

Operator: Greetings, and welcome to the Graham Corporation First Quarter Fiscal Year 2021 Financial Results.
[Operator Instructions]

As a reminder, this conference is being recorded. It is now my pleasure to introduce your host, Chris Gordon, Investor Relations for Graham Corporation.

Thank you, Mr. Gordon, you may begin.

Christopher Gordon: Thank you, Devin, and good morning, everyone. We appreciate you joining us today to discuss Graham's Fiscal 2021 First Quarter Results. You should have a copy of the news release that was distributed across the wire this morning. We also have slides associated with the commentary that we are providing here today. If you do not have the release or the slides, you can find them on the company's website at www.graham-mfg.com.

On the call with me today are Jim Lines, our President and Chief Executive Officer; Jeff Glajch, our Chief Financial Officer; and Alan Smith, Vice President and General Manager of our Batavia, New York facility. Jeff will start with the financial overview of the period. Alan will then provide the overview of our operations, and Jim will wrap up the prepared remarks with a strategic overview of our business and provide our outlook for the rest of fiscal year 2021. We will then open the lines for Q&A.

As you are aware, we may make some forward-looking statements during this discussion as well as during the Q&A. These statements apply to future events and are subject to risks and uncertainties as well as other factors which could cause actual results to differ materially from what is stated on the call. These risks and uncertainties and other factors are provided in the earnings release and in the slide deck as well as other documents filed by the company with the Securities and Exchange Commission. These documents can be found on our website or at www.sec.gov.

I also want to point out that during today's call, we will discuss some non-GAAP financial measures, which we believe are useful in evaluating our performance. You should not consider the presentation of this additional information in isolation or as a substitute for the results prepared in accordance with GAAP. We have provided reconciliations of comparable GAAP to non-GAAP measures in the tables accompanying today's earnings release.

With that, it's my pleasure to turn the call over to Jeff.

Jeff Glajch: Thank you, Chris, and good morning, everyone. As Jim and I have noted on our COVID-19 pandemic update and earnings calls in March and June, respectively, we reduced our facility staffing to approximately 10% in late March and after implementing new work practices, enhancing the cleaning and safety procedures and educating all of our employees on these changes, we gradually increased our staffing. By the end of May, we were back at near-normal on-site staffing and have continued at that level over the past 2 months. I want to compliment Alan Smith and his team for ensuring a safer production environment in this difficult time as well as our human resources team for their continued focus on improving safety in our workplace. As a result of these proactive measures, our average production staffing and capacity for the first quarter was only 50%, and hence, our first quarter results suffered accordingly.

Sales in the first quarter were \$16.7 million, which included a project in China, which had been delayed by COVID-19 from the fourth quarter of last year into the first quarter of this year. That project made up approximately 30% of the quarter's revenue. On a positive note, our Defense, or Navy, sales were 21% of this total or \$3.5 million. We will be reporting the level of our Navy sales on a quarterly basis going forward, which for this year, we expect to be approximately 25% to 30% of total sales.

In the first quarter, we had a loss of \$1.8 million or \$0.18 per share. As I noted, we ran at half capacity in Batavia. Yet as discussed on prior calls, we continued to pay all of our employees their full benefits and wages. We did not accept any PPP funding, so we consciously expected this type of loss would occur. As Jim will discuss later, we view Q1 as a discrete event and assuming there are no significant impacts to our business or operations for the rest of fiscal 2021, we will be operating normally in Q2 and beyond, and would expect far better results going forward.

Cash at the end of June was \$67.2 million, and our backlog was \$107.2 million, split evenly between defense and Commercial. This strong backlog level supports our guidance for the rest of fiscal 2021.

On to Slide 5. Sales in the first quarter were down \$3.9 million. Please note that Q1 of last year included \$1.3 million from our Energy Steel business, which was sold in that quarter. Gross profit, EBITDA and diluted earnings per share were all down significantly due to our low capacity level, while there was a more normal level of operating expenses, which occurred in the quarter.

