# Second Quarter Fiscal 2012 Earnings Call

**Executing our Strategy ● Driving Sustainable Growth**

Diversifying Improving Expanding

# Safe Harbor Statement

This presentation contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended.

Forward-looking statements are subject to risks, uncertainties and assumptions and are identified by words such as “expects,” “estimates,” “projects,” “anticipates,” “believes,” “outlook,” “priorities,” “could,” 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, statements relating to Graham’s acquisition of Energy Steel & Supply Co. (including but not limited to, the integration of the acquisition of Energy Steel, revenue, backlog and expected performance of Energy Steel, and expected expansion and growth opportunities within the domestic and international nuclear power generation markets), anticipated revenue, the timing of conversion of backlog to sales, profit margins, foreign sales operations, its strategy to build its global sales representative channel, the effectiveness of automation in expanding its engineering capacity, its ability to improve cost competitiveness, customer preferences, changes in market conditions in the industries in which it operates, changes in general economic conditions and customer behavior and its acquisition strategy 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 and Quarterly Reports filed with the Securities and Exchange Commission, including under the heading entitled “Risk Factors.”

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# James R. Lines

President & Chief Executive Officer

DIVERSIFYING

IMPROVING

EXPANDING

# Strong Sales Growth

**Q2 FY2012 Revenue: $33.6 million**

- Organic sales expanded appreciably
  - 68% YoY increase
  - 25% sequential increase
  - Oil refining market represented 36% of sales in quarter
  - Short cycle sales continued to be strong
    - Up 30% YoY
    - Up 20% sequentially
- $7.2 million from Energy Steel
- 47/53 international/domestic
- Strong international sales driven by refining projects

# Excellent Mix Drives Margin Expansion

**<u>Achieved $5.5 million in net income</u>**

- 38% gross profit and 26% EBITDA margin
- Better leverage on higher volumes in both facilities
- Increased volume from outsourced production
- Greater volume at higher margin for short-cycle sales
- Timing of specific projects that were in production during the quarter
- 16% return on sales
  - Up from 10% YoY and 12% sequentially

** Note: Important disclaimers regarding EBITDA and a reconciliation to GAAP operating profit are included on slides 16 and 17 of this presentation.*

# Markets Improving

**<u>Markets and order development improving</u>**

- Organic business increasing along with margin
  - Short cycle sales
    - Jan-Sep 2011 vs. Jan-Sep 2010 up 20% with improved booked margin
  - Major (large) orders
    - Jan-Sep 2011 vs. Jan-Sep 2010 up 35% stronger booked margin
- $5.9 million for power including $4.3 million from Energy Steel
- $10.9 million for chemical/petrochemical
- $2.8 million for oil refining markets
- Bid activity improving.  Outlook long term is positive.  Short term order levels will vary.

