

Deborah Pawlowski: Good morning, everyone and thank you for joining us this morning for Graham Corporation's Fourth Quarter Fiscal Year 2022 Earnings Results Conference Call, combined with our Strategy Briefing Webinar. We're really happy that you can join us here today.

You should have our 2022 financial results and the new strategic plan press releases that were released over the wires last night. You should also have the slides that accompany our conversation today that were pushed out earlier this morning. All of these materials, if you don't have them, can be found on our website at grahamcorp.com.

Let me tell you a little bit about the format for this morning. We're first going to start by reviewing our fourth quarter and Fiscal Year 2022 results. Then, we will go to a briefing on our strategy, after which we will open it up for Q&A. Now, throughout the webinar, you can actually submit any questions that you might have through the Q&A chat platform on the webinar portal. Alternatively, if you would like to ask your questions live, on the last slide, we do have a phone number that you can dial into. Those questions then will be handled very similarly to the way a normal conference call is done.

We hope you enjoy this platform. We felt that, for the strategy briefing, it was important that it was a more formalized platform where you could see us presenting the materials.

Who is presenting today? Let me start by introducing Dan Thoren, our President and CEO. Dan was appointed as President and CEO in September 2021. Also joining us is Chris Thome, our new CFO, who just recently joined us in April. Our new Executive Management team is going to be presenting our new strategy.

Please pull up the Safe Harbor slide. As you do know, we may make some forward-looking statements during the presentation, as well as during the Q&A. These statements apply to future events that are subject to risks and uncertainties, as well as other factors that could cause actual results to differ materially from what is stated here today. These risks and uncertainties and other factors are provided in the releases, as well as with other documents filed with the Securities and Exchange Commission. All of these documents can be found on our website, or at SEC.gov.

Also, during today's call, we will discuss some non-GAAP financial measures. We believe these will be useful in evaluating our performance. You should not consider the presentation of this additional information in isolation or as a substitute for results prepared in accordance with GAAP. We have provided reconciliation of non-GAAP measures with comparable GAAP measures in the tables that accompany our releases and the slides for your information.

With that, it is my pleasure to turn the call over to Dan to begin. Dan?

Dan Thoren: Thank you Debbie and good morning, everybody. Thank you for joining us today. I'm eager to tell you about both our results and our strategy, as we have been working hard to build better companies to deliver superior performance.

We'll start with an overview of the fourth quarter. Overall, we are encouraged by our results. The improvements we have been making to stabilize our Batavia operations and Barber-Nichols continue to perform above expectations. For the quarter, we met our revised guidance with sales of \$39.7 million and Adjusted EBITDA of \$400,000. For the year, sales were \$122.8 million, and Adjusted EBITDA was a \$5 million loss.

Barber-Nichols and our Graham Commercial Aftermarket business continued to perform well and made a positive contribution to both our top and bottom lines. As a result of the Barber-Nichols acquisition, we ended the year with over half of our Fiscal 2022 orders coming from Defense and Space, with backlog over 80% in Defense and Space as well. This backlog will help us mitigate the cyclical associated with our Energy and Chemical business.

For Graham Manufacturing in Batavia, we saw Navy first article overruns continuing in the fourth quarter, along with supply chain delays in our Commercial business. In the third quarter earnings call, I talked about our commitment to meet critical Navy milestones. I'm happy to report that we have made good progress there, and we'll give you more detail on the next slide. Let's move to the next slide.

Here, I'd like to review the corrective actions and improvements we've made over the last nine months. As we discussed in February, we got behind on our Navy programs and took several actions to catch up. In the fourth quarter of Fiscal 2021, about a year ago, we started to reassign our commercial welders to Navy projects. You see that in the figure that shows actual labor increasing and deficits starting to flatten out.

In the second quarter of Fiscal 2022, we started to bring in contract welders to assist on Navy programs. In the third quarter of Fiscal 2022, we brought in more contract welders and graduated our first class of welders from our Arc & Flame program. As you can see in the graph, actual weld hours started to exceed planned weld hours in the second quarter of FY'22 and our deficit really started to decrease. As of May, we are now on schedule.

During this time, we also restructured our Navy organization, scrubbed project plans and budgets, and accelerated process documentation and optimization. We have a new Director of Navy Operations that started in February, and he has had a very positive impact already through daily planning, process improvements and employee engagement. We have also hired multiple supervisors to help our production team resolve questions quickly and keep the work flowing.

During the quarter, we added two Board members with defense experience. Cari and Troy have made valuable contributions already and we're happy to have them as part of our team. On an ongoing basis, we have implemented weekly project reporting with Management to ensure that we are on track, understand our budgets and are addressing roadblocks and executing our plan. Additionally, we are documenting and optimizing our build processes to ensure efficient execution going forward.

