NYSE: GHM • February 1, 2018

Third Quarter Fiscal 2018 Earnings Call

James R. Lines
President & Chief Executive Officer

Jeffrey F. Glajch
Vice President & Chief Financial Officer

GRAHAM
CORPORATION

www.graham-mfg.com

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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.

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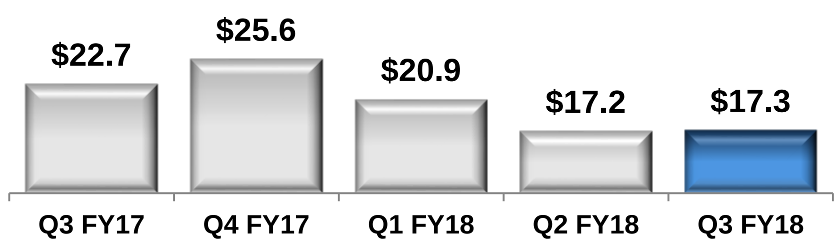
Third Quarter Fiscal 2018 Summary

- Q3 orders of $40.5 million
  - Backlog increased to $96.2 million
- Q3 revenue of $17.3 million
  - Down 24% compared with Fiscal 2017 Q3
- Q3 net loss of $11.6 million, $1.19 loss per share
  - Excluding impairment and related charges:
    - Q3 FY18 adjusted net income was breakeven, compared with Q3 FY17 of $1.8 million
    - Q3 FY18 adjusted EPS was breakeven, compared with Q3 FY17 of $0.19
- Fiscal 2018 revenue guidance narrowed to ~$75 million

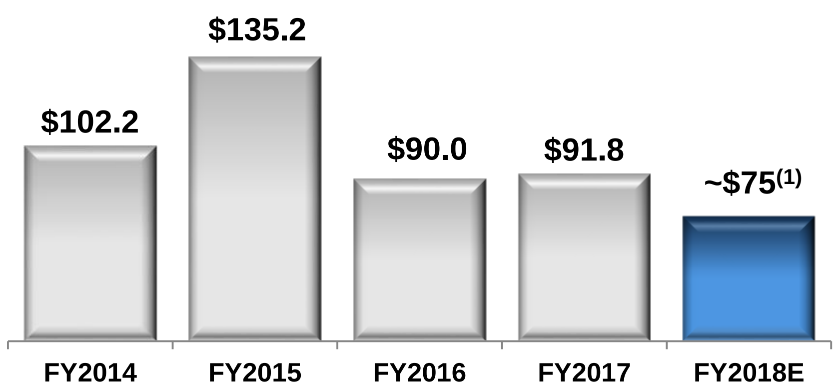
Third Quarter Fiscal 2018 Sales

($ in millions)

Quarterly Revenue



Annual Revenue



(1) *FY2018 guidance provided as of February 1, 2018*

- Q3 sales declined vs prior year:
  - Refining industry: $5.4 million, down 14%
  - Chemical/petrochemical industry: $4.2 million, down 2%
  - Power industry: $1.7 million, down 61%
  - Other commercial, industrial and defense: $6.0 million, down 22%
- Q3 sales decline driven by U.S.
  - Sales to the U.S. were down to $11.3 million, 65% of total
  - Sales to international markets increased to $6.0 million
- Order trends indicate cycle bottom in FY18 Q2-Q4
  - Both sales and profitability

Financial Overview

Jeff Glajch

Vice President and CFO

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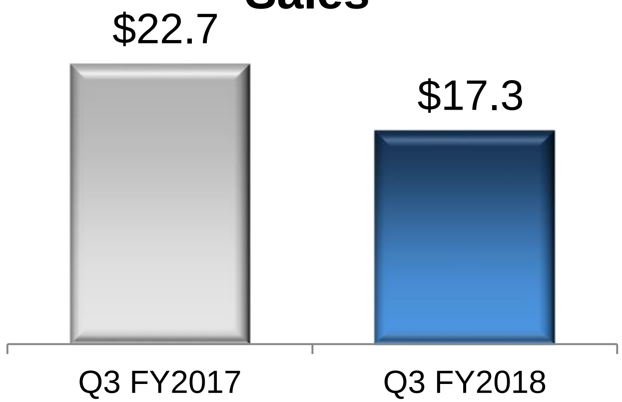
Nuclear Power Business Revaluation

