



**HIGHER POTENTIAL**  
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# Second Quarter Fiscal 2020 Earnings Call

**James R. Lines**

President & Chief Executive Officer

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Vice President & Chief Financial Officer

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Vice President & General Manager-Batavia

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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 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 discusses 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.



# Strategic Overview & Outlook

Jim Lines  
President & CEO

# Strategic Focus To Strengthen Growth & Profitability



- ➔ Increase components per vessel
- ➔ Win shipyard outsourcing
- ➔ Improve productivity via repeat orders
- ➔ Secure sole source status
- ➔ M&A focus – new products, new programs, related markets

- ➔ Identify plant-level opportunities early
- ➔ Build out Graham personnel’s U.S. Gulf Coast presence
- ➔ Reduce lead times – quoting and production
- ➔ Enhance thought leadership, knowledge transfer
- ➔ M&A focus – new products, new services, low cyclicity

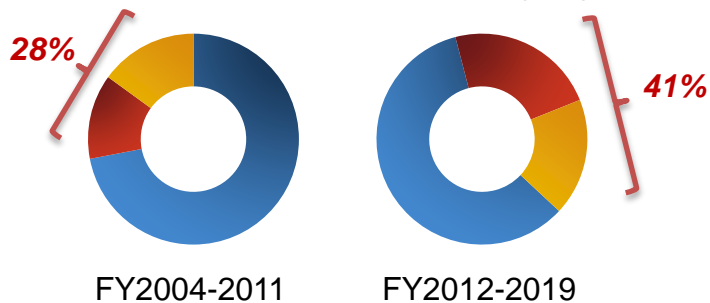


- ➔ Expand global fabrication partners
- ➔ Establish localized global supply chain team structure
- ➔ Deploy specialized quality surveillance
- ➔ Control and protect intellectual property
- ➔ M&A focus – low cyclicity, not large project work

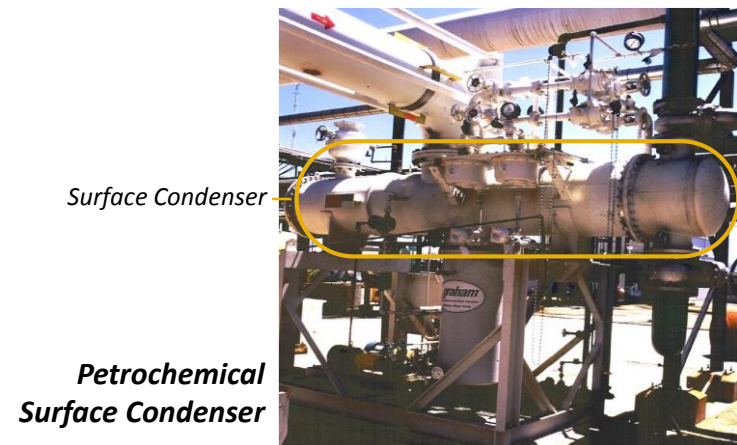
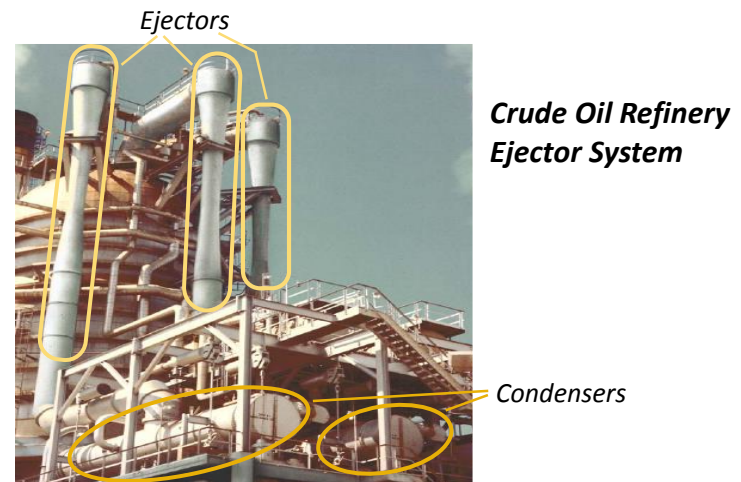
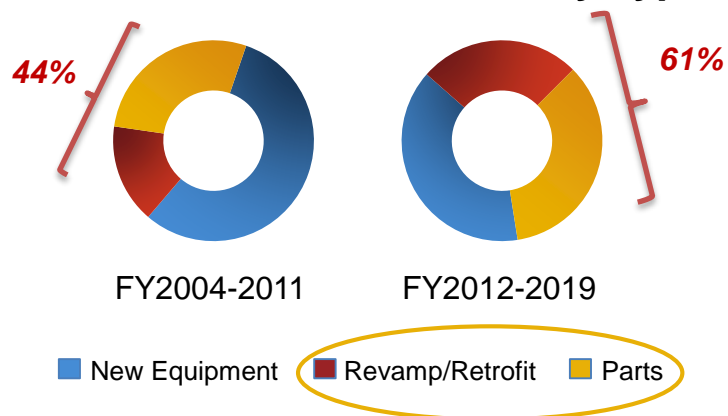
*Improve Revenue and Earnings; Reduce Volatility*