At the end of May, Graham shipped a first article condenser for our U.S. Navy customer. Our customer was very happy and appreciative of all our efforts and investments. Even better, our employee base was excited to see five years of effort culminate with a very massive shipment that will help protect our nation for decades to come.

As we move forward, we expect continued growth in the Navy sector and stronger margins. We are working on operational efficiencies and better pricing that will enable this improvement.

With that, I'll turn it over to Chris Thome to review our numbers and outlook. Chris?

Chris Thome: Thank you Dan and good morning, everyone. It's a pleasure to be speaking to you today as the new CFO of Graham. This is an exciting time for Graham, and I look forward to meeting many of you in the future as we embark on this new strategy to build better companies to deliver superior performance.

Since joining the Company in April, I have spent most of my time meeting the team, learning about the business and beginning to put processes in place that will improve information flow and accountability. I can tell you that I have been pleasantly surprised that many of these initiatives were already underway and gaining momentum.

With that, let's review our results for the fourth quarter and full year, as well as our outlook for Fiscal 2023. On this slide, you can see our fourth quarter performance, which shows modest sequential improvement. As Dan mentioned, our fourth quarter results were in line with our expectations. Sales were \$39.7 million, up 55% over the last year's fourth quarter. Barber-Nichols contributed \$15.9 million of this increase and this, along with strong Commercial and Aftermarket sales, helped to offset weaker sales from our legacy Refining, Chemical and Petrochemical businesses.

With the addition of Barber-Nichols, 47% of our sales during the quarter was to the Defense industry, as well as 6%, or \$2.2 million, to the Space industry. In the prior-year fourth quarter, Defense comprised only 26% of total sales and we had no revenue from the Space industry.

Our Batavia operations continued to be impacted during the quarter, but to a lesser degree than in the third quarter, due to the higher costs relating to material and labor overruns for first article Navy projects. Sequentially, gross margin improved 8.7% as we advanced these projects, improved processes and reduced related costs.

I would again like to point out that we have recently delivered the first condenser for our critical Navy submarine program, which was the source of a significant portion of the losses incurred in Fiscal 2022. I am pleased to report that this condenser was delivered on schedule, which was viewed very favorably by our customer, thus validating the strategic decisions made and resources invested over the last nine months. I should also mention that the remaining first article Navy projects are on schedule and are expected to ship throughout 2023.

Selling, general and administrative expenses in the fourth quarter of Fiscal 2022 were \$6.1 million, up \$1.7 million over the prior-year period. Barber-Nichols added \$1.7 million in incremental SG&A during the quarter, including \$300,000 in amortization. Additionally, we incurred approximately \$500,000 of costs in connection with our credit agreement amendment and acquisition-related expenses.

Our net loss in the quarter was \$1.4 million or \$0.13 per diluted share. On a non-GAAP basis, which excludes intangible amortization, acquisition-related costs and other non-recurring items, adjusted diluted loss per share was \$0.02. All of the above items contributed to an Adjusted EBITDA of a positive \$400,000 in the quarter compared with a loss of \$2.6 million in the third quarter of Fiscal 2022.

This next slide shows our results for Fiscal 2022 as a whole. Many of the items impacting the quarter also drove our results for the full year. Our Fiscal 2022 sales grew by 26% to \$122.8 million. For the 10 months that we owned Barber-Nichols, its contribution was \$47.9 million to sales.

Sales to the Defense industry increased 160% to \$62.2 million and now represents 51% of total revenue compared with just 25% in Fiscal 2021. The expansion in Defense was partially offset by declines in the Commercial Refining and Chemical markets, primarily in Asia. I should point out that both sales and orders to the Commercial Aftermarket increased over Fiscal '21, which is significant in that it usually is a leading indicator for future capital investment by our customers. Sales in the U.S. increased 85% to \$97.6 million and were 80% of total sales for Fiscal 2022, as revenue from the acquisition is primarily in the U.S.

Gross profit and margin were down compared with the prior year, due to the same factors which impacted the quarter. Early in Fiscal 2022, we made the strategic decision to over-resource certain critical Defense orders in our Batavia operation. This included increasing the use of contract welders and redirecting resources away from our Commercial business to meet delivery schedules. The impact of the Defense projects and related cost overruns are expected to lessen over the coming quarters and be completed before the end of Fiscal 2023. We estimate that these factors impacted gross profit by over \$10 million for Fiscal 2022.

SG&A expenses in the full year of Fiscal 2022 were \$21.3 million and included a tangible amortization of \$900,000. This was an increase of \$3.8 million compared with Fiscal '21, of which \$4.8 million was contributed by Barber-Nichols. Additionally, costs associated with the acquisition and debt amendments totaled \$840,000. Offsetting these increases was reduced incentive compensation.

