



**GRAHAM**  
ENGINEERING ANSWERS

# Third Quarter Fiscal 2013 Earnings Call

*February 1, 2013*

**James R. Lines**

President &  
Chief Executive Officer

**Jeffrey F. Glajch**

Vice President &  
Chief Financial Officer



NYSE MKT: GHM

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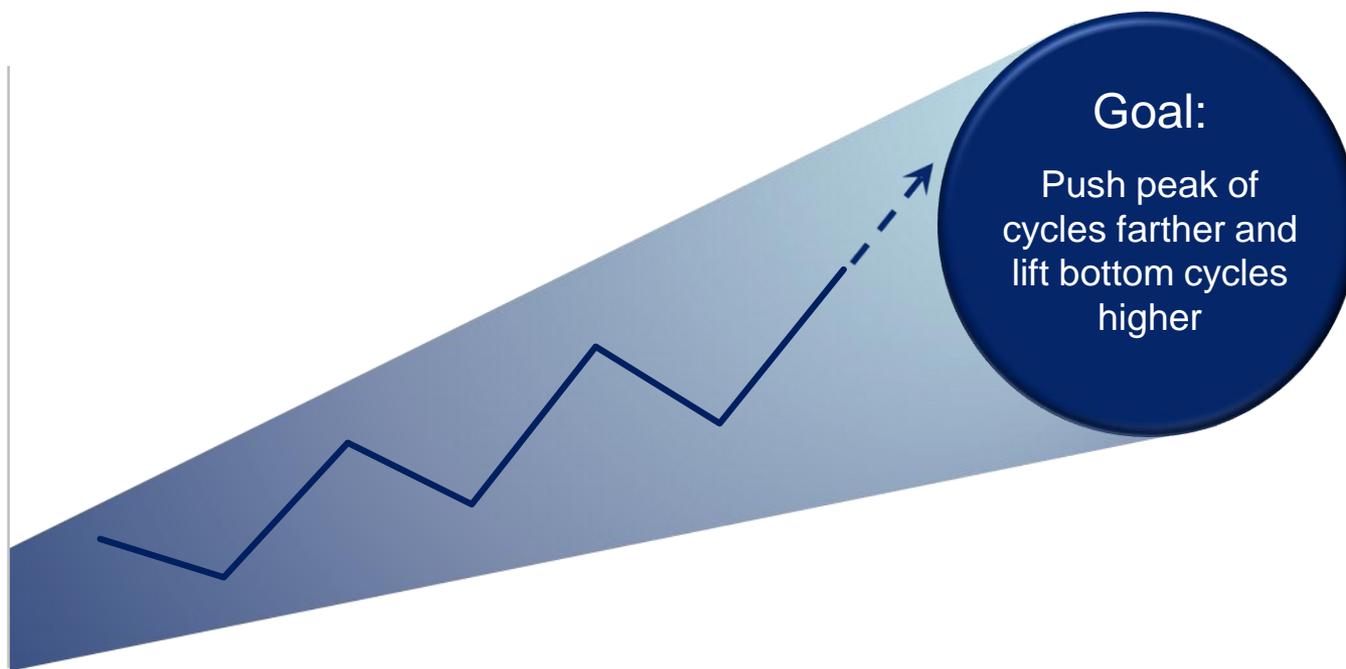
Forward-looking statements are subject to risks, uncertainties and assumptions and are identified by words such as “expects,” “estimates,” “projects,” “goal,” “anticipates,” “believes,” “plans,” “target,” “outlook,” “priorities,” “could,” and other similar words. All statements addressing operating performance, 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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# Double Revenue in Next Cycle

*A world leader in the design and manufacture of **Engineered-to-Order (ETO)** products for the **Energy Markets** with a goal to **Double Revenue to Exceed \$200 million** in next cycle.*





# Fiscal 2013 Third Quarter Highlights

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- **Third quarter sales up 5.4% to \$25.6 million**
  - International sales comprise 55% of total sales
  - International sales grew 37% to \$14.2 million driven by refining and petrochemical markets
  - U.S. sales lower from delays on nuclear and U.S Navy projects
- **Gross profit up 10.3% to \$7.1 million, or 27.8% of sales**
- **Operating margin 11.6% of sales, or \$3.0 million, excluding \$975 thousand for the reversal of a reserve regarding Energy Steel**
  - Up from \$2.6 million, or 10.9%, in prior-year period
- **Net income, excluding reserve reversal, up 26.3% to \$2.1 million**
- **Generated \$8.7 million in cash from operations in the third quarter**
- **Increased annual dividend rate from \$0.08 to \$0.12**

