NYSE: GHM • January 30, 2019

Third Quarter Fiscal 2019 Earnings Call

James R. Lines
President & Chief Executive Officer

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GRAHAM CORPORATION

www.graham-mfg.com

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,” “look towards” 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.

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Financial Overview

Jeff Glajch

Vice President and CFO

Third Quarter Fiscal 2019 Summary

- Q3 revenue of $17.2 million
  - Q3 FY 2018 was $17.3 million
  - Q3 FY 2019 is net of $1.1 million unfavorable impact from adopting new revenue recognition standard
- Q3 net income of $95,000, $0.01 per share
  - Q3 FY 2018 was $11.6 million loss; excluding impairment and other charges, adjusted net income and EPS were breakeven
- Q3 orders of $23.2 million
  - Driven by petrochemical and crude oil refining markets in North America and Asia
  - Contributed to record backlog of $133.7 million

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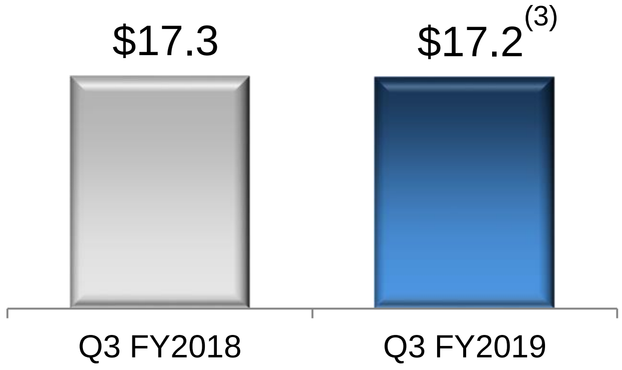
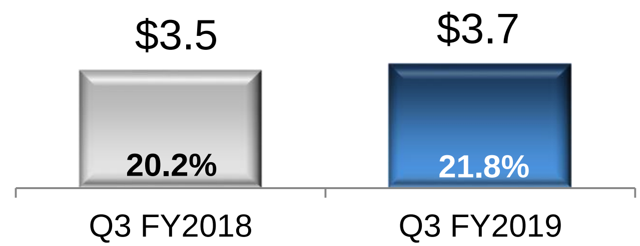
Q3 FY 2019 – Steady Performance

($ in millions, except per share data)

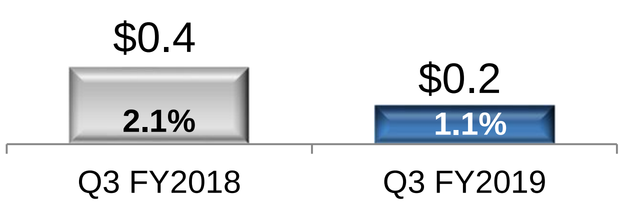
Sales



Gross Profit and Margin



Adjusted EBITDA and Margin[1]



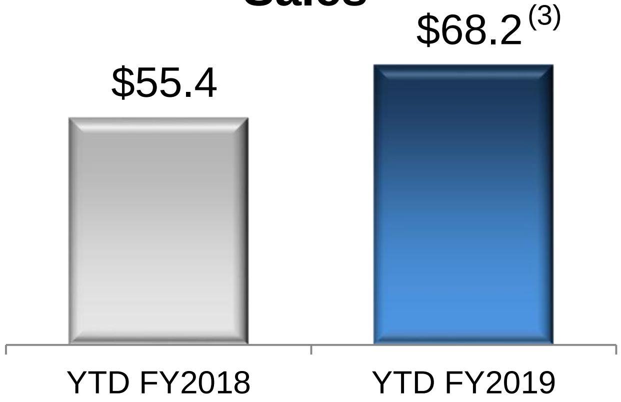
Adjusted EPS[2]

(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
(3) Adopted required new revenue recognition accounting standard "Revenue from Contracts with Customers," applying modified retrospective approach on April 1, 2018. Resulting impact was to recognize approximately $1.1 million of lower revenue Q3 FY2019