Net loss and loss per diluted share were \$8.8 million and \$0.83 respectively. On a non-GAAP basis, adjusted diluted loss per share was \$0.62. The above items negatively impacted Adjusted EBITDA, which was a loss of \$5 million for Fiscal 2022 compared with income of \$5.1 million in Fiscal 2021.

On the next slide, you can see our capitalization. Graham has always generated good cash flow and this positive dynamic of our business model was validated as we generated \$12.3 million in cash from operations and paid down \$10.4 million of debt during the quarter, despite our weaker financial performance. As recently announced, we have put in place a revised lending agreement which puts us in compliance with our financial covenants and provides us the financial flexibility as we work through these operational issues and return to profitability in 2023.

For Fiscal 2023, we expect capital expenditures to range between \$4.5 million and \$5.5 million compared with just \$2.3 million for Fiscal 2022, as we make investments which will support our future growth.

Turning to the next slide, you can see the developing trends in our orders, both commercial and defense-related, and how our market diversity solidifies our confidence in our long-term outlook. I should point out that our Defense orders tend to be lumpy in nature, which explains the large variances from quarter-to-quarter. Looking at the quarterly trends, Chemical and Petrochemical orders appear to have stabilized over the past three quarters and we have seen nice sequential growth in our Space business. Overall, orders were solid for Fiscal 2022, with a book-to-bill ratio of 1.2.

Looking to the next slide, you can see that Defense, at 76% of our backlog, remains the key to our story and will add stability to our future revenue stream. At \$256.5 million at the end of the fourth quarter, backlog is down 6% sequentially, primarily due to the progress made in our key Defense contracts. We believe that 40% to 50% of our backlog will convert within the next 12 months.

The Commercial backlog was quite low entering this Fiscal Year. It has grown from \$33 million at the end of Fiscal '21 to \$62 million at the end of Fiscal '22 and reflects the acquisition of Barber-Nichols. Additionally, we are seeing growth in our Commercial Aftermarket backlog, which will help drive future margin expansion.

The next slide provides our initial guidance for Fiscal 2023. As you can see, we are forecasting a significant improvement in profitability and a continuation of the positive momentum that started in the fourth quarter.

Revenue is expected to be between \$135 million to \$150 million, which suggests top line growth of 16% at the midpoint of our guidance.

From a margin perspective, we are looking for gross margin of 16% to 17%, with an Adjusted EBITDA of \$6.5 million to \$9.5 million or an Adjusted EBITDA margin of 5% to 6%.

While we expect the first quarter of Fiscal '23 to be better than the fourth quarter of '22, it will still lag behind historical levels due to the overhang from the first article Navy jobs. We expect to see results gradually improve as the year progresses and those projects are completed, and work begins on more profitable second and third article jobs, and the operational improvements we are implementing begin to show results.

Fiscal 2022 was certainly a challenging year, but we have made good progress and have a strategy to drive organic growth and margin expansion. We are excited about our future.

I'll pass the call back to Dan to tell you more about our strategy to build better companies to deliver superior performance. Dan?

Dan Thoren: Thank you, Chris. We've been having a lot of fun working through Graham Corporation's strategy and rebranding and this presentation is an overview of our efforts. Graham Corporation is now a corporate entity with two operating companies: Graham Manufacturing and Barber-Nichols. We will be looking to add more operating companies as we go forward.

We wrestled with different approaches to differentiate the corporate group from the operating entity with the same name. Ultimately, we decided that we weren't big enough to pull off a Facebook to Meta or a Google to Alphabet rebrand, so we settled on a new logo and website refresh instead. I'm sure it is much more economical than a complete rebrand.

Our Graham Corporation logo is our ticker symbol with red lines emanating from the G, depicting energy, movement and flow. We are re-energized and ready to move, improve and grow. The fluid, power, heat transfer and vacuum products that we design and make involve flow. We know that gas and liquid flow can provide useful work, adapt to constraints and eventually overcome all obstacles. We liked the notion of continuous steady flow and motion and built that into our logo.

Our corporate mission is to build better companies to deliver superior performance and our new corporate website is www.grahamcorp.com. Please check it out.

This next page shows our corporate vision and competitive advantage. There's a lot to unpack here, so let me walk you through it. Our vision includes several key concepts. First is Build. Our passion is creating and improving something of value. Second is Engineered Product. We will never be stagnant if we continue to refresh and reinvent our product and ourselves. The third key concept here is Team. As individual small businesses, we can improve faster with collaboration, leveraging best practices and sharing services.