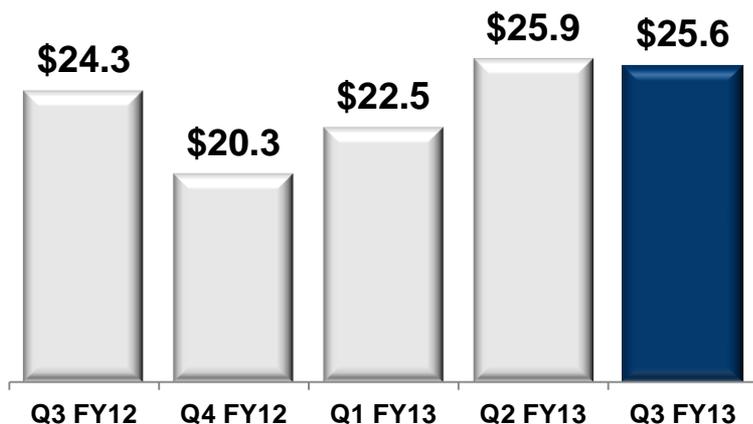




# Third Quarter FY13 Sales

(\$ in millions)

## Quarterly Revenue



➤ **Shipments to refining and petrochemical industries drove sales growth in 3Q**

- Chem/petrochem sales up 38% to \$6.5 million
- Refining industry sales up 45% to \$10.9 million

➤ **Equipment for projects in the Middle East and Asia**

➤ **Delays in Naval Nuclear Propulsion Program and Vogtle and Summer nuclear power projects impact U.S. sales by ~\$3.0 Million**

- Reflected in \$2.4 million decline in sales to Power market and \$1.5 million decline to “Other” category
- Pushed out into fiscal 2014



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# Operating Leverage on Volume

(\$ in millions)

## Sales



## Gross Profit and Margin



## Operating Profit and Margin



## EBITDA\*\* and Margin



\* Excludes \$975 thousand reserve reversal

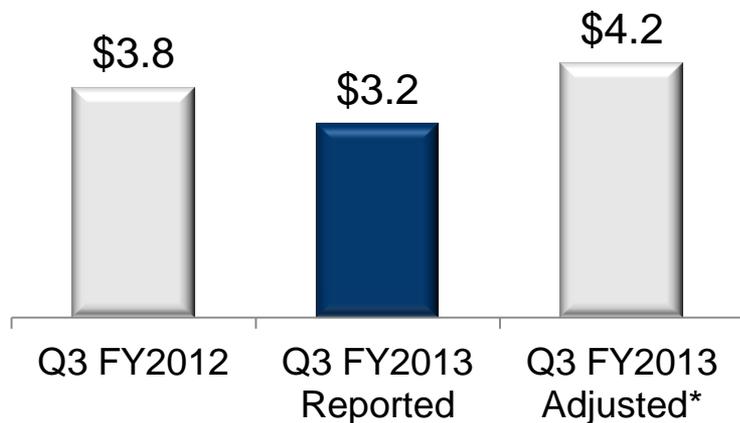
\*\* See supplemental slide for EBITDA reconciliation and other important disclaimers regarding Graham's use of EBITDA



# Third Quarter FY13 SG&A

(\$ in millions)

## SG&A



\* Excludes \$975 thousand reserve reversal

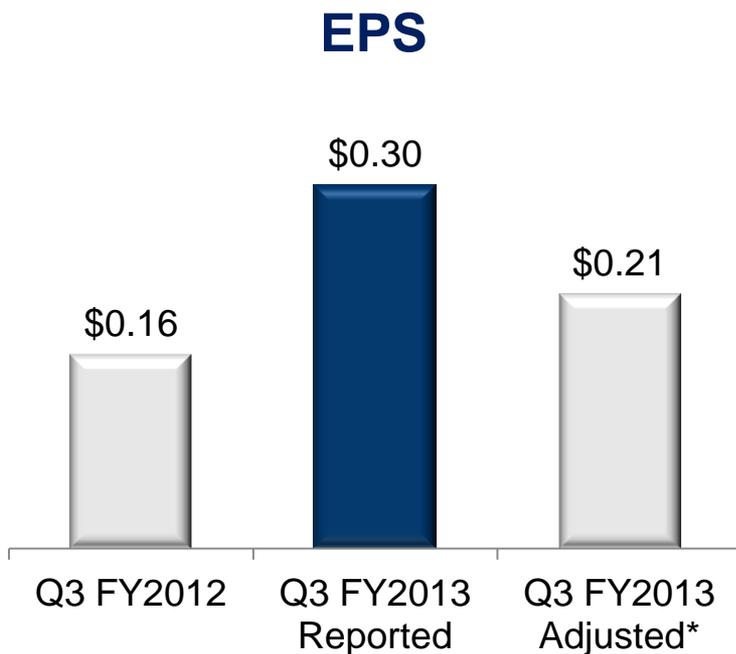
- **SG&A benefitted from reversal of contingent earn-out provision**
  - Second year earn-out not achieved for Energy Steel on lower volume and project timing
  - Nonetheless, successful acquisition exceeded hurdle rates
    - Energy Steel backlog more than doubled since acquisition
    - Solid cash generation
    - Successful diversification into new build and international markets
- **SG&A included investments in personnel**
  - Increasing staffing as bidding/proposal activity heats up