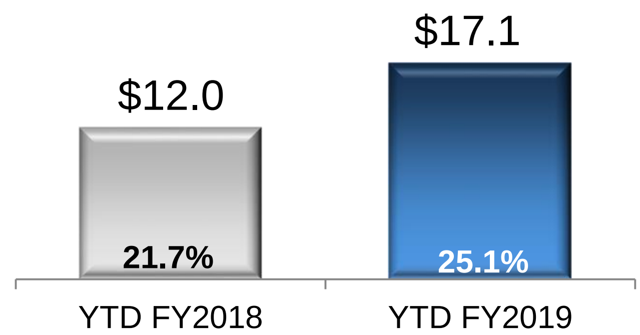
YTD FY2019 – Early Stages of Recovery

($ in millions, except per share data)

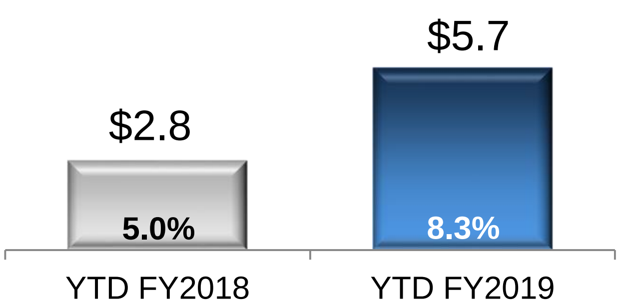
Sales



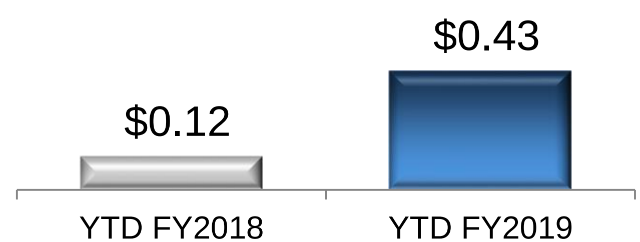
Gross Profit and Margin



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
(3) Adopted required new revenue recognition accounting standard "Revenue from Contracts with Customers," applying modified retrospective approach on April 1, 2018. Resulting impact was to recognize approximately $0.8 million of additional revenue YTD FY2019

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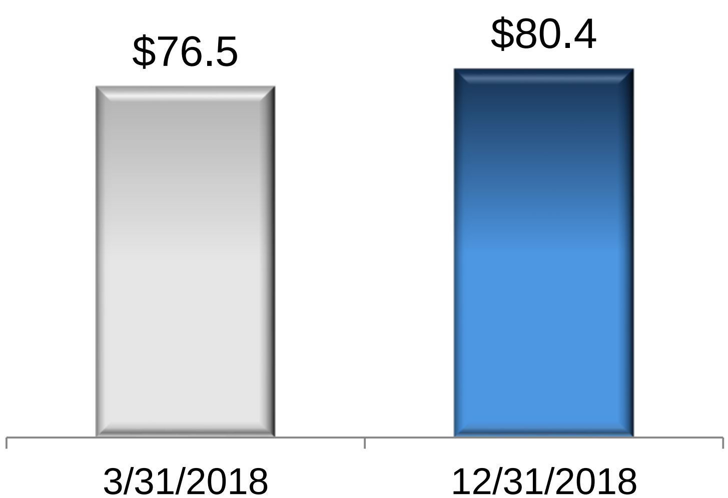
Balance Sheet Strength Supports Growth

Cash, Cash Equivalents and Investments

($ in millions)

No bank debt at 12/31/18



Cash available for investments in organic growth and acquisitions

- Cash[1] balance increased $3.9 million in YTD FY2019
  - Cash provided by operations was $8.5 million
  - Paid $2.9 million of dividends
  - Cash[1] on hand at quarter end of $8.18 per diluted share
- Capital expenditures YTD FY2019 of $1.5 million compared with $0.5 million YTD FY2018
  - FY2019 capital expenditures expected to be between $2 million - $2.5 million[2]