- High level causes
  - Weakening demand for U.S. nuclear power – reduced spending at existing nuclear plants
  - 2017 Westinghouse bankruptcy
  - Stoppage of Summer nuclear power plant construction
- What we're doing
  - Stabilizing our commercial nuclear power operation
  - Seeking new opportunities – North America and global
- Accounting impact of revaluation
  - $14.8 million pre-tax ($12.9 million after tax) non-cash charge for impairment of goodwill and intangible assets
  - $2.0 million favorable tax adjustment upon adoption of U.S. federal tax reform legislation

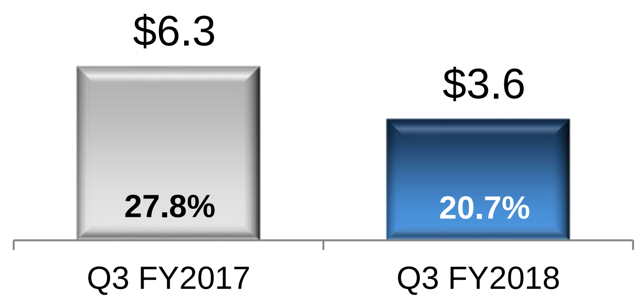
Q3 FY2018 – Lower Sales, Weaker Project Mix

($ in millions, except per share data)

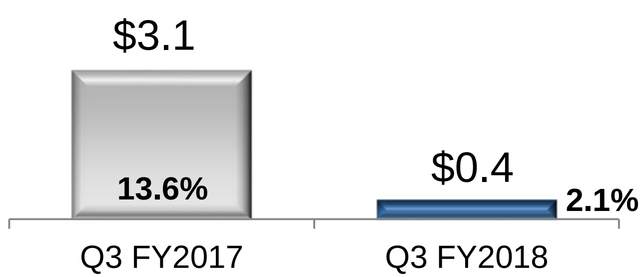
Sales



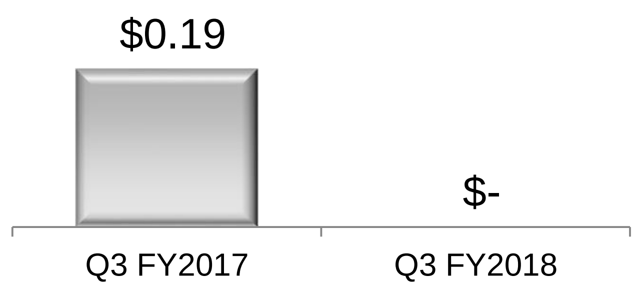
Gross Profit and Margin



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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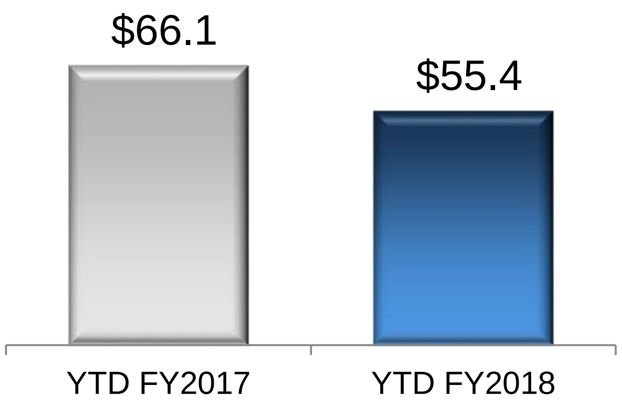
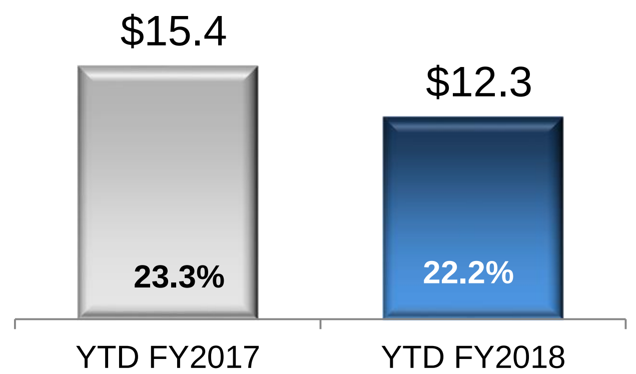
YTD FY2018 – Lower Volume, Under-absorbed Overhead

($ in millions, except per share data)

