Jim Lines: Good morning. I'm Jim Lines of Graham Corporation, and with me is Jeff Glajch, our CFO. We're pleased to have you here with us this morning.

We may make some forward-looking statements, so please be advised of the cautionary remarks that accompany those forward-looking statements.

Graham is an industrial company. We provide custom-fabricated highly-engineered products to the energy market, the naval market, the power market and other associated markets.

Our financial goals are to run our business profitably, and to have an EBITDA margin across the cycle that's in the upper teens. The last cycle was around 17% EBITDA margin on average. We also are good stewards of capital, and we focus on return on invested capital. The last cycle our average ROIC was 12%. During the current contraction, our revenue has declined to about $90 million, EBITDA margin of 11%, and ROIC, because of our strong cash position, is currently at 4.4%.

Our goals are to grow our business, as is the case for every business, leverage the distinct attributes of our company, which are our engineering capability, our ability to fabricate specialized, customized, very large weldments to the very tight quality-control requirements of our customers. We're concentrating on growing our predictable fixed revenue base, so we're less vulnerable to the cycles of the oil industry. That's our aftermarket business, that's our short cycle work, that's our work with the U.S. Navy. That's also, to a degree, our work in the power segment. Those are decoupled from refining and petrochemicals, and we want to change the volatility of our earnings and our financial performance through diversification.

The key markets that we have focused on are refining, chemicals/petrochemicals, power, including the nuclear utility market, and the U.S. Navy. We are in a downcycle serving the energy space and, as I said, it's highly cyclical. What's imperative for the leadership team is not to waste a downcycle. Don't just try to manage through a downcycle. Take action. We did that during the last downcycle, as we focused on two new markets. We came out of that downcycle entering into the naval market and the nuclear utility market.

Our intent in this downcycle is to take similar action, diversify our revenue streams, add products into the existing markets that we're serving, and ultimately, not just try to get through this downturn. Be action-oriented, be offensive, and think about how this business is positioned as we go through the downturn. Changing our growth trajectory and doing the right things during the downturn, we can come out of it a different company with more earnings potential and able to grow differently than we had in past cycles.

As we think about our markets, the refining market has an opportunity set of about $150 million annually. We believe our global share is about 25%. Our longer-term share goals through increased participation, improved penetration, assertive pricing, is to grow our share from 25% to approaching 40% on a global basis.

In the chemical area, our global market share, we believe, is about 15%. Similarly, the market size is about $150 million on an annualized basis, on average. We have a very dominant position in the North American market. We have a good position in the Middle Eastern market, and we have share growth potential in Asia and in South America.

The U.S. Navy has been a strategy that we embarked upon about 10 years ago. We are very thrilled with the success of that strategy. We were a participant in the naval programs very intermittently prior to that. We've made a clear demarcation to the Navy that we want this business, and we want to be a key supplier to them. We have secured our position as a supplier to the carrier program for certain components, and we've now also broken into two different classes of submarines. That strategy was to build market share, not buy market share. It's a slow, progressive strategy, but as the leader of our business, I am very thrilled with the work of our team and our ability to penetrate that market, displace competition, and demonstrate that Graham is a different supplier to the industry. They're now pulling on us to see what else we can do for them, which, again, is a clear sentiment that they value what we're doing and they see us differently than their ordinary supply chain.

In the power market, we don't play in a large central power plant. We're generally in a combined cycle power plant that's smaller in size, waste-to-energy, cogeneration, or alternative energy such as geothermal. In order to keep the existing fleet of US-based nuclear utilities operational, we provide aftermarket work to that fleet of the power sector. We're not in like a Thomas Edison central power station that is 500, 800, 1,000 MWs. That's not where we play.

We've been focused on diversification, again, to take the volatility out of our business. If we'd looked at this pie chart a decade ago, about 75% of our sales were in some way going into the refining space and into the petrochemical space. Through the actions we've taken over the last decade, we're less weighted towards those two industries, although they are still very important, and I expect them to be very important to us as we go forward.

We like refining, we like chemicals, but we've lowered their sales mix and increased the sales mix of power and Navy. Again, those are decoupled from fossil based energy, and that does have an effect of reducing the volatility, over the long-term, of our top line and bottom line. As we think about this pie chart going forward, I would like to see our business more equally weighted, where no market represents more than one-third of our business.

We have an active acquisition program that's being led by Jeff and his team, because of the strength of our balance sheet and the strong operating cash flow that our company does generate. Our balance sheet has about $75 million of cash as of the last reported quarter, and our acquisition program is about adding products, entering into new markets, or geographic expansion for us.

We're looking for companies that have similar products with similar operating models. We like an engineered-to-order product that's custom-designed, custom-fabricated, low volume, and high mix, a management team that cares first about the customer, secondly about their employees, and is keenly focused on the quality and technical leadership of their offering.