(1) Represents cash, cash equivalents, and investments
(2) FY2019 guidance provided as of January 30, 2019

Sales & Outlook

Jim Lines

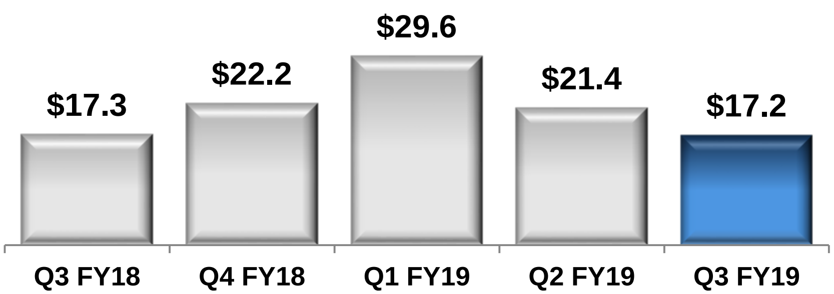
President & CEO

Third Quarter Fiscal 2019 Sales

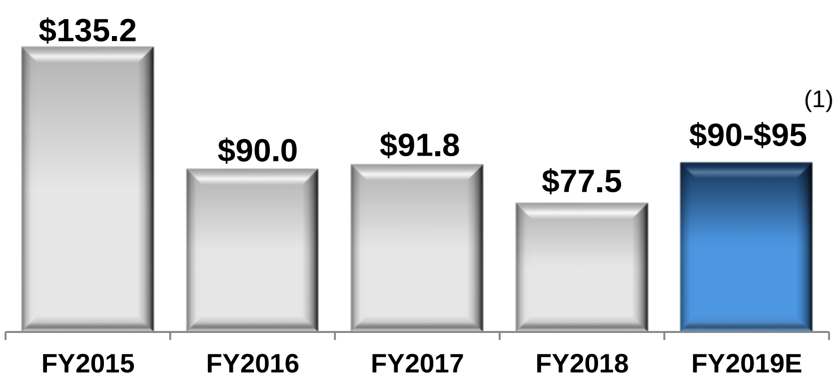
Driven by core markets

($ in millions)

Quarterly Revenue



Annual Revenue



(1) FY2019 guidance provided as of January 30, 2019

- Q3 sales decreased vs prior year:
  - Refining industry:
    $6.6 million, up from $5.4 million
  - Chemical/petrochemical industry:
    $2.9 million, down from $4.2 million
  - Power industry:
    $2.7 million, up from $1.7 million
  - Other commercial, industrial and defense:
    $5.0 million, down from $6.0 million
- Q3 sales by geography
  - Sales to the U.S. were up to $14.3 million, 83% of total, driven by refining and power markets; last year was $11.3 million
  - Sales to international markets were $2.9 million; down from $6.0 million last year