# Growing Commercial Revenue From Installed Base

**Commercial Revenue\* by Type**



**Commercial Gross Profit\* by Type**



*~30% - 40% of GHM Revenue Derived from Installed Base*

\* Excludes revenue and gross profit from U.S. Navy  
 © 2019 Graham Corp.

# Reaffirming FY2020 Guidance<sup>(1)</sup>

*Excludes divested Energy Steel business:*

- Revenue \$100 million – \$105 million,  
20% – 26% growth
- Gross margin 24% – 26%
- SG&A \$17 million – \$18 million
- Effective tax rate ~20%

(1) FY2020 guidance updated as of October 30, 2019



# Financial Overview

Jeff Glajch  
Vice President & CFO

# Second Quarter Fiscal 2020 Summary

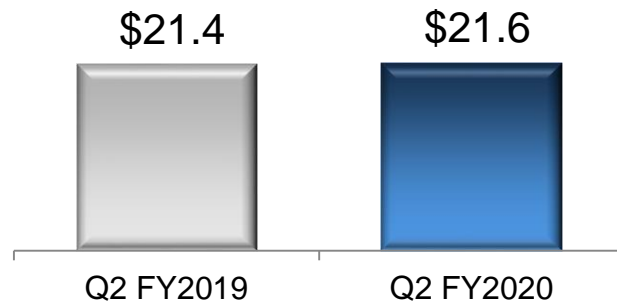
- Q2 revenue of \$21.6 million was relatively flat
  - Q2 FY 2019 was \$21.4 million
- Q2 net income of \$1.2 million, \$0.12 per share
  - Q2 FY 2019 net income was \$1.8 million, \$0.19 per share;  
Q2 FY 2019 adjusted net income was \$2.4 million, \$0.24 per share
- Q2 orders of \$32.6 million
  - Driven by crude oil refining market in Asia and the U.S.
  - Backlog increased to \$127.8 million



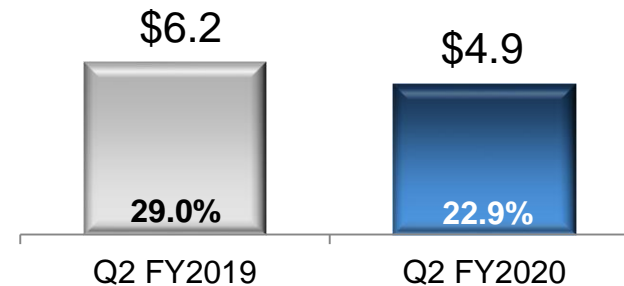
# Q2 FY 2020 – Project Mix Impacts Profits

(\$ in millions, except per share data)