# Diversification Drives Recovery

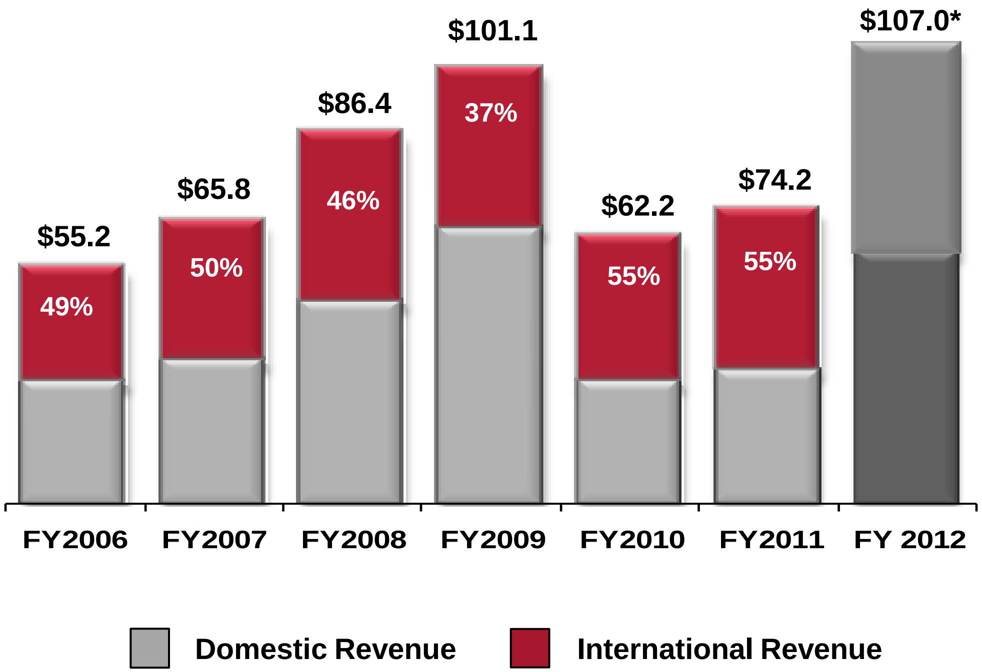
## Markets and Geography

**12-Month Revenue**

*($ in millions)*

**FY 2006 – FY 2009**
**22.4% CAGR**

Driven by oil refining and petrochemical markets




**FY 2010 – FY 2012E**
**31.2% CAGR**

Oil refining, petrochemicals, Navy and power markets will drive growth

** Midpoint of guidance provided on October 28, 2011 ($104-$110 million)*

# Perspectives on Industries Served

- Oil refining and petrochemical markets
  - Asia and South America
    - Expanding economies
  - Middle East
  - North American market
    - Low cost and abundant natural gas
    - Investments in feedstock changes and upgrades
- Power
  - Nuclear
    - Further penetration into existing power facilities
    - Opportunities with plants under construction
  - Alternative energy projects
- Naval Nuclear Propulsion Program
  - Significant opportunity if every five or seven years
  - Other ships and subs also as potential

# FY 2012 Outlook*

- Adjusted outlook for strong first half of FY 2012
- Full Year Expectations

| | |
|---|---|
| Revenue | $104-$110 million |
| Energy Steel | 16%-20% of total revenue |
| Organic growth rate | 25%-30% |
| Gross margin | 32%-33% |
| SG&A | 15% of sales |

** Guidance provided as of October 28, 2011*

# FY 2012 Priorities

- Advance market share in oil refining and petrochemical markets
  - Gain share in Asia and South America
  - Maintain strong position in Middle East
  - Continue to dominate North American market
- Expand Energy Steel capabilities to increase sales and profit
  - Exploit synergies of Graham engineering and fabrication capabilities
  - Aggressively pursue sales to U.S. nuclear utilities
  - Capitalize on opportunities in new construction
- Continue to develop Naval Nuclear Propulsion Program sales channel
- Continue to evaluate acquisitions

# Jeffrey F. Glajch

Chief Financial Officer

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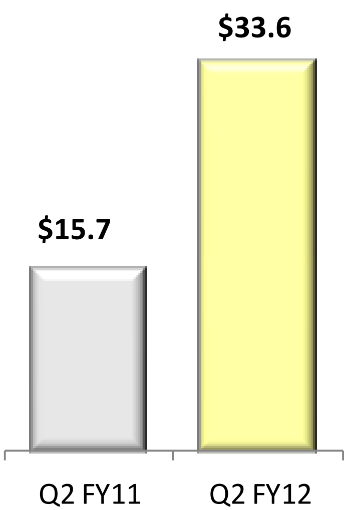
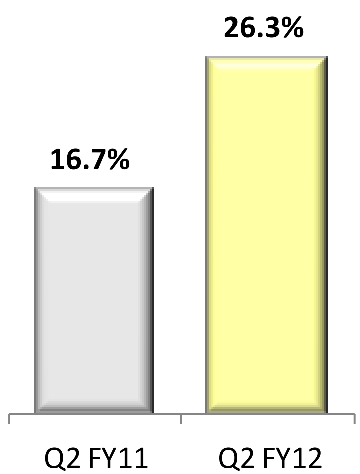
# Q2 FY12: Continued Solid Results