The size range that we're looking for our M&A program would be revenue, and about the same transaction value, somewhere in the $20 million to $60 million range. We will look below that, and we have looked above that, but this tends to be the type and size of business that we're focusing on. We're not looking for something that's strictly accretive, that's relatively simple to do. We're holding ourselves just as we do with any deployed capital, meeting a hurdle rate that is sensible for an acquisition with some risk premium, and an equity return on capital is what we're focused on as we look at an acquisition. We're also looking for businesses, because they're differentiated, to have distinct characteristics that separate them from the competition, to have some pricing power, because that's what we have within our businesses.

So, we're looking for something that fits our management sensibilities, fits our value drivers of how we derive value from how we execute orders and sell our equipment, and there's a large pool of opportunities that Jeff and his team have been able to build. So, I'm very thrilled with the pipeline of opportunities that we're looking at.

We do have some headwinds, of course, with our energy markets and where they currently are. We've had a very appreciable reduction in our topline, and that is representative of the direction of our backlog, as we've seen it decline from roughly $110 million for three years in a row, down to between $70 million and $80 million over the last couple of years.

Our backlog is now weighted toward one of our diversification strategies, which is the U.S. Navy. Almost two-thirds of our backlog is for the U.S. Navy, and much of that backlog is for the two submarine programs where Graham had never been in its history, up until two or three years ago. As I said, we're very pleased with the progress of that strategy. Our refining, chemical and industry backlogs have declined due to the strength of those end-markets for us.

About half of our backlog is projected to convert over the next 12 months, a small segment over year number two, and then about one-third in the years after the second year from now. Importantly, I want to draw your attention to it, we've highlighted our diversification initiatives. About 70% of our backlog is from markets or customers that our company did not serve five, eight, ten years ago. So, that diversification effort has taken hold. It has had a positive impact and the benefit of that is illustrated by that remark. There's so much of our backlog today that's from markets or customers that we previously had not served.

This is another way of illustrating the direction and the trend of our backlog and the diversification. During the last downturn, which was calendar year 2007 and 2008, or fiscal years 2008 and 2009, you can see that we had no Navy, no commercial nuclear, and then as we began to focus on those markets our backlog grew and became more diversified. This is a great illustration of how we executed diversification strategies in the last downturn. Similarly, we intend to do the same in this downturn.

Our bidding pipeline is still very robust. The aggregate value of our bids over the last 12 months is somewhere between $600 million and $800 million. Comparing that to three or four years ago, the bid pipeline and aggregate value was $800 million to $1 billion, so it is down about 20%, however, it is still healthy. The bidding activity is, though, in the early stages of project development, project concept, front-end engineering design (FEED), a little bit of EPC work, and we are seeing some in the procurement stage, but we're not yet seeing our industry pull out of the downturn.

This will be the lead measure that we'll watch as management, as our bid pipeline begins to move from project concept into FEED, then into EPC bid, and into procurement. That's the lead measure that tells us that we're coming out of this. We have not yet seen this in our bid pipeline, as it matures. However, the positive remark is that the pipeline is healthy, it's diversified, and we're involved in these projects early, which is a precursor to strong success and a strong margin profile for when our customers do begin to place orders.

In our product offering, we want to lead with technical leadership, where there is a very complicated product to integrate into a very large process and, if our product doesn't work, that process has a dire consequence. If you think about propulsion for a carrier, if our equipment is not performing right, that ship is not propelled appropriately. If our equipment fails in a refinery, a refiner cannot process the barrels of oil per day that they are supposed to, or produce the quality of fuel oil that they intend to. So, the cost of failure is extraordinarily high. That's where we choose to play, where there's a very complicated quality requirement, an order execution requirement.

We look for these attributes, because that pushes much of the supply chain aside, because they don't have the capabilities, they don't have the ops model, they don't have the technical know-how to serve those requirements well, or they choose not to because it's very risky and it's very complicated. In these markets we find that our customers will, more often than not, place an order based on a decision that's other than price. They will find another feature that's important to them. Price is always in the equation, but it's not always number one. So, we look for businesses and we also have geared our products toward those characteristics, where we can sell on differentiation, not on price.

I spoke about our sales process a bit ago in the description of our pipeline. There are really four distinct phases in our selling process. There's that early phase of project concept. There's the FEED, which is an acronym for front-end engineering design, when a process licensor is designing a facility. Then the people that will build the facility are bidding on that project and we're bidding to them. Then, ultimately, an EPC, such as Fluor or Jacobs might win the project, and then they issue an inquiry for procurement of our type of equipment. We're seeing our pipeline more in stages one and two, and as we begin to see our markets come through this downturn into recovery, that pipeline will move to the right, into stages three and four.