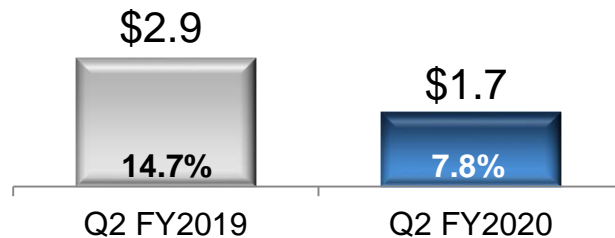
## Sales



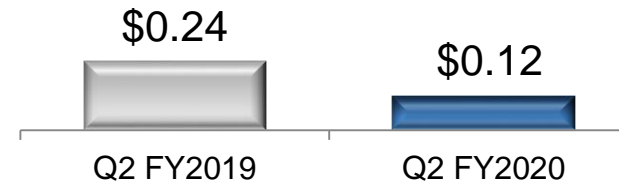
## Gross Profit and Margin



## Adjusted EBITDA and Margin<sup>(1)</sup>



## Adjusted EPS<sup>(2)</sup>



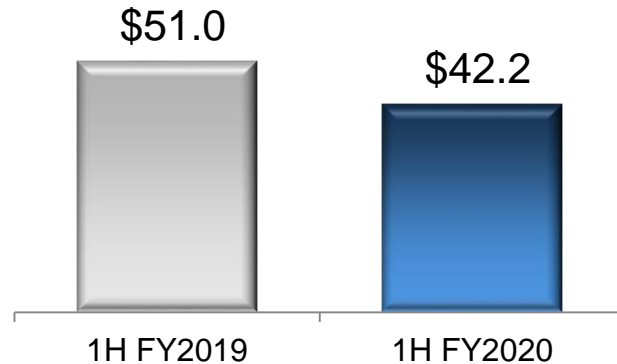
(1) See supplemental slide for Adjusted EBITDA reconciliation and other important disclaimers regarding Graham's use of Adjusted EBITDA

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

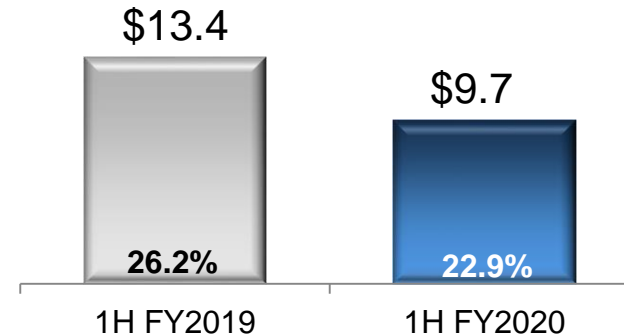
# 1H FY2020 – Lower Sales, Unfavorable Mix

(\$ in millions, except per share data)