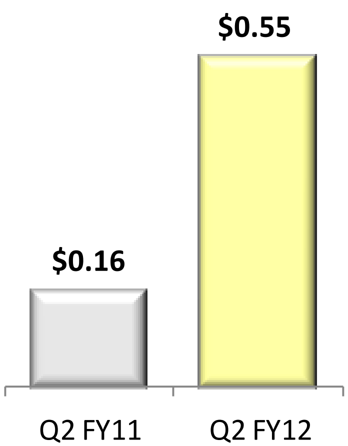
**Revenue**
*(in millions)*




**EBITDA Margin***



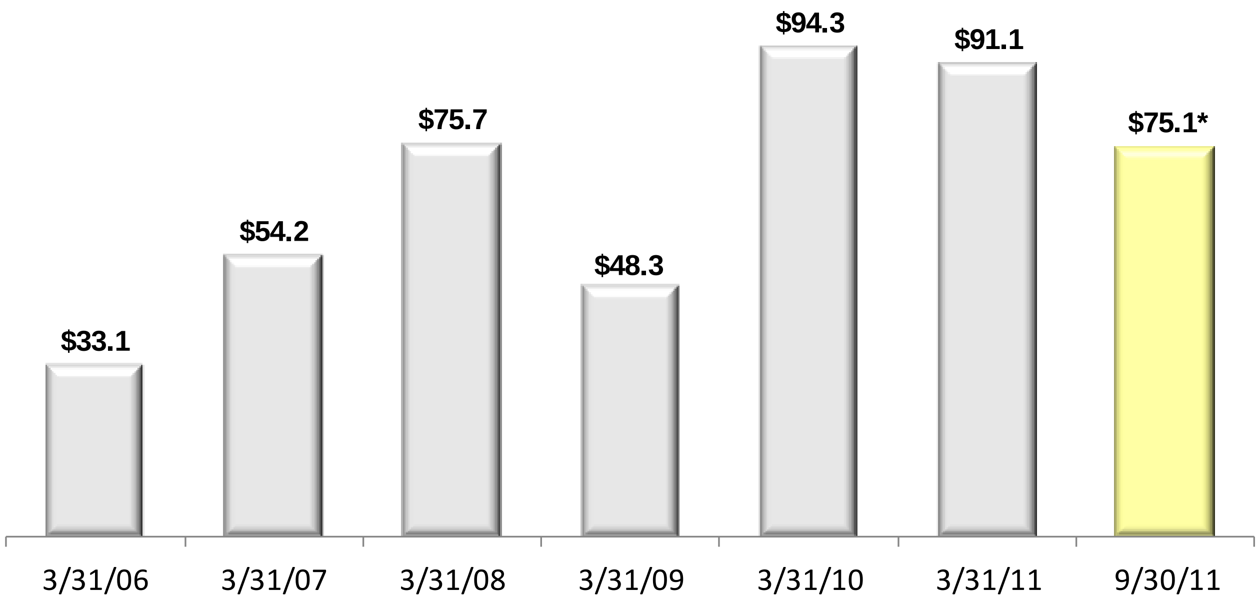

**EPS**




** See supplemental slides for EBITDA reconciliation and other important disclaimers regarding EBITDA.*

# Backlog Levels Remain Strong

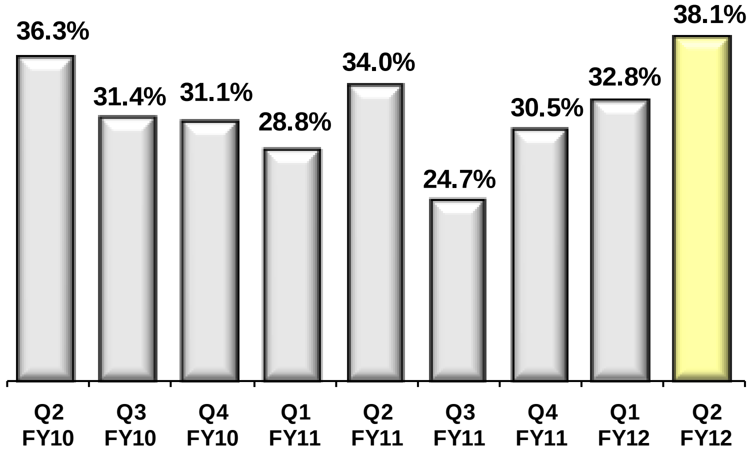
*($ in millions)*