At a corporate level, our competitive advantage comes from our people, our culture, our structure and our process. We believe that entrepreneurial, relationship-driven people, combined with a culture of improvement and innovation and a value-enhancing corporate structure with focused agile businesses, provide a competitive advantage over larger, slower, bureaucratic competitors. We prefer to operate with less leverage, with equity engagement of our people. We look to generate capital to grow. We believe this structure will be enticing to companies that are looking to be acquired. It worked for Barber-Nichols.

The next slide shows our strategic planning process. It's summarized here. I point this out not to go through a strategic planning process, but it's just another tool to build better companies. One key element to building better companies is to develop a plan and then execute it. That's what this is.

Graham became a significantly different Company with the addition of Barber-Nichols. We gained diversity in markets and products. We gained deeper and broader expertise in fluid and power systems, and, at some point, we should be able to realize synergies in integrated systems. On a more operational level, we are making progress in convincing a very important customer, the U.S. Navy, that we are a supplier they can count on. We invested significant time and money in Navy first articles to meet critical deliveries. In addition to earning significant customer goodwill, we also built a barrier to entry for our competitors.

The combination of Commercial and Department of Defense business provides a stable platform and strategic direction to deliver superior results to our stakeholders. We are continually to improve, so expect more positive change in the future.

This next slide covers the people changes we've made in the last year. When Graham approached Barber-Nichols about acquisition, one of the immediate questions we had was whether their Board was open to change as the Company changed. To their credit, they were. We just appointed two new Directors with excellent Defense industry knowledge.

As we worked through the strategic planning process, we identified gaps in our organization that needed to be filled. In the list, you'll see numerous Operations, Engineering, Sales and HR positions that we filled with both internal and external candidates in the last year.

I'm very excited about my direct team. Chris, our new CFO, comes from larger companies with great systems, processes and public company heritage. He has made a huge impact already and we are fortunate to have him on our team.

Alan Smith is a veteran at Graham and knows the business inside and out. With the restructuring, we have given him the ability to lead at a much higher level, mentor his reports and provide the strategic insight needed for his business.

Matt Malone is my very capable successor at Barber-Nichols. He is younger than the rest of us, highly intelligent, highly engaging and brings a level of relationship and team building to Barber-Nichols that will enable their success for years to come.

The next slide shows corporate strategies and initiatives that Chris and I will be leading. It's not too surprising that building better companies is top of the list. We will do this mostly through regular evaluation, improved business practices and smart investments. We need to develop corporate structure and processes as we grow. Rather than reinvent something, we'll rely on our Board and industry connections to accelerate this.

I love the business development side of the strategy and will be working with our business unit leaders to advance strategic market offerings. As we are successful, we'll build our organization to support the growth that the business development brings.

People are the backbone of our business. Growing leaders is a key initiative for us all, so we'll be working with different structures that we've already started. We'll be talking about rotation of people, and we'll build human capital management systems to really drive it all.

Chris has a lot of experience in shared services. As we add new businesses to our Corporation, we want to add the services that add value to all and gain the efficiencies that shared services can provide.

I will now turn the presentation over to Chris for the next couple of slides.

Chris Thome: Thanks, Dan. This slide provides the culmination of what we've been talking about this morning. Graham is more diversified and now has a very solid Defense industry base, which is complemented by our well-established Refining and Petrochemical industry presence. Higher growth opportunities are also presenting themselves in the advanced energy, specifically hydrogen, and Space markets.

Similar to our guidance for Fiscal '23, our five-year aspirational goals are purely based on organic growth expectations. We believe we have the ability to reach \$200 million, which represents an 8% to 10% CAGR for the top line. We expect this level of performance should allow for Adjusted EBITDA margins to be in the low double-digit to mid-teens range as we leverage our operating platform, improve operational processes and grow our higher-margin businesses.

This growth will be primarily defense-driven, both at Barber-Nichols with expanding opportunities and at Batavia with its legacy Navy business. We view the commercial legacy business as a steady performer, augmented by an aggressive push into higher-margin aftermarket sales.

Turning to the next slide, with the modest sequential improvement we saw in the fourth quarter of Fiscal 2022, we believe we will continue to demonstrate that we are moving beyond our current challenges and have positioned our business for strong organic growth. We have initiatives at both of our businesses to organically grow through new product development, increasing partnerships and other growth initiatives.

With that, we should again be showing that Graham has a business model that can generate attractive levels of cash. We are committed to utilizing that cash to, first, pay down debt. We feel that less than 2.5x leverage is an appropriate level for a Company of our size.