Moving on to Slide 6. Our cash position decreased \$5.8 million in Q1 to \$67.2 million or \$6.74 per share. We expected this to occur. As I noted during our update call in late March, if we were shut down for a month, we would expect to utilize approximately \$3 million of cash per month. At 50% capacity in the quarter, this is equivalent to 1.5 months

average shutdown, hence, the reduction in cash. As with sales and profitability, we expect cash generation to be positive for the rest of fiscal 2021. We paid \$1.1 million of dividends in the quarter and it continue to expect this as an important part of our capital allocation is to provide cash dividends directly back to shareholders. Capital spending in the quarter was light at \$300,000. We expect capital spending for the full year to be in the \$2.0 million to \$2.5 million range.

Finally, our business development and management teams and our Board continue to be focused on utilizing our strong balance sheet to opportunistically identify and close on acquisitions, which have near and long-term benefits to our shareholders.

Alan will now discuss our operations, and then Jim will complete our presentation with a strategic update and our fiscal 2021 guidance. Alan?

Alan Smith: Thank you, Jeff. Good morning everyone. I would ask that you refer to Slide 8 where you can see that \$16.7 million of sales for the first quarter were negatively impacted by how we responded to the COVID-19 outbreak, which resulted in 50% reduction of our operating capacity. During the first quarter, we developed and implemented COVID-19 protocols, which we believe ensures that we will not experience such a low utilization rate for the remainder of FY '21.

I am proud of the COVID return-to-work team and the entire company for returning the employees back to work safely and for everyone following our newly implemented workplace safety practices. Everyone has stepped up and responded well to this new reality we find ourselves in.

Highlights for the first quarter were that revenue from defense projects was \$3.5 million, which represents a year-on-year increase of \$1.4 million. As Jeff mentioned, we also completed a large project in China, which was responsible for approximately 30% of the quarter's revenue. You may recall that this project was pushed out of the fourth quarter of last year due to COVID-19.

Moving on to Slide 9. While COVID-19 has impacted the demand for our products, there are several actions that are being implemented to ensure that we maximize our margin for the work that we will be converting this fiscal year. COVID-19 has created a buyer's market for raw material. Our supply chain has been very successful in securing materials at reduced costs. We expect that we will be able to continue to be in this position for the remainder of the year. We are also focusing on growing our skilled workforce in order to increase our production volume.

To this end, we recently completed an expansion of our Weld School. We now have the capacity to train up to 8 welders, up from 4. We established our Weld School approximately 5 years ago, and it has proven to be an effective means to develop and grow our workforce. Currently, we are prioritizing improving productivity in our Navy production area. The company has completed many first-time operations recently, and much of the productivity enhancements will stem from improved build flows, employee training, creating objective fixtures, and lastly, applying lessons learned. The IT department is developing tools, which will improve our ability to manage our global fabrication partners. A management dashboard is being developed to track all aspects of our outsourced project. This dashboard will aggregate information and store it on several IT platforms. We believe this will greatly improve the productivity of our project managers.

Finally, we are continuing efforts to grow our low-cost outsourcing capabilities, which will allow us to compete on projects where cost is the main decision driver. I see these end market disruptions as an opportunity. To be clear, I dislike the disruptions since they are usually problematic. However, our attitude is to take advantage of them, invest in ourselves, improve our processes, and gain productivity so that we come out stronger and performing better. Our attitude is let's not waste the downturn by being a victim of it, but rather let's play offense to create benefits because of it.

I will now hand the presentation off to Jim.

Jim Lines: Thank you, Alan. Good morning, everyone. I am referring to Slide 11. Jeff and Alan both provided good commentary about the impact to our financial results from the pandemic and price of crude oil. It has also impacted order patterns. Energy and petrochemical markets began to change adversely before the pandemic. Fourth quarter of last year and first quarter of this year each had net orders of approximately \$12 million. There were no Defense orders during those 2 quarters. Included in the net orders is \$4 million of canceled orders and the impact of change orders. It was rather even with \$2 million of backlog deductions in each quarter.

The underlying bookings for new orders were a bit better than what is shown, however, still down considerably. I have been through 4 downturns while at Graham, and now I'm in the fifth. Each have been, or are, challenging, when in them. However, this current downturn feels rather different. Customer behavior is less predictable this time. I imagine that is because no one has experienced this type of demand disruption or turmoil in the past. A couple of examples can illustrate well what we face.