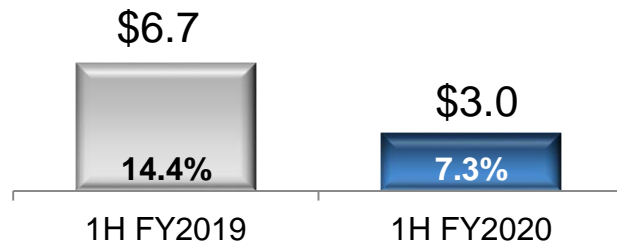
## Sales



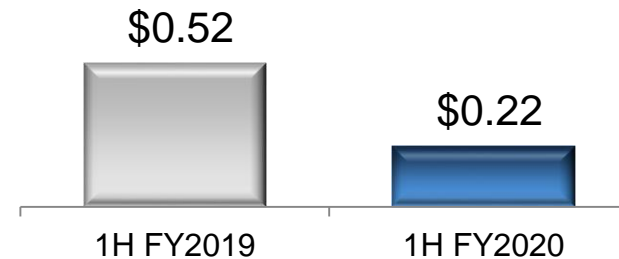
## Gross Profit and Margin



## Adjusted EBITDA and Margin<sup>(1)</sup>



## Adjusted EPS<sup>(2)</sup>



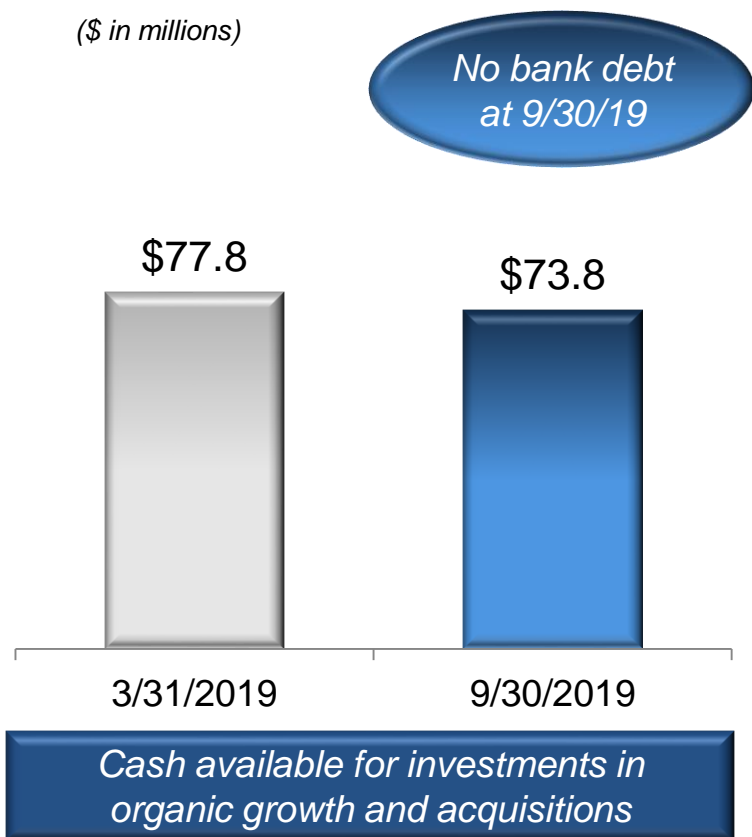
(1) See supplemental slide for Adjusted EBITDA reconciliation and other important disclaimers regarding Graham's use of Adjusted EBITDA

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

# Balance Sheet Remains Strong

## Cash, Cash Equivalents and Investments

(\$ in millions)



- Cash<sup>(1)</sup> balance decreased \$4.0 million in 1H FY2020
  - Cash used by operations was \$1.9 million, impacted by lower net income and timing of working capital
  - Paid \$2.1 million of dividends
  - Cash<sup>(1)</sup> on hand at quarter end of \$7.47 per share
- Capital expenditures of \$0.7 million in 1H FY2020 compared with \$0.4 million in 1H FY2019
  - FY2020 capital expenditures expected to be between \$2.5 million and \$2.8 million<sup>(2)</sup>

(1) Represents cash, cash equivalents, and investments

(2) FY2020 guidance reaffirmed as of October 30, 2019



# Operations Overview

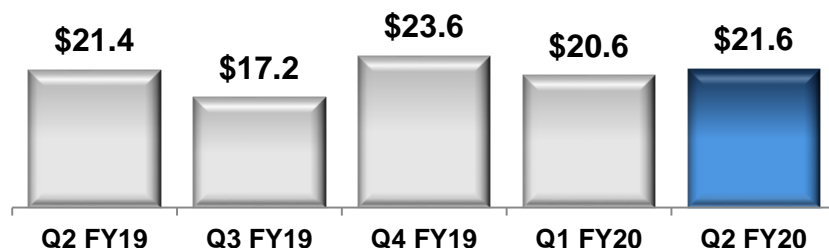
Alan Smith  
VP & GM-Batavia

# Second Quarter Fiscal 2020 Sales

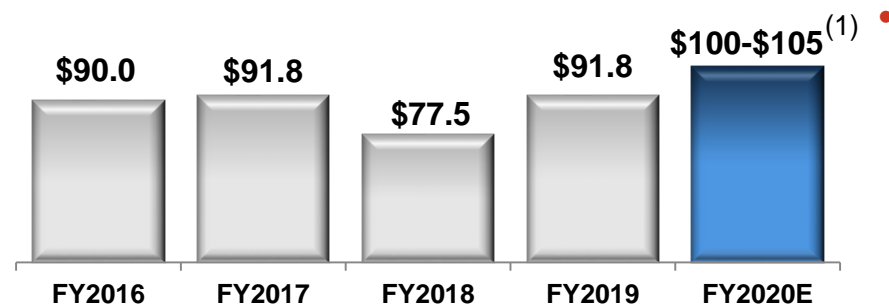
*Driven by chemical/petrochemical market*

(\$ in millions)