The earlier we're involved in the project, the better it has always been for our success and our ability to manage margin and push our competition out. So, we do like to be involved early. We have a sales model that garners that. That's a cost that we carry up cycle and down cycle, for our business and our customers' needs. That's the right model for us.

This slide provides a view over the last four years plus fiscal year 2018 guidance. We're in the middle of that year right now. It shows a revenue trend and the impact of the current downturn in the energy markets, as we've fallen from \$135 million in fiscal 2015 to about \$90 million for the last three years. Our guidance that we gave at the end of last quarter is to be between \$80 million and \$90 million for fiscal 2018.

Correspondingly, our EBITDA margin has declined as well. It is still in the low double digits. Our EBITDA margin across the cycle can vary between low double digits to mid to upper 20s with an average being in the upper teens. So, we do have to manage a cyclical business. We've changed the way we financially perform across the cycle.

I think we are up about 500 to 1,000 basis points on the EBITDA margin line if, you compare our financial performance today to one or two cycles ago. The team has done a good job of managing our business through cycles and maintaining profitability, so that we can be action-oriented and offensive in a downturn, not just trying to survive a downturn.

I mentioned that on our balance sheet, there is \$75 million of cash as of June 30th. That's just between \$7.50 and \$8.00 per share of cash. We have a strong operating cash-flow characteristic in our business. It can be varied based on the cash-flow by projects. We do have a selling model where often times we get payments that correspond to our material procurements, or hopefully more than our material procurements. But over a cycle, we have strong cash-flow generation. Even in a downturn we still can have positive cash-flow.

Our capex over a ten-year period averages about \$2.5 million per year, which equates to our depreciation and amortization. We tend to try to balance that. We may have higher capex in a given year if we're doing a strategic investment, or lower depending upon where we are. However, I would think of us as about \$2 million - \$2.5 million in capex on average per year. We're focused on capital efficiency in our operations. Our working capital is generally between 0% and 10% when we're running our business well, our markets are healthy, and we're not using our balance sheet to secure business, which is what we did in 2015.

When I say that remark, we might adjust cash-flow terms because we have that strong balance sheet to pull business in, where our competition doesn't have that strength. That's what we saw a bit in our 2014 - 2015 timeframe. We got aggressive at modifying our cash-flow terms to pull business in, and then we got back to a normal level, where our operating cash-flow is between 0% and 10% up sales.

This is a great illustration of the capabilities of our business to drive income and also drive positive cash-flow where, over a 12 to13 year period, about 100% of our earnings was returned to the business as cash. That cash was used for returning money to our shareholders, about $30 million between share repurchases and dividends, and also for an acquisition. We're very good at generating positive cash flow and then putting that cash flow to work to grow our business, or return it to the shareholders when that's the appropriate thing to do.

Let's talk about our capital allocation priorities. Our cash flow from operations drives organic growth strategies and is used to pay ongoing dividends. Then, we look at our balance sheet for strategic investments in acquisition or, when appropriate, to return cash to the shareholders. As I said a moment ago, we have returned $13.5 million of cash to the shareholders in the form of share repurchases over the last 10 years.

We are focused on our shareholders. We have progressively increased our dividend over the last number of years. It's currently at $0.36 a share annually. So far, through fiscal 2018, we've paid $900,000 out in dividends. We feel that level of dividend is sustainable. We look at it on a periodic basis to decide if it's an appropriate time to increase our dividend. You can see we've done that over the last four or five years, and that was under Jeff's stewardship as he thought through that and our capital needs.

We are also very strong in our IR program. We've increased institutional ownership, which has given us a stable stock price, from 2007 when about one third of our shares were held by institutions, to today when about three-quarters of our shares are held by institutions. That has given us a very stable shareholder base and reduced the volatility as well, as they understand the long-term story for Graham.

Our 2018 guidance, the current fiscal year, that we provided when we last reported earnings in August, is for revenue to be between $80 million and $90 million, gross margin between 22% and 24%, SG&A in dollar terms between $16 million and $17 million, and our effective tax rate between 30% and 32%.

With that, Jeff and I would be happy to field any questions that you might have.

Question: Are there any precise oil prices that we should be looking for to see the market turn for you?

Jim Lines: We think oil prices will not be the catalyst. We feel the energy companies are going to structure their businesses to survive in a $40 to $60 per barrel oil environment. No one that I know of is talking about $80 or $100, so they're prepared to run their businesses in that environment. I don't think oil jumping higher is the catalyst. I believe the shock is now over. Business is going to get back to normal. There'll be investment in sustaining capital to keep the refineries running, and then there'll be strategic investments to grow their asset base, to get more from their asset base, or add new capacity. So, I don't think oil price is the catalyst.

Question: But is there something out there, any signs that would suggest that the market is recovering?