We initiated bidding to replace a 40-year-old surface condenser in 2018. It was urgent for the end user and end-of-life situation where the customer did not know if the unit would last another year. Scheduling was critical to meet a delivery window. The order was finally ready to be placed this last quarter. It was about a \$2 million opportunity. Due to focus on preserving cash, the plant advised that they cannot procure the unit now. We offered in response, very favorable cash flow terms, we worked our supply chain for better costs, as Alan had mentioned, this resulted in a lower price to the end user. Customer Corporate simply would not budge. The risk of an unplanned shutdown or reduction in plant throughput is high, but cash preservation prevailed. Any other time this would have been an order placed, put into our backlog and be a contributor to current year revenue.

Another example is a larger project of about \$5 million for a refinery revamp. Here too, we've been bidding it for a couple of years. We learned last quarter, it was to be pushed out another year. Four weeks ago, we got reengaged with the EPC that needed our engineering to complete their plant layout and structural design. In response, we proposed an engineering-only order. We did a call this week that corporate is likely to sponsor the final investment decision and now the full order is back in play for fiscal '22 revenue. The order is now projected to close this quarter, and everything is hurried to get done. Will it actually proceed, or will there be an order placed that subsequently is canceled, like we have experienced in the recent couple of quarters? I simply don't know. It's difficult to predict. I offer these 2 examples to convey that our order patterns can be unpredictable and lumpy. We have no control over the direction of our end markets, and little influence over the decisions a customer may make regarding whether a project will receive funding.

I can say, though, that we are on top of the available opportunities. We control well that which we can control, which is how we support customers, manage opportunities, differentiate from the competition with our speed, our knowledge sharing, options analysis that we provide, and ultimately, get Graham in a position to win, should an order get placed. We may not take an order at a particular price, but the job of our sales team, and that team does it well, is to get Graham in a position to accept or decline an order.

Even today, our naval bid pipeline is unpredictable, more so over timing, but it's still is difficult to define within a quarter when an order is going to be placed from the U.S. Navy or their prime contractors.

Moving on to Slide 12. Just stepping through our different key end markets. Refining is down in North America across our 3 segments, which would be the integrated refiner, the independent refiner and also the MRO segment, where spares and parts are down. In Asia, we see a pretty active pipeline for new capacity that would in India, China or elsewhere in Asia. For the Middle East, or Latin America, there's really nothing significant in our pipeline right now. We think those new capacity opportunities will present themselves after fiscal 2021.

For the U.S. Navy, we have a very healthy active bid pipeline across the 3 programs that we are in, the carrier program, the Virginia-class submarine program and also the Columbia-class program. What's great is certain of these bids are for new components, that aren't currently in backlog, is that these are ones we've not done before. So our focus on expanding our share of wallet is presenting opportunities that we hadn't seen previously. So, we're going to go after those and hopefully win those. Across the next 3 quarters, we anticipate somewhere between \$30 million to \$50 million of work would be placed by the Navy with suppliers such as Graham, and hopefully, we will win a strong share of that.

In the chemical, petrochemical market, as I cited with the earlier example of a bid opportunity, the focuses is on preserving cash. With the collapsed global demand, this market is really focused on clamping down on capital expenditures, MRO expenditures and just conserving cash across calendar 2020 and across fiscal 2021. We are beginning to see some early signs of the next wave of new ethylene capacity, and you might recall that we view ethylene as a surrogate for the overall chemical industry. An important consideration at this point in time, that we're trying to understand for the next wave, is the relevance of North American investment. It may not be as strong as this most recent wave that began in the 2012 to 2014 time frame.

On the short-cycle side, that seems to have pulled back 15% to 20%. While we are seeing some improvement on the spare parts side, the short-cycle OEM work seems to be off related to the global economic, and end market demand collapse. We are also involving ourselves in new markets or emerging markets, if you will, alternative energy markets, hydrogen fuel cell market plus natural gas, and also supercritical fluids. We have certain technology for these are high-pressure applications that allows our product line to fit extraordinarily well. These are not large orders. The average selling price is probably under \$100,000 for that type of sale. But it's a very nice bread-and-butter work. And we're focused on our participation in securing a presence in these new emerging markets.

Let's move on to the next slide, Slide 13. Our balance sheet and also backlog position entering this downturn are both beneficial. After the first quarter, which we do consider an event isolated to that quarter, we get back into backlog conversion in the second quarter and hit stronger conversion in the third and fourth quarters. \$107 million of backlog as of June 30 is terrific to have. 70% to 75% of that backlog is planned to convert over the next 12 months. You may have noted in our press release that we indicate approximately 60% of this backlog converts across fiscal '21, Q2, Q3 and Q4.