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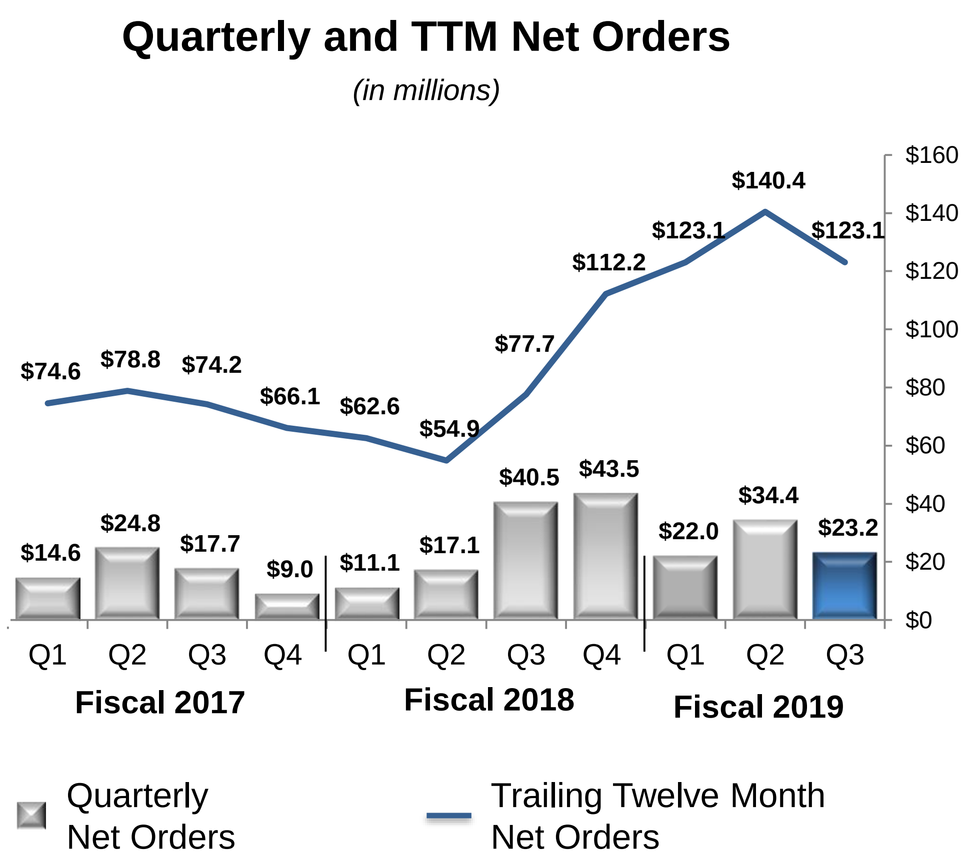
Solid Order Activity



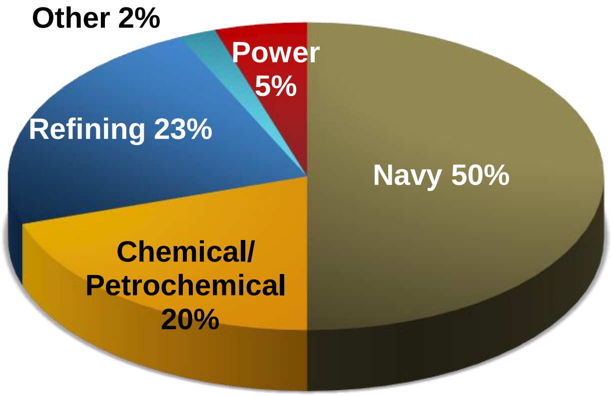
- Q3 FY2019 orders by industry vs Q3 FY2018:
  - Refining industry down $20.7 million; LY included some very large orders
  - Chemical/petrochemical industry up $5.3 million
  - Power industry down $2.2 million
  - Other commercial, industrial and defense up $0.3 million
- TTM trend impacted by:
  - Timing of large traditional refining and chemical/petrochemical orders
  - U.S. Navy orders