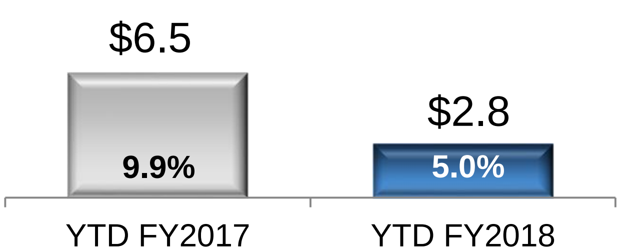
Sales



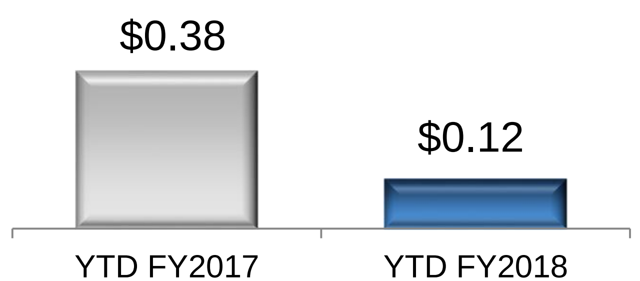
Gross Profit and Margin



Adjusted EBITDA and Margin[1]



Adjusted EPS[2]



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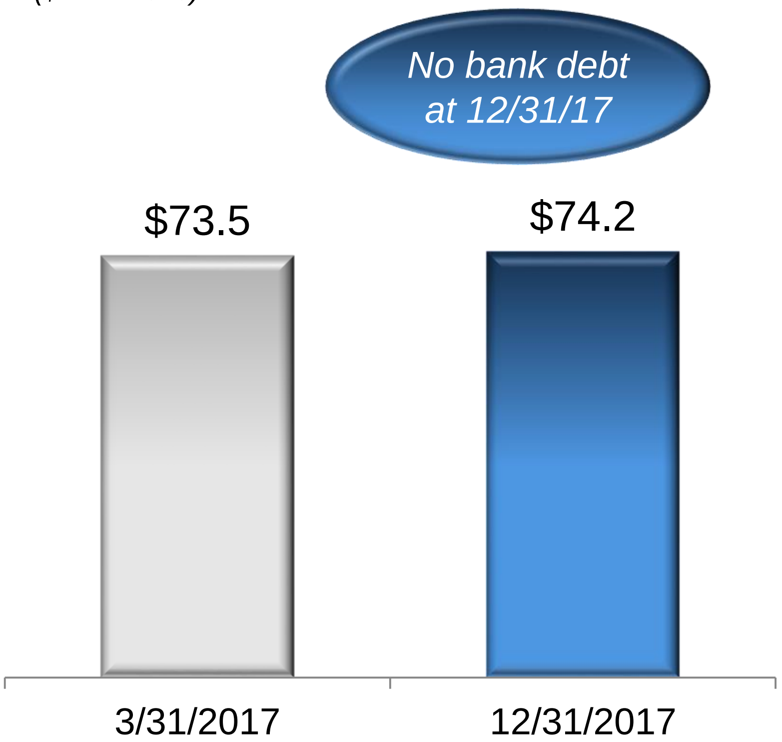
Capital for Growth

Cash, Cash Equivalents and Investments

($ in millions)



Cash available for investments in organic growth and acquisitions

- Cash balances increased $0.7 million in YTD FY2018
  - Cash provided by operations was $3.9 million
  - Paid $2.6 million of dividends
  - Cash on hand at quarter end of $7.59 per share diluted
- Capital expenditures YTD FY2018 of $0.5 million compared with $0.2 million YTD FY2017
  - FY2018 capital expenditures expected to be between $1.5 million - $2.5 million[1], driven by productivity improvement projects