From an M&A standpoint, over time, we believe we can take our improving financial position and fund future acquisitions. Barber-Nichols is the blueprint that we believe we can duplicate, given the dynamics of both of our platforms. It has not been forgotten that, with the recent financial challenges, we had to suspend our dividend. We believe that as we get beyond the restrictions existing in our lending agreements, both dividends and potential share buybacks can again be topics of discussion at future Board meetings, but not until Fiscal 2024.

Let me now turn the call back to Dan to dive deeper into our strategy discussion.

Dan Thoren: Thank you, Chris. This graphic gives you an overview of the various pieces of our business. The size of the bubble gives you an indication of the amount of revenue associated with each segment. We believe that each one of these businesses can grow in revenue if we apply the right strategy to each.

The color of the bubble tells you if the segment is Barber-Nichols, which is blue, or Graham Manufacturing, which is tan, but then I'll also point out that both operating units play in New Energy. The position of each bubble gives you an idea of how we believe we are currently positioned, relative to growth and differentiation and margin potential. Let's walk through each.

New Energy and Space, at the top left, are both small businesses now, but they have good growth prospects. Margins are expected to be nominal as volume stays low for the time being. Both the Barber-Nichols and Graham Navy businesses are expected to grow. While Graham has good differentiation now, the margins have been challenged with first article units. Barber-Nichols' rebuild business is small now, but could grow, and the Graham Aftermarket is a very profitable business, but probably doesn't grow significantly. Finally, the legacy Graham Energy and Petrochemical business is likely the slowest-growing business. It gets more profitable with an energy upcycle and less profitable with more global competition. Next slide.

Now, we move to the Graham operating business overview. Graham has an engineering and fabrication facility in Batavia, New York, with offices in India and China that provide sales, engineering and project oversight. Competitive advantage comes from technical people and processes. I note SMEs here and SMEs means subject matter experts. Competitive advantage also comes from global reach and the installed base, excellent fabrication facilities and a culture of service and problem solving.

This slide shows the markets and products that Graham serves. The major markets are Defense, Chemical, Petrochemical and Refining. We also serve New Energy and have a few products that support the Space industry. Our major Defense products are surface condensers, vacuum systems and various heat exchangers for Navy nuclear power plants. We serve both the aircraft carriers and submarines in this capacity. On the Commercial side, we provide condensers, vacuum systems and various heat exchangers for refinery and chemical-petrochemical process plants.

This slide really shows the strategic importance of the Navy work to our business. We have the Virginia submarine on there, which is the U.S. Navy's newest attack submarine; the Columbia submarine, which is the Navy's brand new designed ballistic missile submarine; the Ford aircraft carrier; and then, the Navy has just started on SSNX, the next-generation attack submarine. These programs have very long-time horizons. As we can become qualified to supply the equipment, it means long-term revenue that we can build a business around. We can improve productivity and margins with the repeat orders. Qualification also provides a barrier to entry for competitors.

As we look at Energy and Petrochemical market projections, we see a complicated story. Depending upon how fast the world moves to clean energy, we could see oil demand peak anywhere from 2024 through 2050, according to the International Energy Agency. We do see more opportunity in China and India than in the U.S. for new capital equipment. We also see more capable competition globally. Domestically, we are seeing the Aftermarket orders increasing, with a capital equipment upturn expected sometime in the next 12 to 18 months.

Operationally, we expect to fill our Batavia plant with a combination of Navy and domestic Energy and Chemical business. The Navy backlog can fill in capacity holes if we can't fill with the Commercial business. We will fulfill our international demand from our India and China locations.

The Graham Manufacturing operating business strategy overview is shown here. We've been working hard over the last nine months to stabilize our business. We started with the challenging business conditions. We had a COVID hangover, we had executive turnover and we had some late projects. We've worked to fill the holes organizationally and we've worked to catch up on the projects. Our team at Batavia has been amazing through it all. Much of this work is completed and we are headed in the right direction.

We are now in the improvement phase with a clear roadmap. We are evolving our approach to realize return in all markets, so we're going to try to make money in everything we do. We are also improving operational effectiveness and developing capabilities to provide more value to our customers. In future years, we have high single-digit growth planned for our Graham Manufacturing operation.

Most growth is in Navy, but we also see growth in Aftermarket and the international markets. We are not counting on growth in our domestic Commercial markets, but we could be surprised. We have started a new product development effort to expand our Commercial offerings as well. As we mature, we will work to bring product lifecycle strategy into each product area.

On the next slide, we move to Barber-Nichols. Barber-Nichols has over 170 employees and is still hiring. We almost doubled our facilities' footprint in 2021. Barber-Nichols' overall competitive advantage is new product development and full lifecycle product support. This competitive advantage is enabled by great relationships between our subject matter experts and our customers' subject matter experts, integrated design manufacturing, assembly, test and overhaul capabilities are all there in our data, with people passionate about what they do.