# Bottom Line Expansion

(\$ in millions)



\* Excludes \$975 thousand reserve reversal

- **EPS includes \$0.10 per share for earn-out reserve reversal**
- **Net income expands 26.3% excluding reserve reversal**
- **Effective tax rate was 22.5%**
  - Earn-out provision was non-taxable



# Nine Month FY2013 Financial Highlights



(\$ in millions)

## Sales



## Gross Profit and Margin



## EBITDA\* and Margin



## Cash Flow from Operations



\*See supplemental slide for EBITDA reconciliation and other important disclaimers regarding Graham's use of EBITDA

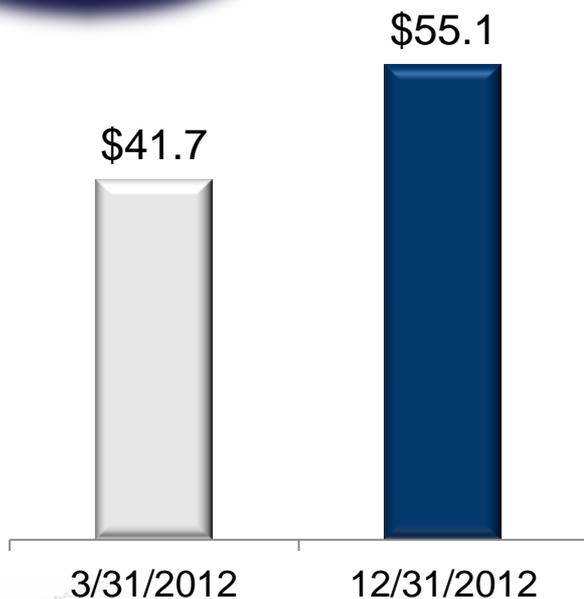


# Strong Cash Position

## Cash, Cash Equivalents, and Investments

(in millions)

No bank debt at  
12/31/12



- Cash position up \$13.4 million year to date
- Strong cash position and financial flexibility supports acquisition strategy and dividend increase

*Cash available for acquisitions and investments for organic growth*

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# Outlook: FY 2013 and Beyond

## Updated Fiscal 2013 Guidance:<sup>(1)</sup>

- Revenue \$102.5 million - \$107.5 million
- Gross margin 29% - 31%
- SG&A 16.5% - 17% of sales<sup>(2)</sup>
- Effective tax rate 29% - 30%<sup>(3)</sup>

**Next “Top of Cycle” Target: Exceed \$200 million in revenue**

*(1) Guidance provided as of February 1, 2013*

*(2) Excludes a \$975 thousand benefit from the reversal of the second year contingent earn-out provision related to our acquisition of Energy Steel on December 14, 2010*

*(3) 2013 tax rate guidance of 29% to 30% includes a benefit from the recently reinstated R&D tax credit, expected to impact 4Q FY2013 financial results*

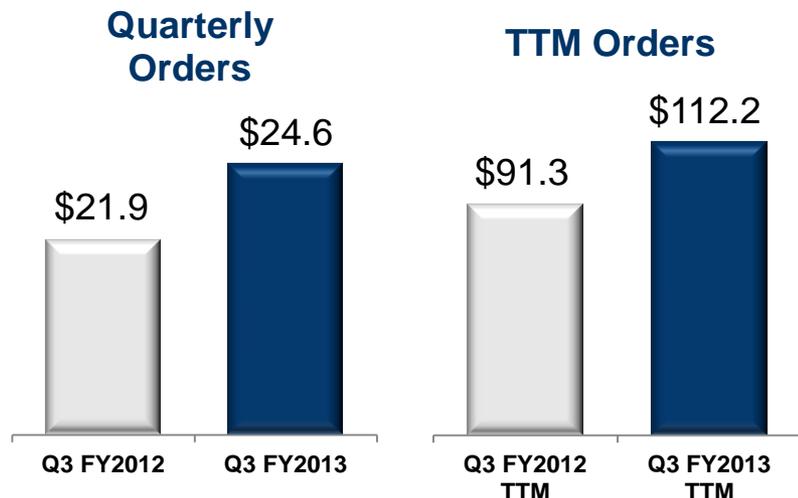




# Solid Pipeline of Quality Opportunities

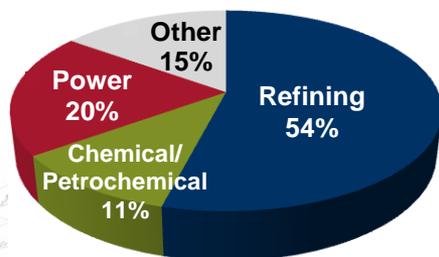
## Q3 FY2013 Orders of \$24.6 million

(in millions)