[1] *FY2018 guidance provided as of February 1, 2018*

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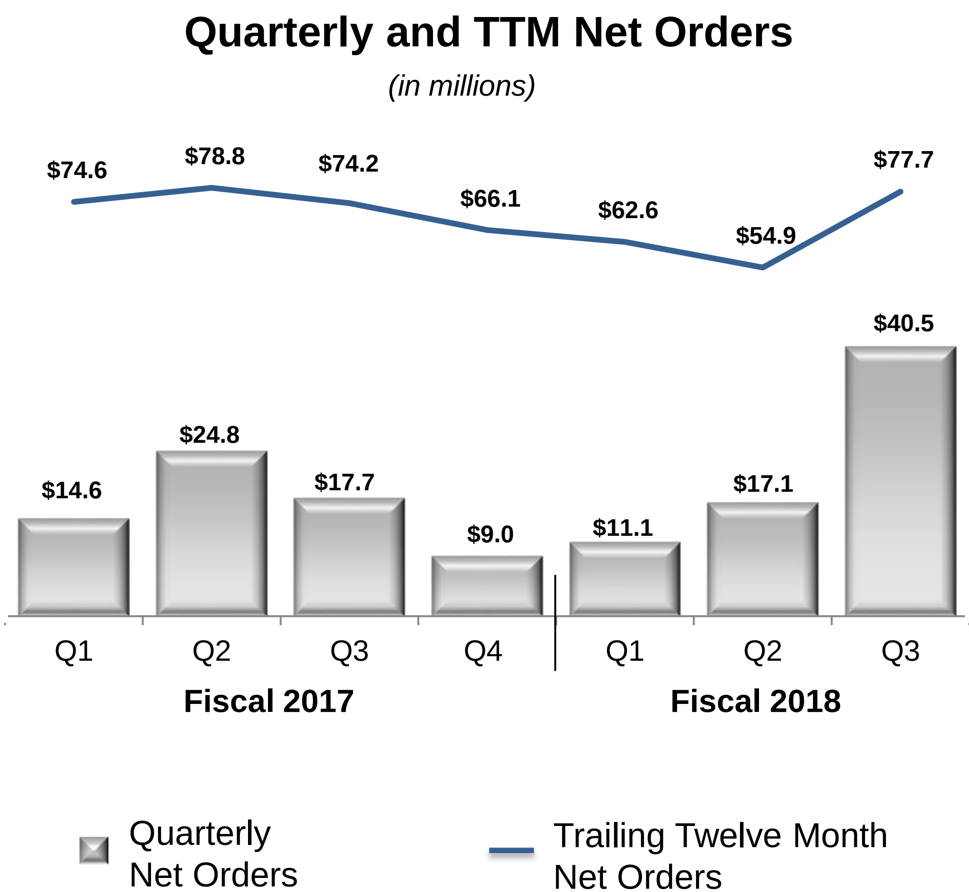
Outlook

Jim Lines

President & CEO

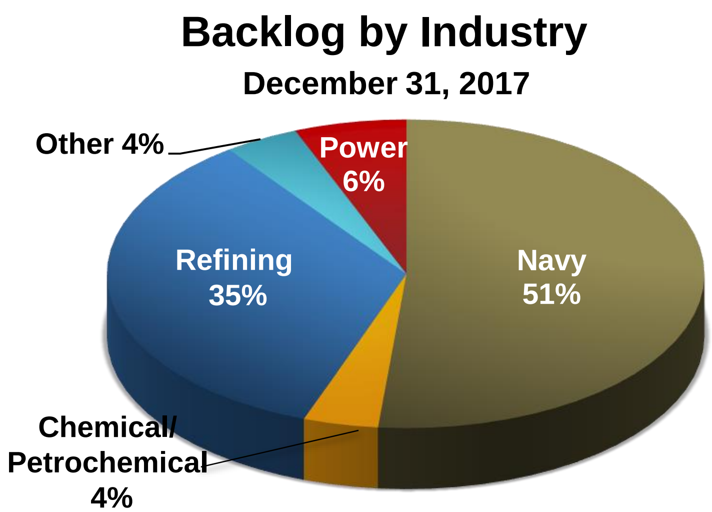
Order Improvement Led by Refining Industry