* $6.8 million from Energy Steel

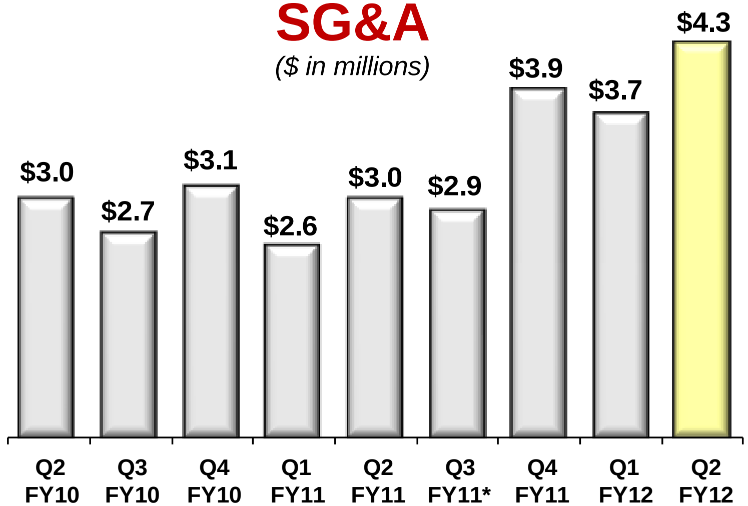
# Operational Review: Q2 FY2012

## Gross Margin



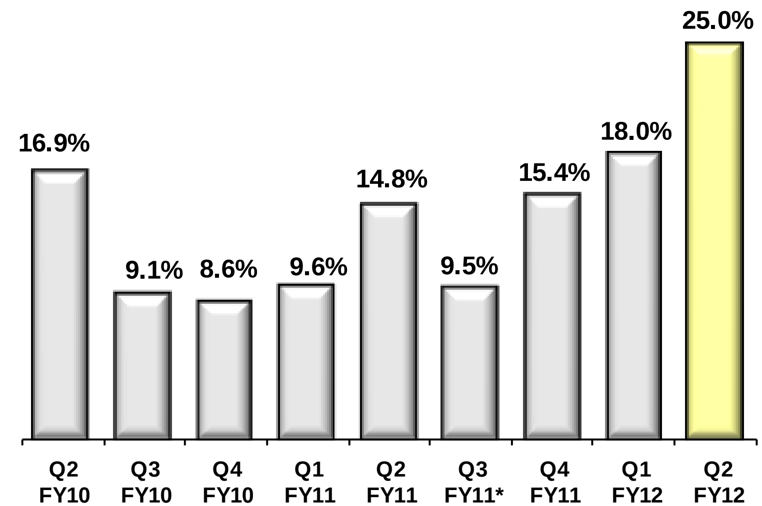

## SG&A

*($ in millions)*




| % of Sales: | 16.1% | 18.8% | 22.3% | 22.5% | 19.2% | 19.2% | 15.2% | 15.0% | 12.9% |
|---|---|---|---|---|---|---|---|---|---|