- Orders increased 12% compared with Q3 FY2012
- U.S orders represent ~50% of total orders
- International and domestic orders expected to maintain balance long term
  - Nuclear industry and U.S. Navy domestically
  - Growth in Asia and Latin America
- **Bidding activity remains strong; Investment decisions delayed**
  - TTM bids: \$800 to \$900 million; More than double FY04 – FY05 period
    - North American petrochemical market
    - Global refining opportunities
    - Power market steady

### Orders by Industry



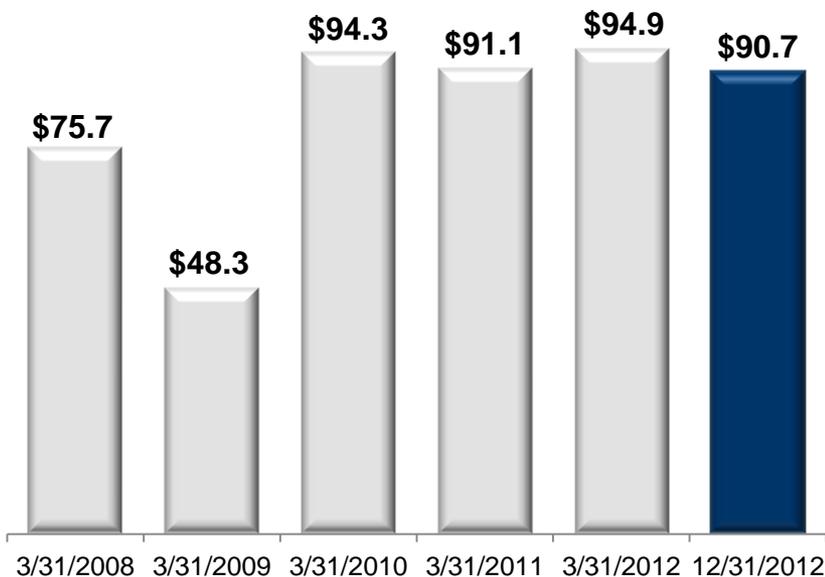
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# Backlog Level Remains Steady

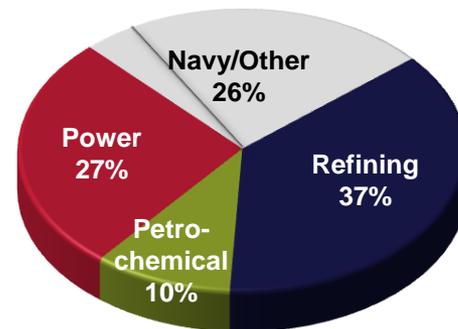
(in millions)



- Chippy order pattern delays backlog expansion
- Expect 75% to 85% to convert to sales within next 12 months
- Strong order pipeline; expecting backlog growth

## Backlog by Industry

December 31, 2012



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# Strategic Focus

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- **Sustainable earnings growth**
- **Reducing earnings volatility**
- **Improving operating performance**
- **Generating high cash flow from operations**
- **A strong focus on customers and employees**





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# EBITDA Reconciliation

(in thousands)

	Three Months Ended			Nine Months Ended	
	December 31,			December 31,	
	2012- adjusted**	2012	2011	2012	2011
<b>Net income</b>	<b>\$2,072</b>	<b>\$3,047</b>	<b>\$1,640</b>	<b>\$7,052</b>	<b>\$10,124</b>
+Net interest expense	6	6	43	(309)	212
+Income taxes	887	887	959	2,826	5,206
+Depreciation & amortization	520	520	525	1,560	1,460
<b>EBITDA*</b>	<b>\$3,485</b>	<b>\$4,460</b>	<b>\$3,167</b>	<b>\$11,129</b>	<b>\$17,002</b>
EBITDA Margin %	13.6%	17.4%	13.0%	15.0%	20.5%

\* EBITDA is defined as consolidated net income before acquisition related expenses, interest expense, income taxes, and depreciation and amortization. EBITDA is not a measure determined in accordance with generally accepted accounting principles in the United States, commonly known as GAAP. Nevertheless, Graham believes that providing non-GAAP information such as EBITDA is important for investors and other readers of Graham's financial statements, as it is used as an analytical indicator by Graham's management. Because EBITDA is a non-GAAP measure and is thus susceptible to varying calculations, EBITDA, as presented, may not be directly comparable to other similarly titled measures used by other companies.

\*\* Excludes \$975 thousand reserve reversal

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