That implies that \$81 million of fiscal '21 revenue is in hand, either converted during the first quarter or from current backlog. This backlog provides us the confidence to give full year guidance that I'll speak to in a moment.

Our backlog is split roughly 50-50 between naval work and orders for our commercial end markets. And for the naval work, as we've been saying for the last several quarters, we are in all 3 programs and have backlog in full conversion mode. Again, by programs, we mean 1 program for the carrier, another for Virginia-class submarine and the third program is Columbia-class submarine.

Let's move on to the guidance slide. We're coming out with full year guidance because of the confidence that we have with our backlog and how we see the remainder of the year shaping up. Revenue guidance is expected to be between \$90 million and \$95 million. Gross margin is projected to be between 20% and 22%. Our SG&A spend is projected to be between \$17 million and \$18 million, and the effective tax rate is 22%.

Implicit in this guidance is that we continue to run at high production levels and don't have work stoppage or curtailments due to another COVID-related impact to our operations or those of our supply chain fabrication partners. This is a risk that management will address and communicate should it alter fiscal 2021 performance. Of course, the second risk is that a customer may place a large order on hold or cancel it. We are currently unaware of particular orders of backlog with that risk.

And now moving on to Slide 15. This provides a quick snapshot of what we're focused on, what our strategic goals are and a bit of a progress update. We have been focused for a number of years on increasing what we call our predictable revenue streams, our predictable base. A key component there is our work for the Defense industry because of the long-lived nature of that backlog that gives us a strong level of predictable revenue. For comparison, we are projecting that fiscal '21 revenue compared with fiscal '20 revenue for the Defense work will be up about 50%. We're also focusing on our installed base. We are an 80-plus-year-old company. We have this massive installed base around the world, a very large installed base in North America, and we've been allocating resources toward focusing on that differently than our company had in the past.

To be candid, with what's occurred with the pandemic, there's been a bit of a pause on our investment there and putting personnel into regions where the installed base is high, primarily because our customers aren't openly permitting access to their plants. They're being very careful about admitting personnel into their facilities. So we can't gain access to those sites. And also, we're very mindful about worker safety and having our people travel at this point in time and the consequences of being sequestered or isolated upon return. So therefore, our investment has taken a bit of a pause. It doesn't reflect our commitment to this strategy, it's just the consequence of what we're currently facing.

And of course, we're looking at M&A. In our M&A program, we're focused on more stable revenue streams to support our expansion of the predictable base of our business. We're also taking action to reposition our company to be more successful in price-focused opportunities. We participated in those opportunities before and we more secured those orders situationally when it made sense to us. We're now structuring and making investments to go in and carve-out a meaningful market share for ourselves in that underserved market previously. We have seen these opportunities in the past and we're still seeing them today. The operations team is now focusing on how to go win those and execute within a lower market price at an acceptable return. We had a healthy level of that type of revenue in fiscal 2020, and we'll actually have a greater revenue level in fiscal '21 compared to '20. So this strategy is being executed well. And I'm very pleased with our progress there and our ability to extract and realize the margins that we targeted.

Also, of course, we're focused on strengthening our financial results. A key element here is to push more volume through our roof line and put less into our local supply chain with our fabrication partners. Alan and his team, along with the HR team, are looking to continue to add to our skilled workforce, that is welders, machinists, assemblers. I'd like to see us with about 20 to 25 more direct laborers over the next 1 to 2 years, probably the next 2 years. And that will be very helpful in lifting our margins.

In the naval program, we need to earn our position as a sole source supplier. We have some of that work now, but there's more of that through good performance, through strong execution, through program management, risk identification, risk mitigation and cost efficiency. We may be able to secure additional work under sole source bidding. That's earned status though, that's not just given out. And Alan and his team are doing a really good job to position us to be into that type of supplier category.

Also, for our naval work, Alan mentioned it in his remarks, we have had some of that work that's first time articles for us, first time fabrications, and that has an aspect of cost structure that we've carried for that type of order. That has a little bit of a headwind on the gross margin side, in terms of cost of goods sold. However, as we get through those first article fabrications and Alan and his team focus on workflow improvements, like production optimization, we expect the

operations work flow will be more efficient. Now that we've gone through the first article that will drop down to improved financial performance from that segment of our business.