## Operating Margin




** Excludes $0.7 million in transaction costs related to the acquisition of Energy Steel on December 14, 2010.*

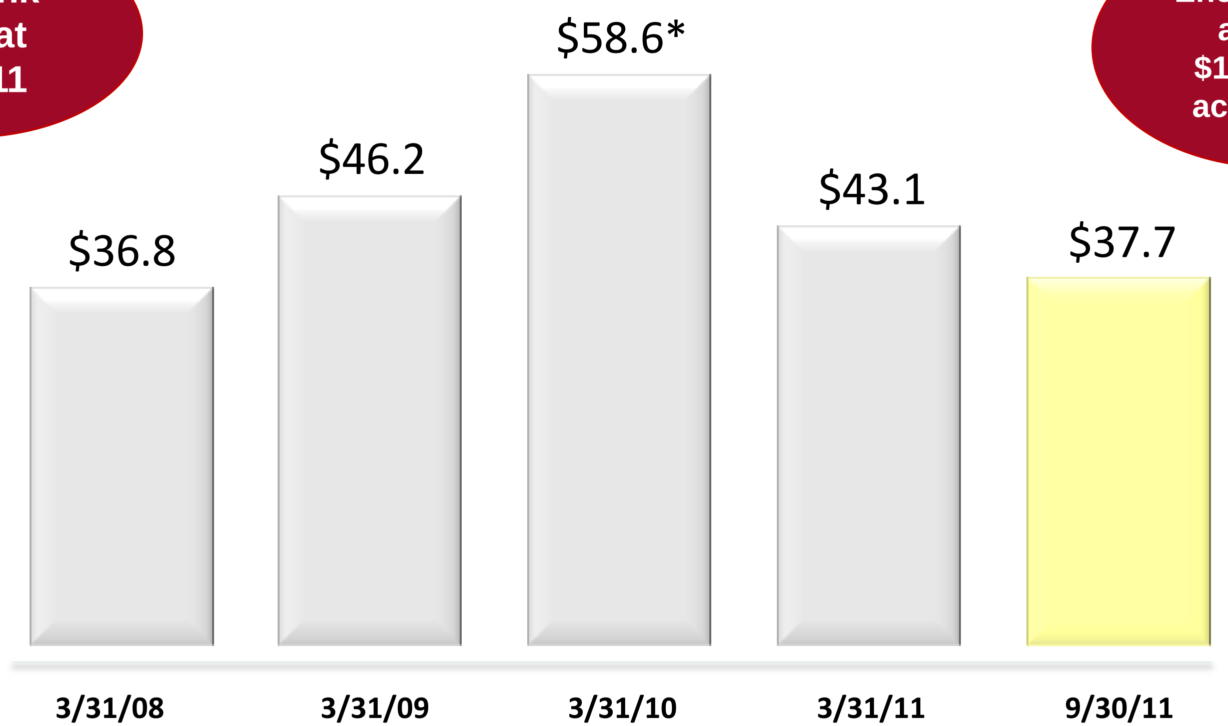
# Strong Cash Position

## Cash and Cash Equivalents

*($ in millions)*

**No bank debt at 9/30/11**

**Energy Steel: all cash $18 million acquisition**




Cash available for acquisitions and organic growth

* *Excludes $16 million in unusually high upfront and near-term customer advances utilized to lock in raw material costs*

# FY 2012 Outlook*

- Adjusted outlook for strong first half of FY 2012

| | |
|---|---|
| Revenue | $104-$110 million |
| Energy Steel | 16%-20% of total revenue |
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** Guidance provided as of October 28, 2011*

# Supplementary Slides Second Quarter Fiscal 2012 Earnings Call

# EBITDA Reconciliation

*($ in millions)*

| Fiscal Years Ended March 31 | 2011 | 2010 | 2009 | 2008 | 2007 | 2006 |
|---|---|---|---|---|---|---|
| **GAAP operating profit** | $8,775 | $ 10,042 | $ 26,328 | $ 21,088 | $ 6,013 | $ 5,454 |
| **Interest income** | $ 55 | $ 55 | $ 416 | $ 1,026 | $ 516 | $ 316 |
| **Depreciation & amortization** | 1,648 | 1,119 | 1,005 | 885 | 887 | 793 |
| **EBITDA**** | $ 10,478 | $ 11,216 | $ 27,749 | $ 22,999 | $ 7,416 | $ 6,563 |

| | 2005* | 2004* | 2003* | 2002* | 2001* | 2000* |
|---|---|---|---|---|---|---|
| **GAAP operating profit** | $ (206) | $ (1,969) | $ (1,028) | $ (1,296) | $ (124) | $ 332 |
| **Interest income** | $ 55 | $ 54 | $ 125 | $ 98 | $ 342 | $ 346 |
| **Depreciation & amortization** | 780 | 745 | 704 | 774 | 776 | 827 |
| **EBITDA**** | $ 629 | $ (1,170) | $ (199) | $ (424) | $ 994 | $ 1,505 |

| | 1999* | 1998* | 1996* | 1995* | 1994* | 1993* |
|---|---|---|---|---|---|---|
| **GAAP operating profit** | $ 2,591 | $ 4,932 | $ 3,995 | $ 2,818 | $ 1,075 | $ 662 |
| **Interest income** | $ 296 | $ 215 | $ 64 | - | - | - |
| **Depreciation & amortization** | 820 | 804 | 706 | 732 | 771 | 807 |
| **EBITDA**** | $ 3,707 | $ 5,951 | $ 4,765 | $ 3,550 | $ 1,846 | $ 1,469 |

** Data from FY1993 though FY2005 excludes discontinued operations and is unaudited; 1997 was a three-month transition year and is excluded from this comparison; 1996 reflects a 12-month period.*
*** Graham believes that when used in conjunction with GAAP measures, EBITDA, which is a non-GAAP measure, assists in the understanding of Graham's operating performance.*

# EBITDA Reconciliation

*($ in millions)*

| Quarter Ended | **9/30/2011** | **9/30/2010** |
|---|---|---|
| **Net Income** | $5.47 | $1.56 |
| **+ Interest Expense** | $0.18 | $0.01 |
| **+ Income Tax Provision** | $2.77 | $0.78 |
| **+ Depreciation & Amortization** | $0.42 | $0.29 |
| **EBITDA*** | **$8.84** | **$2.64** |

** Graham believes that when used in conjunction with GAAP measures, EBITDA, which is a non-GAAP measure, assists in the understanding of Graham's operating performance.*