## Quarterly Revenue



## Annual Revenue



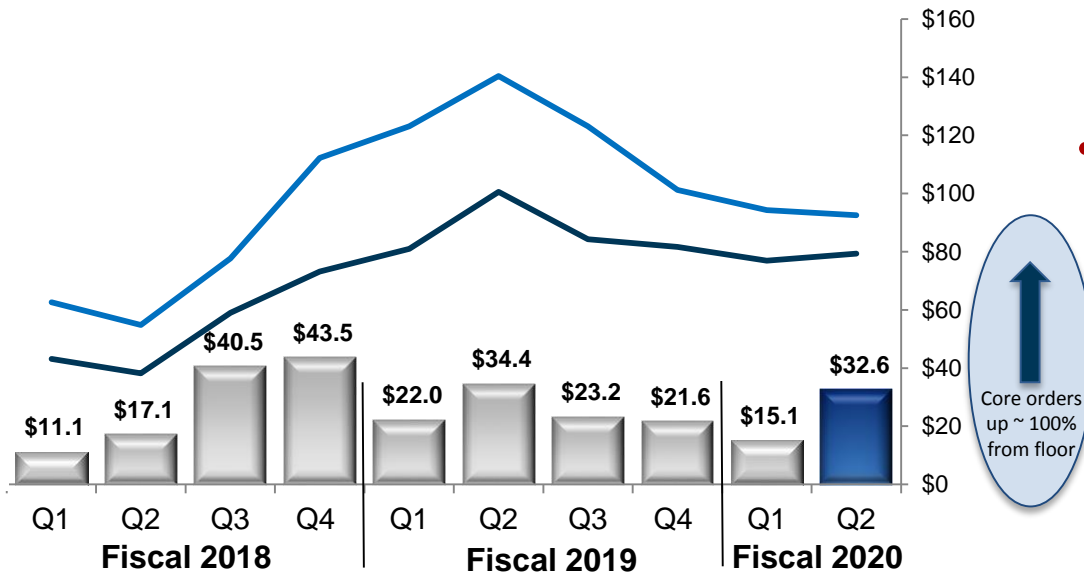
(1) FY2020 guidance reaffirmed as of October 30, 2019; excludes commercial nuclear utility business divested June 24, 2019

- Q2 sales increased vs prior year
  - Refining industry: \$6.3 million, down from \$9.7 million
  - Chemical/petrochemical industry: \$10.5 million, up from \$3.8 million
  - Power industry: \$0.5 million, down from \$2.1 million
  - Other commercial, industrial and defense: \$4.3 million, down from \$5.8 million
- Q2 sales by geography
  - Sales to the U.S. were up to \$15.7 million, 73% of total; last year was \$15.0 million
  - Sales to international markets were \$5.9 million; down from \$6.4 million last year

# Volatile Order Activity

## Quarterly and TTM Net Orders

(in millions)



☒ Quarterly Net Orders

— Trailing Twelve Month Net Orders

— Trailing Twelve Month Net Orders Excluding U.S. Navy & Nuclear

- TTM trend impacted by
  - Timing of large traditional refining and chemical/petrochemical orders
  - U.S. Navy orders
- Q2 FY2020 orders by industry vs Q2 FY2019
  - Refining industry up \$7.4 million
  - Chemical/petrochemical industry down \$5.2 million
  - Power industry down \$2.1 million
  - Other commercial, industrial and defense down \$1.9 million due to timing of U.S. Navy orders