And also, we'll balance our near term realities with the reduction in demand on the order front. With our long-term strategies to grow this business, we've chosen not to right size our costs for what was happening in our first quarter or to an extent, what's happening in our second quarter with where revenue is. Because we believe in the long term and we believe in our strategies and we'll balance decisions we'll make around improving near term quarters that could be to the detriment of long-term value creation. So we will be very mindful of that watch out fiscal 2022 begins to take shape.

With that, I think it's an appropriate time to open the call up for Q&A. Devin, would you please open the line?

Operator: [Operator Instructions] Our first question comes from the line of Joe Mondillo with Sidoti & Company.

Joe Mondillo: So first question, Jim. So I believe it was right around this time last year, you came off a first quarter with sort of below average bookings, obviously, different environment a year ago, but similar in terms of the bookings anyways. And at that time, you were calling for a book-to-bill ratio over 1, so we were anticipating a pretty big ramp-up throughout the year of bookings and you did see a second quarter that was really good, and it just didn't really translate into the back half of the year. And I'm wondering what gives you the confidence to make that call essentially here again today, where some of the projects that you were looking forward to win last year just pushed out and you're getting closer to the finish line or sort of just wondering about that?

Jim Lines: Sure. Last year, we did see the end markets evolve as we got into the third fiscal quarter, we saw some behavioral changes that we weren't anticipating from our customers that were pushing order decisions to the right or they canceled some orders or some of our backlog was reconfigured at their convenience to be executed later than was originally planned. At this point, as we talk about fiscal 2021 and the guidance, it's really reflective of we just completed a \$16 million Q1, we have \$107 million of backlog in hand, absent further cancellations. And of that, the model that we have is 60% of the backlog certainly in hand on June 30 is projected to convert over Q2, Q3 and Q4, basically giving us \$81 million of revenue that's predictable and in hand. And we have our typical in-and-out, short-cycle work that we've governed down in our projections that can be somewhere between \$4 million a quarter and \$6 million a quarter. So we feel strongly confident that we'll land within the \$90 million to \$95 million guidance. I haven't given a book-to-bill commitment at this point.

Joe Mondillo: Yes. So I was just extrapolating from the comments in the press release where you state that you're expecting backlog to rise throughout the year. And so relative to that revenue guidance for fiscal '21 for the backlog to grow, you would have to get to a book-to-bill above 1.

Jim Lines: Thank you for pointing me to that. That was helpful. So the thesis that we have there, or the modeling that we have there, and you heard in the prepared remarks, is there's \$30 million to \$50 million worth of naval work that we're expecting to be placed with someone during the next 3 quarters. And we're focused on it, we're going after it, and we hope to win a good percentage of that work. So that's a key element in our backlog growth.

Secondarily, we have a pretty active pipeline in our traditional markets, orders through the month of July, are approaching \$9 million. So we have had a strong July relative to comparing it to the first quarter in totality. And so we are seeing other orders that are supposed to close in this quarter. It's all about the pipeline conversion and the conversations that we're having. Our belief is that we can win a strong percentage of what's going to be placed.

Joe Mondillo: Okay. As far as the Navy orders that you're hoping to win, are we still looking at roughly a \$7 million or so per year on the carrier program, and I thought it was maybe \$3 million to \$5 million on the submarine program? I guess I'm more wondering if you are able to win a good percentage of the \$30 million to \$50 million, what hits in fiscal '22? And then in addition to that, your comments and the press release where you say, you're going to be well positioned for a stronger fiscal '22, which I assume year-over-year stronger fiscal '22?

Jim Lines: Let me break that down. That might be helpful. When we think about a carrier opportunity, CVN-80 or CVN-81, the addressed content for us in a carrier is \$40 million to \$50 million, that's what we're going after. Whether we win it or not, depends upon the award. But that's the addressable content. And typical revenue conversion, just so I can do the math simply, let's say, the \$40 million carrier content, we typically have a 4-year conversion of that type of order. So that might suggest that the carrier revenue in the future is in the range of \$8 million to \$10 million a year, just using that with simple math. That's if we get that type of \$40 million order level. If it's \$32 million, then it goes down to \$8 million a year.