Jim Lines: I think the signs that we would be looking for would be the announcements of new capacity, and that's going to be more global. There's underlying demand that's happening globally. GDP growth is continuing to grow. While refining capacity doesn't correlate directly to GDP growth, it closely correlates at a lower growth rate. So, while there's been underinvestment for the last three or four years, there's going to be investment that has to catch up with that.

What we saw during the last downturn that was protracted, which was 1998 through 2003, there was underinvestment during that five year period of time. The wave of investment that came on the backside of that was the biggest in our history. I'm not making the call that it's going to happen again, but when there's a lack of investment, and underlying demand is continuing to climb globally, which is happening, they have to catch up. And if this becomes a four or five year, a five or six year downturn to us, I'm not saying that's the case, the investment wave becomes huge. We saw that through 2005, 2006, 2007, and 2008, and it was massive.

Question: Would that be driven domestically, internationally, or both?

Jim Lines: It would be both, but of course we would be more compelled to see new capacity internationally. Any other questions for me?

Question: What kind of return expectations are you seeing around acquisitions and how does that affect your ability to invest the cash that you have on your balance sheet?

Jeffrey Glajch: They have come down a little. There is still a lot of money chasing a fewer number of opportunities, but our approach looking at acquisitions is really to look at the companies that are not for sale, such as private companies and smaller companies, and build a relationship. Ultimately, we believe that gives us an opportunity to, perhaps, get a valuation as a strategic player that might be a little bit lower than if someone were simply looking to maximize the amount of cash they can get out of the business.

And how does that compare? We're probably comfortable in a six to seven times EBITDA range, and if you think about a business that, perhaps, has a low double digit to mid-teen EBITDA profitability, we're looking for dollar-for-dollar revenue and purchase price. We think there are opportunities out there. We have a good pipeline right now and, as we have at any time, we have projects that are at different places in that pipeline. But we're comfortable that there are enough opportunities out there that we hope to find something that will allow us to use some subset of that balance sheet in the nearer term. Is nearer term 3 to 6 months, or is it 18 or 24 months? That we don't know. It's really a function of finding the right company.

Question: Are there any goals to think about leveraging the aftermarket or the installed base in providing services?

Jim Lines: We do have such goals. Part of our M&A strategy, an element of that is looking at those types of businesses to add on, and how we can internally develop a stronger support of the installed base. So, that is part of our strategy, because of course that potentially becomes a more stable income stream and a highly profitable income stream. So, we are looking there.

Question: If your revenue would stay $80 million or $90 million, [audio disruption]?

Jim Lines: Well, we are carrying some additional strategic investment personnel that support our naval strategy. That's not something we're willing to unwind, but we can see with our backlog that revenue is in front of us, one or two years forward. Therefore, that is a bit of a cost headwind that we have in our business, and we've been out in front of that, we've been talking about that. Would it be wrong to unwind that? We can't unwind that, therefore, we're carrying that.

So, we don't think $80 million is necessarily where we'll be 4-5 years out. From the natural progression, if refining and chemicals stay the same, our naval work is going to expand. The backlog is there, it's going to grow, and we have the infrastructure in place to execute that. We thought about our cost basis, and where we generally are now is for an appropriate cost structure for where we think we would be over the next couple of years. So, we've taken those steps.

Question: [Audio disruption]?

Jim Lines: We are beginning to see more positive discussion. That doesn't mean that there's an order that's coming up, but the project sponsors and the end-users are feeling more positive. I want to put this in context. In 2003, 2004, right before that biggest wave of work that we'd ever seen, oil was $25 to $30 a barrel. So, oil peaking at $50, if you look at a 3% or 4% CAGR, that's about where it would naturally be through inflation. The industry took a torpedo, a couple torpedoes. It had to stabilize, get its feet underneath it, and recognize that it's not necessarily going back to that lofty $80 to $100. It seems to have reversioned back to a normal inflationary type of where crude oil would be.

I believe that now they've figured out how to operate in that environment. We had a bunch of projects that were in our pipeline before this hit. They've de-staffed all those projects. Once they begin to feel comfortable, and they want to get back to reinvesting, they need to bring their internal staff on to it. They need to engage the EPC. Once they feel more positive, it doesn't show up into the big pipeline and orders for probably 18 to 24 months, but we are beginning to have more positive conversations, which is making us feel better about the out years, not necessarily next quarter or the quarter after it, but one or two years forward. Our customers are beginning to feel that they know what to do now. There's a predictability in their commodity price, and they know how to operate within that commodity price.

The key thing is, just think about that, twelve or thirteen years ago, oil was $30 a barrel. If you thought about a normal inflation growth over that period of time, $50 is not a crazy number. $100 was perhaps an unsustainable number, but $50 is more of an inflationary type of growth rate for oil compared to where it was 12 years ago, 13 years ago.

Thank you.