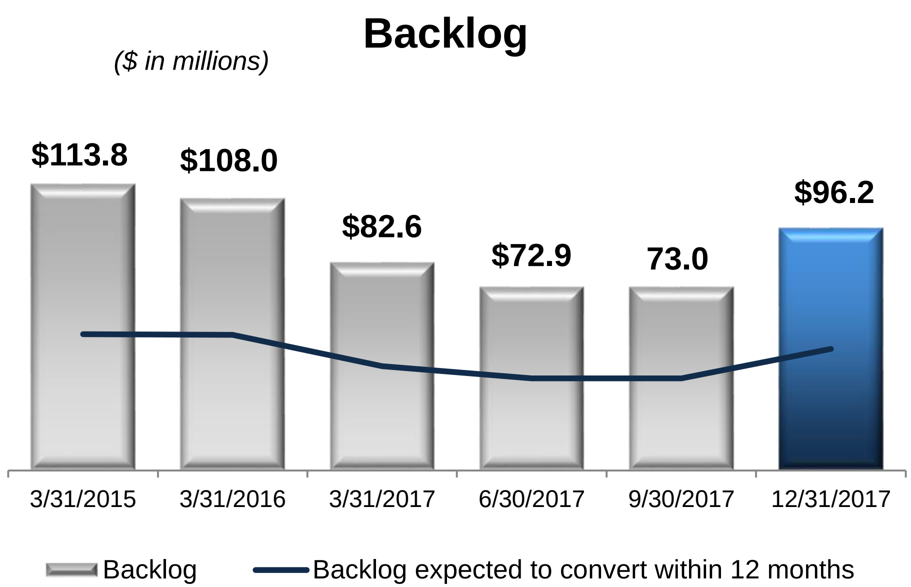


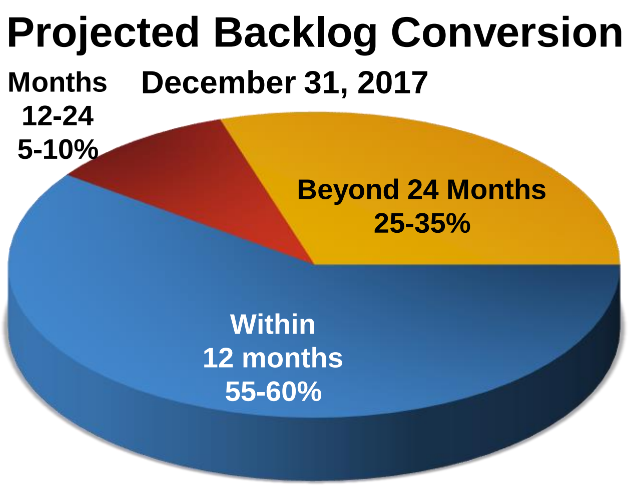
- Q3 FY2018 orders by industry vs Q3 FY2017:
  - Refining industry up $21.3 million to $27.6 million
  - Chemical/petrochemical industry down $0.7 million
  - Power industry up $1.7 million
  - Other commercial, industrial and defense up $0.5 million
- Early signs of improvement, but cautious

Backlog Growth Driven by Refining Orders

Mix highlights importance of diversification strategy







- High percentage of U.S. Navy projects in backlog provides stability during extended energy downturn
- North America refining orders drove increase in backlog at 12/31/17

Narrowing FY2018 Guidance[1]

• Revenue	~$75 million
• Gross margin	21% – 22%
• SG&A	$15.0 million – $15.5 million
• Effective tax rate	24% – 26%[2]

(1) FY2018 guidance provided as of February 1, 2018
(2) Excluding the tax impact of the impairment charges and implementation of the tax reform legislation

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Supplemental Information

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Adjusted EBITDA Reconciliation

(Unaudited)

($ in thousands)	Three Months Ended December 31, 2017	Three Months Ended December 31, 2016	Nine Months Ended December 31, 2017	Nine Months Ended December 31, 2016
Net (loss) income	**$ (11,622)**	**$ 1,840**	**$ (10,677)**	**$ 3,222**
+ Net interest income	(139)	(97)	(447)	(265)
+ Income taxes	(3,536)	754	(3,174)	1,198
+ Depreciation & amortization	556	581	1,667	1,746
+ Restructuring charge	-	-	316	630
+ Impairment of goodwill and intangible assets	14,816	-	14,816	-
+ Bad debt charge on commercial nuclear power	280	-	280	-
Adjusted EBITDA	**$ 355**	**$ 3,078**	**$ 2,781**	**$ 6,531**
Adjusted EBITDA margin %	*2.1%*	*13.6%*	*5.0%*	*9.9%*

Non-GAAP Financial Measure:
Adjusted EBITDA is defined as consolidated net income before interest expense and income, income taxes, depreciation and amortization, impairment of goodwill and intangible assets, a charge associated with the revaluation of the nuclear business, 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 December 31,				Nine Months Ended December 31,			
	2017		2016		2017		2016	
		Per Diluted Share		*Per Diluted Share*		*Per Diluted Share*		*Per Diluted Share*
Net (loss) income	$ (11,622)	$ (1.19)	$ 1,840	$ 0.19	$ (10,677)	$ (1.09)	$ 3,222	$ 0.33
+ Restructuring charge	-	-	-	-	316	0.03	630	0.06
+ Impairment of goodwill and intangible assets	14,816	1.52	-	-	14,816	1.52	-	-
+ Bad debt charge on commercial nuclear power	280	0.03	-	-	280	0.03	-	-
- Tax effect of above	(2,037)	(0.21)	-	-	(2,129)	(0.22)	(189)	(0.01)
- Impact of new tax law	(1,438)	(0.15)			(1,438)	(0.15)	-	-
Adjusted net income	$ (1)	$ 0.00	$ 1,840	$ 0.19	$ 1,168	$ 0.12	$ 3,663	$ 0.38

Non-GAAP Financial Measure:

Adjusted net income is defined as GAAP net income excluding a nonrecurring restructuring charge, impairment of goodwill and intangible assets, a charge associated with the revaluation of the nuclear business and the impact of the new tax law. 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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