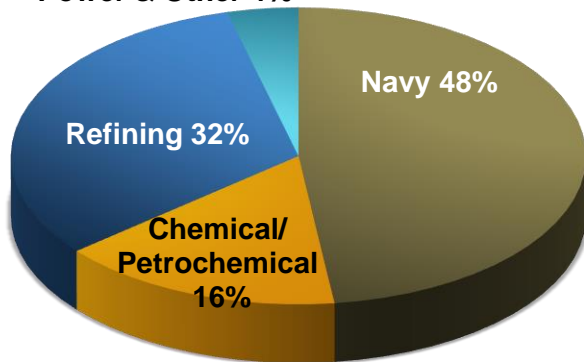
# Backlog Level Supports Growth Outlook

*Mix highlights importance of diversification strategy*

## Backlog by Industry

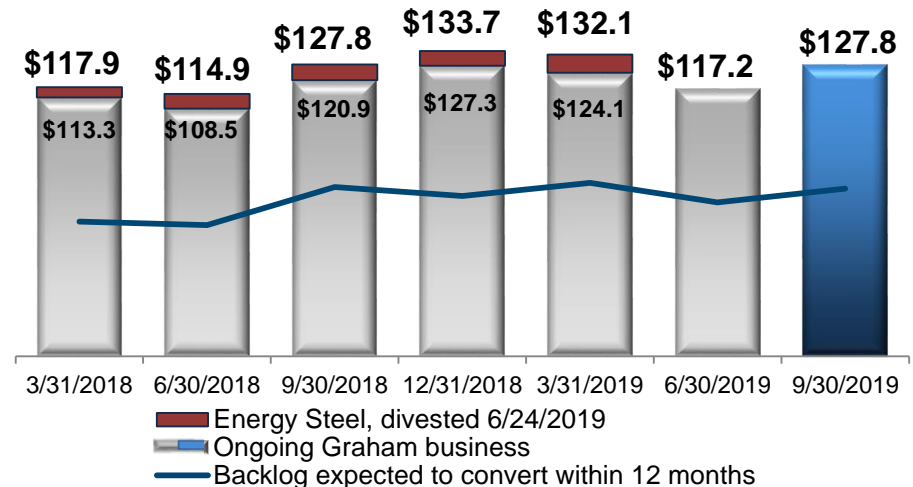
September 30, 2019

Power & Other 4%



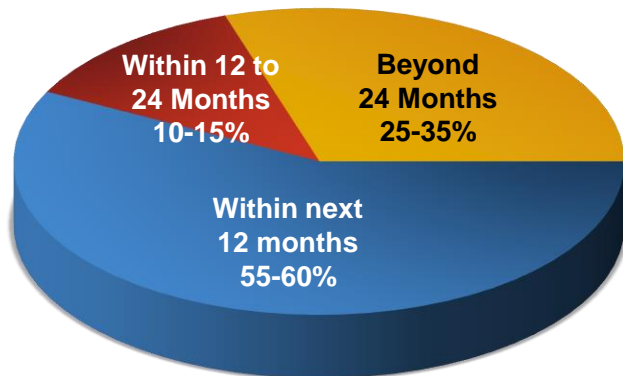
## Backlog

(\$ in millions)



## Projected Backlog Conversion

September 30, 2019



- Backlog increase at 9/30/19 driven by refining market – triple level vs two years ago
- Commercial backlog reflects highest level in about five years
- High percentage of U.S. Navy projects in backlog provides stability and growth



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# Supplemental Information



# Adjusted EBITDA Reconciliation

(Unaudited)

(\$ in thousands)

	Three Months Ended September 30,		Six Months Ended September 30,	
	2019	2018	2019	2018
<b>Net income</b>	\$ 1,205	\$ 1,827	\$ 1,287	\$ 4,150
+ Net interest income	(359)	(350)	(755)	(637)
+ Income taxes	342	178	367	880
+ Depreciation & amortization	490	550	991	1,099
+ Loss on sale of commercial nuclear utility business	-	-	87	-
+ Operating loss of commercial nuclear utility business	-	683	1,016	1,181
<b>Adjusted EBITDA</b>	<b>\$ 1,678</b>	<b>\$ 2,888</b>	<b>\$ 2,993</b>	<b>\$ 6,673</b>
<i>Adjusted EBITDA margin %</i>	<i>7.8%</i>	<i>14.7%</i>	<i>7.3%</i>	<i>14.4%</i>

## Non-GAAP Financial Measure:

Adjusted EBITDA is defined as consolidated net income before interest expense and income, income taxes, depreciation and amortization, and the operating loss and loss on the sale of the commercial nuclear utility business. Adjusted EBITDA margin is adjusted EBITDA divided by sales excluding sales of the commercial nuclear utility business. 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,			
	2019		2018		2019		2018	
	Per Diluted Share		Per Diluted Share		Per Diluted Share		Per Diluted Share	
<b>Net income</b>	\$ 1,205	\$ 0.12	\$ 1,827	\$ 0.19	\$ 1,287	\$ 0.13	\$ 4,150	\$ 0.42
+ Loss on sale of commercial nuclear utility business	-	-	-	-	87	0.01	-	-
+ Operating loss of commercial nuclear utility business	-	-	683	0.07	1,016	0.10	1,181	0.12
- Tax effect of above	-	-	(120)	(0.02)	(203)	(0.02)	(219)	(0.02)
<b>Adjusted net income</b>	<b>\$ 1,205</b>	<b>\$ 0.12</b>	<b>\$ 2,390</b>	<b>\$ 0.24</b>	<b>\$ 2,187</b>	<b>\$ 0.22</b>	<b>\$ 5,112</b>	<b>\$ 0.52</b>

## Non-GAAP Financial Measure:

Adjusted net income is defined as GAAP net income excluding the operating loss and loss on the sale of the commercial nuclear utility business. 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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