The next slide shows Barber-Nichols' major markets and products. We provide pumps, turbines and compressors for mission-critical applications in the Defense, Space, Aerospace, Advanced Energy and Thermal Management markets.

To give you a sense of how mission-critical these machines are, some of our turbines run as hot as 1,500 degrees Fahrenheit and our pumps run as low as -450 degrees Fahrenheit.

The graph on the left of this next slide shows an estimate of the global Space economy and where money will be spent. There's lots of different market research pieces out there around Space. One of them that I just recently looked at was Bank of America, and they say the Space industry will triple from over \$400 billion today to \$1.4 trillion by 2030, for a CAGR of over 10% per year. Morgan Stanley was a little more conservative, suggesting the global Space industry could be \$1 trillion by 2040. Barber-Nichols is involved in multiple fluid and power systems related to Space. Just as an aside, I sat in on a training session the day before yesterday and we had Space people here at Graham learning about vacuum systems, so that was pretty fun.

Thermal Management System opportunities are also growing at mid to high single-digit rates, according to various market research reports. As our customers develop more power-dense products, thermal management becomes more challenging, and we move from passive to active tooling. The graph shows Thermal Management System procurement spending by the Department of Defense by program. They estimated that they will spend over \$62 billion in years '20, '21 and '22 on these systems. Barber-Nichols provides pumps and controllers for multiple defense-related Thermal Management Systems.

We move to New Energy markets on the next slide. New Energy markets are the most uncertain markets that our businesses serve and both businesses serve New Energy. Depending upon the scenario, you can look at full net-zero carbon emissions by 2050. That tells you quite a bit different story than this stated policy scenario today and that's the STEPS versus NZE depictions on the graph on the right. You can see a single-digit growth rate to a greater than 20% CAGR in selected clean energy technologies. Graham provides heat exchangers and vacuum systems for alternative fuel processing. Barber-Nichols provides pumps and power producing systems for New Energy systems.

The Barber-Nichols business strategy overview is on the next page. With competitive advantages and product development full lifecycle support, our strategy is focused on continuing this development and growth. In developing markets like New Energy, we are nurturing relationships with market-leading customers and developing products that we hope are scalable and leverageable for these New Energy applications.

In new applications like Space, we are getting in on the ground floor, we're helping to specify requirements, and then, we're validating a customized solution to lock in future production. For existing markets like Thermal Management Systems, we pursue opportunities that will benefit from disruptive solutions and that require full lifecycle support.

Finally, for production and service programs, we pursue high-compliance programs like in the Defense market and we execute with excellence. We proactively offer solutions for supply or technical issues, so we really focus on affordability and continual improvement in those types of programs. Ultimately, we want to develop long-term, stable, full lifecycle product businesses.

Graham Corporation and I are committed to sustainability. We want to build businesses that serve all of our stakeholders and being good stewards is part of our responsibility. We have upped our game in sustainability this year by documenting our activities in a SASB factsheet. We will post the factsheet on our website by June 17 when our proxy statement should be released.

In conclusion, Graham is transforming to drive value for all stakeholders. We have a new platform for growth in Barber-Nichols. We expect our Navy business in both companies to grow with strong profitability, long-term visibility and significant cash generation. We are evolving our approach to our legacy Energy and Chemical business to grow our best business, whether it's domestic or international. In short, at Graham Corporation, we are building better companies to deliver superior performance.

This concludes our presentation, and we'll now move into Q&A.

Deborah Pawlowski: Thank you, Dan, and I hope everyone appreciated all of the information that we provided. We will now start the Q&A session.

While we're waiting, Dan and Chris, for those to get into the teleconference queue for live questions, let me just bring up the first question that we have from the webinar. "Dan, you came to Graham just last year and it's been quite a heavy lift, it would appear. Tell us some of the puts and takes, what you liked, what you didn't like, as you went through this first year."

Dan Thoren: Yes, so the best, pleasant surprise, I think, was just the welcome that I received. The genuine nature of people here in Western New York has been really nice and I've been welcomed with open arms. The team is very open to change and is really looking to improve and get better and better, so that's been awesome.

The other thing that I've really noticed is, I stepped away from Barber-Nichols after being there for 30 years and I have watched that crew just take off and really execute on their own without me. I barely even check in. They are doing an amazing job there. We built a great team there and Matt Malone is doing a great job of leading that group.

Deborah Pawlowski: Excellent. Donna, I see that we have Brett Kearney from the Gabelli Funds in queue for a question on the teleconference line.

Operator: We do. Brett, please go ahead with your question.

Brett Kearney: Great, thanks for taking my question. Thanks for...