Backlog Level Supports Continued Growth

Mix highlights importance of diversification strategy

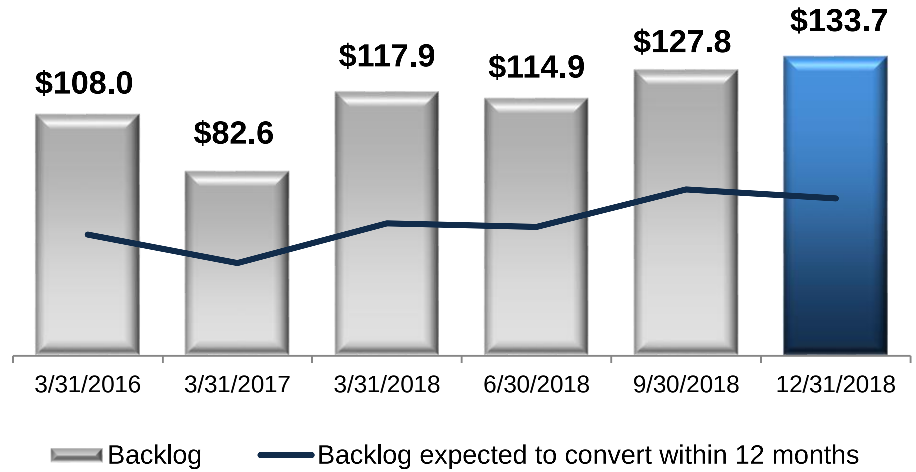
Backlog by Industry

December 31, 2018



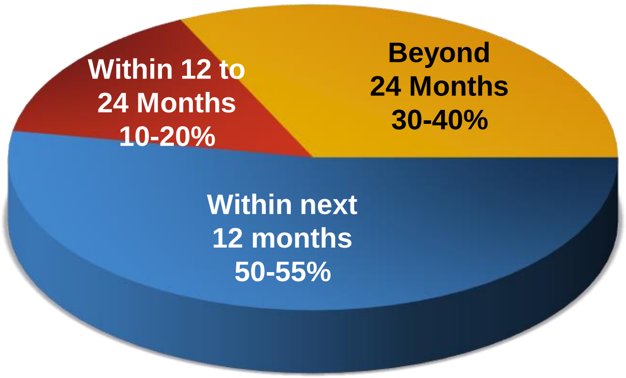
Backlog

($ in millions)



Projected Backlog Conversion

December 31, 2018



- Increasing traditional projects in backlog expected to drive commercial growth
- High percentage of U.S. Navy projects in backlog provides stability and growth

FY2019 Guidance[1]

- Revenue $90 million – $95 million
- Gross margin 25% – 27%
- SG&A $18.25 million – $18.75 million
- Effective tax rate ~20%

(1) FY2019 guidance updated as of January 30, 2019; no change to revenue, gross margin or effective tax rate guidance; SG&A guidance was previously $18.5 million to $18.75 million

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Supplemental Information

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Adjusted EBITDA Reconciliation

(Unaudited)

($ in thousands)

	Three Months Ended December 31,		Nine Months Ended December 31,	
	2018	2017	2018	2017
Net income	**$ 95**	**$ (11,622)**	**$ 4,245**	**$ (10,677)**
+ Net interest income	(399)	(139)	(1,036)	(447)
+ Income taxes	(56)	(3,536)	824	(3,174)
+ Depreciation & amortization	548	556	1,647	1,667
+ Restructuring charge	-	-	-	316
+ Impairment of goodwill and intangible assets	-	14,816	-	14,816
+ Bad debt charge on commercial nuclear power business	-	280	-	280
Adjusted EBITDA	**$ 188**	**$ 355**	**$ 5,680**	**$ 2,781**
Adjusted EBITDA margin %	*1.1%*	*2.1%*	*8.3%*	*5.0%*

Non-GAAP Financial Measure:

Adjusted EBITDA is defined as consolidated net income before interest expense and income, income taxes, depreciation and amortization, a nonrecurring restructuring charge, impairment of goodwill and intangible assets, and a charge associated with the revaluation of the nuclear business. 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 December 31,				Nine Months Ended December 31,			
	2018		2017		2018		2017	
		Per Diluted Share		*Per Diluted Share*		*Per Diluted Share*		*Per Diluted Share*
Net income	**$ 95**	**$ 0.01**	**$ (11,622)**	**$ (1.19)**	**$ 4,245**	**$ 0.43**	**$ (10,677)**	**$ (1.09)**
+ Restructuring charge	-	-	-	-	-	-	316	0.03
+ Impairment of goodwill and intangible assets	-	-	14,816	1.52	-	-	14,816	1.52
+ Bad debt charge on commercial nuclear power business	-	-	280	0.03	-	-	280	0.03
- Tax effect of above	-	-	(2,037)	(0.21)	-	-	(2,129)	(0.22)
- Impact of new tax law	-	-	(1,438)	(0.15)	-	-	(1,438)	(0.15)
Adjusted net income	**$ 95**	**$ 0.01**	**$ (1)**	**$ (0.00)**	**$ 4,245**	**$ 0.43**	**$ 1,168**	**$ 0.12**

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 in fiscal 2018. 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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