On the Columbia-class program, the addressed opportunity by us is somewhere in the range of \$25 million. And again, this is no guarantee, I use the term addressed, not that we'll secure all of that. And depending upon our success that might suggest that Columbias are going to be built every 2 years. Just so I can do simple math. If we won \$15 million of that \$25 million, just so I can do simple math, which would suggest \$7.5 million per year of revenue conversion.

And then on the Virginia-class program, where they're building 1 or 2 submarines a year. The addressed content by Graham per submarine, the addressed content is on the order of \$5 million per sub. And so that might suggest there's \$5 million a year of Virginia-class work. If you add all that up, it's getting to what Jeff had said in his prepared remarks of 25% to 30% of the revenue is from the naval program, and that's suggesting something in the mid-20s to \$30 million type of revenue level in the years as we look forward.

Joe Mondillo: Okay. And then I guess to follow-up there. I think you stated in your prepared remarks that you anticipate Defense to be up about 50% this year, which would put you, I believe, at \$30 million this year. So would you anticipate given what you're hoping to win in terms of orders this year, would you anticipate next year to be sort of more of a flattish year on the Defense side?

Jim Lines: We've come out and indicated, and I get this is a wide range, but I believe on the last call that we had said we expect Navy to be between \$20 million and \$30 million of revenue with what we're addressing, and we're focused on, finding other components to go in and participate with. So that would suggest and it can depend upon where we are on backlog conversion. But I would expect there'll be years that are on the lower end of that range, and there will be years on the upper end of that range. It depends on where we are. And just to give some guidance on this current year, I don't think we'll be heading toward \$30 million. It will be somewhere in the mid-20s.

Jeff Glajch: Joe, just as a point of clarification, our Navy revenue last fiscal year was in the mid-teens. It was not approaching \$20 million.

Joe Mondillo: Right. Yes, I have \$15 million, almost \$15 million.

Jeff Glajch: Okay. I think what you've stated suggested it was closer to \$20 million with a 50% increase, getting to \$30 million that's not correct.

Joseph Logan Mondillo: Yes. That is correct. I was doing that math wrong, I believe. All right. No, that definitely clears things up, though, regardless. And then I guess last question for me. I have a couple more, but I'll let someone else have a chance. Just wondering we've seen a pretty drastic move in the U.S. dollar and you do a lot of exporting. Does that change anything for you at all, especially if it continues to move? Or is it just more so driven by projects and does it help win bids maybe? I'm just wondering if the U.S. dollar falling is helpful.

Jim Lines: It can be helpful because I know the counter to that is a strong dollar can't be disadvantageous to us relative to some of our international competition. If there's a weakening of the U.S. dollar, that's what you had said, and that can create a benefit for us relative to some of our other competitors in Europe or elsewhere. We don't typically get overly excited about a strong or a weak dollar. It just hasn't necessarily meaningfully changed order patterns or profitability, but we can identify more anecdotally that it has impacted positively or negatively us in the past, but it hasn't really changed our business performance measurably. Especially when our revenue mix is somewhere around 60% to 70% domestic. At this point, it's higher with the degree of the naval work we have.

Operator: [Operator Instructions] Our next question comes from the line of Theodore O'Neill with Litchfield Hills Research.

Theodore O'Neill: Congratulations on giving out guidance for the year, while both of your end market customers are still not able to do that.

Jim Lines: Well, thank you. And I'll tell you, we debated the merits of making that decision. However, for the reasons that we cited, we felt confident that we could do so.

Theodore O'Neill: Yes. I just have a clarification. In the press release, you talked about the chemical and petrochemical orders being down because of COVID-19. But you talked in your presentation here let's say about the customers conserving cash and end demand, but those are the real issues when you say COVID-19 in the press release, that's specifically what you're talking about. It's not like your customers had a workforce shortage, and then everyone is back at work, so things have changed. It's not that, right?

Jim Lines: It has not been that. It has been more the consequence of COVID and the disruption in demand, therefore, the disruption in their cash flows and their profitability and their need to preserve or conserve cash as a consequence.

Operator: Our next question is a follow-up question from the line of Tom Spiro.

Tom Spiro: Tom Spiro, Spiro Capital. First question is regarding India. You highlighted that in the press release, the opportunities in India. Have you done any major work in India yet? Or will these be really the first big jobs if you win them?