Deborah Pawlowski: Donna, did we lose him? All right, well, while we get Brett back in queue, let me take some of the questions off of the website. Let me start with a question for Chris. "Are double-digit EBITDA margins likely to be achieved prior to Fiscal Year '27?"

Chris Thome: As you can see from the guidance today, we're projecting 5% to 6% EBITDA margins for 2023. We would hope that you'd see gradual improvement year after year from there as we leverage our operating base and make some of these operational changes that Dan and I have been talking about today. We think that, obviously, low double-digit would be achievable before 2027, but then we hope to get to the mid-teens as we progress through that and make improvements.

Deborah Pawlowski: Excellent. All right. Then Donna, maybe you can bring Brett back into queue?

Operator: Thank you, sir. Please go ahead with your question.

Brett Kearney: Yes. Okay, just one question. Nice uptick in organic growth investments. I'm just curious, on the R&D side, if you could talk about what you can disclose in terms of some of the attractive applications and verticals that you have identified; and then, more broadly, any changes you have made or plan to make, process-wise, to the company's new product development approach.

Dan Thoren: Yes, so I can talk a little bit about both. In Graham Manufacturing, we're looking at some new technology in vacuum systems that is much simpler than existing solutions today on the market. We'll be developing from scratch new vacuum technology that we hope will enable us to basically grow our Commercial side significantly from where it is today. Now, it is R&D and we may or may not actually be successful, but we're actually pretty excited to jump into some new product development at Graham.

At Barber-Nichols, they kind of do R&D every day. We talked a little bit about nurturing the New Energy programs. Barber-Nichols is working with some pretty advanced technology and systems with our customers in that space. Some of it's solar, some of it's nuclear, and so, some pretty cool customer-funded R&D is going on there.

But then, Barber-Nichols is also looking at developing and really qualifying some of this disruptive pump technology for Thermal Management Systems; and so, they have some R&D spend in that area also.

Brett Kearney: Great, that's very helpful. Thank you.

Deborah Pawlowski: Let me take a couple more questions from the web portal. I'm going to combine a couple regarding capital spending. Specifically, "Can you provide some insights on the projects for Fiscal Year 2023; and then, looking further out, what level of Capex is required to grow revenue organically in line with our expectations?"

Dan Thoren: I'll take the first half of that and maybe leave the second to Chris.

Regarding capital spending this year, we are looking at expanding our Navy facilities to enable a better use of our existing facility. We'll spend some money there, expanding some inspection areas so that we can get more fabrication area underneath the crane.

On the Barber-Nichols side, they are looking to expand facilities to support the MK 48 program. They just landed the next block of MK 48 in December, and we announced that in a press release then. The Navy is really looking to ramp up the production rate, so we need a little bit more space there at Barber-Nichols to be able to do that. Those are a couple of examples of capital expenditures that we're doing this year. There's more, but I'll leave it at that.

Then, Chris, I think the question is, what do we think that we'll have as far as capital expenditures in subsequent years?

Chris Thome: Right. Our Fiscal '23 guidance that we gave today shows Capex at about 3% of revenue. I would see us maintaining that just to support some of the growth initiatives that we have in place, so I would see anywhere from 3% to 5% over the next three to five years.

Deborah Pawlowski: Excellent. Donna, would you put Gary Schwab with Valley Forge Capital Management into the queue for us, please?

Gary Schwab: Yes, hi, if I can ask a couple. You shipped your first condenser this quarter. How many condensers are there per sub and how many more of these condensers do you have in your backlog?

Dan Thoren: There's one per sub and we have boats two and three in our backlog.

Gary Schwab: Okay. I assume that you won this bid a while ago. There was very little inflation when you originally bid for these condensers and your other projects that you have in your backlog. How do you and the Navy handle the labor and material inflationary costs on the balance of the condensers and on the other projects in your backlog?

Dan Thoren: Yes, it's a great question, Gary. In both companies, when we bid these longer-term contracts, we started with building in an assumed level of inflation. I can pretty much guarantee you that what we assumed when we bid some of these isn't keeping up with where inflation is today. Our customers are actually pretty understanding of what's going on and, even under firm fixed price contracts, they're allowing us to go back and propose additional costs associated with the inflation impact to both material and labor.

The big impact really is on the material side. We're seeing material, in some cases, up by 20%. It's kind of crazy in some very narrow windows, but generally, our customers are very open to that. In our bids, we're letting people know that the bid validity is pretty short, so the bids are only good for 30 days in some cases; and then, we reserve the right, especially on the Commercial side, to come back and update that once we actually get under contract. So, there are quite a few different things that we're doing to try to mitigate to that particular thing.

Chris, did I miss something, or do you want to add anything to that?

