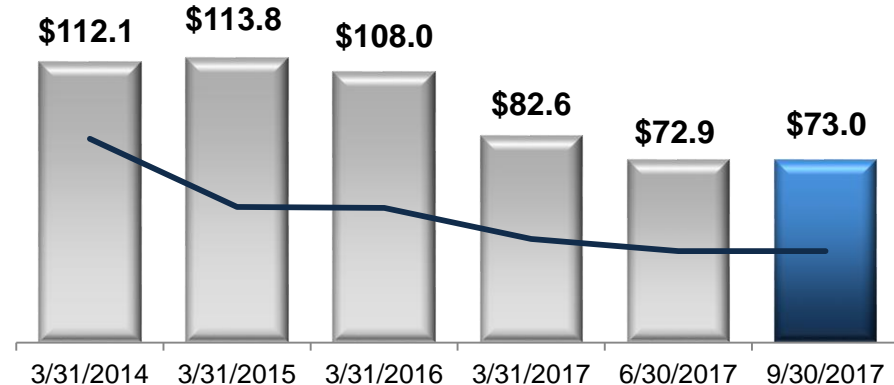
Projected Backlog Conversion

September 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

Revising FY2018 Guidance⁽¹⁾

- Revenue \$75 million – \$80 million
- Gross margin 21% – 23%
- SG&A \$15.0 million – \$15.5 million
- Effective tax rate 28% – 30%

(1) FY2018 guidance provided as of October 25, 2017



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Supplemental Information

Adjusted EBITDA Reconciliation

(Unaudited)

(\$ in thousands)

	Three Months Ended September 30,		Six Months Ended September 30,	
	2017	2016	2017	2016
Net income	\$ 10	\$ 1,297	\$ 945	\$ 1,382
+ Net interest income	(160)	(83)	(308)	(168)
+ Income taxes	(36)	544	362	444
+ Depreciation & amortization	556	583	1,111	1,165
+ Restructuring charge	316	75	316	630
Adjusted EBITDA	\$ 686	\$ 2,416	\$ 2,426	\$ 3,453
<i>Adjusted EBITDA margin %</i>	<i>4.0%</i>	<i>11.4%</i>	<i>6.4%</i>	<i>7.9%</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)

(\$ in thousands, except
per share data)

	Three Months Ended September 30,				Six Months Ended September 30,			
	2017		2016		2017		2016	
	Per Diluted Share		Per Diluted Share		Per Diluted Share		Per Diluted Share	
Net income	\$ 10	\$ 0.00	\$ 1,297	\$ 0.13	\$ 945	\$ 0.10	\$ 1,382	\$ 0.14
+ Restructuring charge	316	0.03	75	\$ 0.01	316	0.03	630	0.06
- Tax effect	(92)	(0.01)	(22)	\$ -	(92)	(0.01)	(189)	(0.02)
Adjusted net income	<u>\$ 234</u>	<u>\$ 0.02</u>	<u>\$ 1,350</u>	<u>\$ 0.14</u>	<u>\$ 1,169</u>	<u>\$ 0.12</u>	<u>\$ 1,823</u>	<u>\$ 0.19</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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