Jim Lines: So over our history, we've done work in India where we were typically an outside-in selling strategy. We will be carried in by a multinational OEM or an EPC. And we have a number of sales in India for refining, fertilizer, pet chem with that type of model. What we chose to do about 2 years ago was to get inside India and sell locally, win business locally, executing with a partial local strategy with a shared margin type of structure. And we have a number of bids that we're pursuing. We did land an order in the current quarter, and this quarter. And so we have had some success. With our first large order, it's around \$5 million to \$6 million that we were able to be successful on, and we have some other bids that are in front of us now that we may close over the next couple of quarters for India with the new execution and a new sales model versus our historic model.

Tom Spiro: All right. So these jobs, the one you just won and perhaps others down the road, this will be the first time that you actually road test the new local strategy?

Jim Lines: Correct.

Tom Spiro: Would it be reasonable to assume that since it's new for you folks and your power partners in India that in the first 1 or 2 times through, margins might be lower than you would expect perhaps on projects on following years?

Jim Lines: A great point. We have found whenever we plow a new field, we find some rocks. However, we're deploying a model that we've done successfully in China, and we've done successfully, situationally in other areas. So we've deployed that model into India. But to be clear, we'll plow this field for the first time, and we'll uncover some rocks. But we are very wise and very knowledgeable about how these orders are transacted and what we need to do to control margin and control quality and control delivery on time. So it's not as though it's a new philosophy for us. It's just -- a new geographic region where we're doing it.

Tom Spiro: Sure. And you've described, I guess, the emerging market opportunities is a lot more price sensitive. Is it fair to say that given the circumstances we face today that they're still more price sensitive now than they might have appeared, say, a year ago?

Jim Lines: Not with respect to India. Outside of India, it can depend. There can be large swings and margin potential based on end user based on EPC and based on who is permitted into the bidding process. And also, is that end user a price-focused end user, a quality-focused end user and the margins can vary greatly within a country.

Tom Spiro: And 1 or 2 of your slides mentioned the possibility of adding to workforce in Batavia. Are you adding to the workforce today as we speak? Or is that more an expectation that as circumstances change here domestically, you'll do so?

Jim Lines: We are adding to the workforce. I mentioned in my prepared remarks, unfortunately, I've been through 4 downturns and those around the table here with me have been through a couple. And we're in another one. This one is different in that because of our backlog, because of our diversification strategies, we still need to add to our skilled labor workforce. And we are doing so now, and we will be doing so throughout in 2021 because we want to convert the current backlog that we have more quickly, and we want to be ready for the additional work that's coming in, in particular, the naval work and also from our more traditional markets. So we aren't scaling back our direct labor workforce like would have occurred in the previous 4 downturns. In this downturn, we're building it out.

Tom Spiro: And what would you hope to do if, say, 9, 12 months from now, in the markets that you confront are as weak then as they are today?

Jim Lines: We would convert more Navy work faster.

Tom Spiro: I see. I see. And lastly, just a question for Jeff. You mentioned that for the last 3 quarters of the fiscal year, the company hopes to be cash generative. Do you expect the cash balance at the end of the year to exceed \$67 million or of CapEx, working capital, dividends, et cetera, the cash that you generate will be more than consumed?

Jeff Glajch: Tom, that's a good question. Yes, to clarify, I would expect the cash balance to be higher than \$67 million. I should have been a bit clearer there, but absolutely higher.

Operator: Our next question comes from the line of John Deysher, a private investor.

John Deysher: I just have a quick housekeeping question. On the income statement, there's another expense for last year's quarter, \$523,000 what is that? I haven't been able to locate that.

Jeff Glajch: Sure, John. This is Jeff. That other expense in last year's first quarter, we divested our Energy Steel, our commercial nuclear utility business and that other expense is related to that.

John Deysher: Okay. That's what it was. The divestment, okay.

Jeff Glajch: Yes.

Operator: We have no further questions at this time. I'd like to turn the floor back over to Jim for closing comments.

Jim Lines: Thank you, Devin, and thank you, everyone, for your time this morning on our first quarter conference call. Thank you for the detailed questions, and we look forward to updating everyone on our next conference call in about 3 months. Be careful and be safe.

Operator: This concludes today's teleconference. You may disconnect your lines at this time. Thank you for your participation and have a wonderful day.