Chris Thome: No, just maybe not specific to the Navy contracts, but when we can, as soon as the bid is accepted and won, we purchase our materials right away to lock in some of the future pricing, so a lot of that is already built in and we already have that on order, especially given the long lead times that we've been seeing as well.

Deborah Pawlowski: All right then. I'll take the next question here from the web. "Do you view your primary Space customers as coming from the government or private space? Can you give us any color?" Can you talk to that at all?

Dan Thoren: I would say that the majority of them are coming from the private space. Can we put any color on who? No, we really can't, but there is one company that we've actually put a video out with and that's Virgin Orbit. You can see that on YouTube, but that's the only one that we can actually talk about.

Deborah Pawlowski: Thank you. Then, "What about your return requirements for allocating capital for acquisitions?"

Chris Thome: As Dan mentioned in his speaking points, we're a little bit away from starting to talk about acquisitions. It's definitely in the long-term strategic plan, but we have to focus right now on improving our profitability and our operational performance before we could start talking about acquisitions.

We haven't spent a lot of time on that. That's really part of Dan and my strategic goals for this year, to start identifying targets and start thinking about that, but we would definitely be looking at double-digit returns when we start that process.

Deborah Pawlowski: Excellent. Then, Donna, I see that Theo O'Neill with Litchfield Hills Research has gotten in queue.

Operator: Mr. O'Neill, please go ahead.

Theodore O'Neill: Great. Thanks. Chris, in your prepared remarks, you said, if I got this correctly, that you thought the impact of the issues in Batavia had a \$10 million hit to gross profit margin. If I add that back, your gross profit margin for the year is still below where it's been the last couple of years. So, what other things that were going on there? Is that supply chain and/or COVID-related?

Chris Thome: I would say it's all the above. We estimated that it impacted margins by over \$10 million. That is what we're projecting and what we estimated. Certainly, increases in labor and the inflation on raw materials impacted our margins as well, but that'll get built into the contracts as our backlog rolls off and we start working on new and more profitable contracts, especially as we get into the second and third, and hopefully fourth and fifth, article jobs as our Navy business backlog begins to build, which will have some of that pricing and inflation built in.

Theodore O'Neill: Okay, and my other question is, of the 74% of the backlog that's in Defense, can you break that out as to how much is the naval business?

Chris Thome: All of it's related to the Defense business, maybe not directly. It's through different first tier suppliers that we supply to, but, in the end, it's all eventually going to go to the Navy.

Dan Thoren: Yes, so Barber-Nichols has contracts that are built into that backlog. They go to Tier 1 suppliers, and they go to the Navy. There are some that go direct to the Navy. Graham's really go through Tier 1, primes, and then to the Navy.

Deborah Pawlowski: Thanks, Theo. I have a question. "Does the current capacity constraints and wide crack spreads, and we're talking to the refining industry here, indicate future demand for Graham's products?"

Dan Thoren: Gosh, I hope so. As we talk to our customers, essentially the story that they're telling us, and it's pretty uniform across most customers, is that a lot of the companies were really holding onto capital spend and really trying to recover from the last several years. They were just kind of banking profit and then, providing some payout to the stockholders. When they were spending money, it tended to be a little bit more toward the New Energy space, some of the alternative fuels and things like that.

We have seen an uptick in the last six to nine months in the Aftermarket business and, historically, that has been an indicator that people are fixing up their plants first, their existing facilities, and then they'll consider capital spends later. Our customers are actually echoing that, in that they're saying, "Yes, we are spending money right now, making sure that our plants are running well and up to capacity," and then we'll start to rework, either revamps or retrofits. New plants internationally are also on the books. We do expect that the capital equipment business will come back, but we think that it's 12 months away before we start to see that.

Deborah Pawlowski: Excellent. There appears to be no more questions, so Dan, I'll just throw it to you for any closing comments.

Dan Thoren: I just want to thank you all for your time today. We've been hard working on this. We've been really quiet and working to really understand our business and where we're making money and where we're not making money, and then, figuring out how to improve our businesses. We've had a great time of figuring all that out and we're just really happy to have the opportunity to present that to you. Chris and I look forward to talking to each of you individually in the future. Thank you very much.

Deborah Pawlowski: That ends our webinar. Thank you.

Note: This transcript has been edited slightly to make it more readable. It is not intended to be a verbatim recreation of the Graham Corporation (GHM) strategy briefing and financial results teleconference and webcast that occurred on the date noted. Please refer to the webcast version of the call, which is available on the Company's website (grahamcorp.com), as well as to information available on the SEC's website (www.sec.gov) before making an investment decision. Please also refer to the opening remarks of this call for GHM's announcement concerning forward-looking statements that were made during this call.