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# First Quarter Fiscal 2019 Earnings Call

**James R. Lines**  
President & Chief Executive Officer

**Jeffrey F. Glajch**  
Vice President & Chief Financial Officer

# 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,” “confidence,” “projects,” “typically,” “outlook,” “anticipates,” “believes,” “appears,” “could,” “opportunities,” “seeking,” “plans,” “aim,” “pursuit,” “look towards” 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, expected expansion and growth opportunities within its domestic and international markets, anticipated revenue, the timing of conversion of backlog to sales, market presence, profit margins, tax rates, foreign sales operations, its ability to improve cost competitiveness, customer preferences, changes in market conditions in the industries in which it operates, changes in commodities prices, the effect on its business of volatility in commodities prices, changes in general economic conditions and customer behavior, forecasts regarding the timing and scope of the economic recovery in its markets, its acquisition and growth strategy and the expected performance of Energy Steel & Supply Co. and its operations in China and other international locations, 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 Report filed with the Securities and Exchange Commission, included under the heading entitled “Risk Factors.” Should one or more of these risks or uncertainties materialize, or should any of Graham Corporation's underlying assumptions prove incorrect, actual results may vary materially from those currently anticipated. In addition, undue reliance should not be placed on Graham Corporation's forward-looking statements. Except as required by law, Graham Corporation disclaims any obligation to update or publicly announce any revisions to any of the forward-looking statements contained in this slide presentation.

This presentation will discuss some non-GAAP financial measures, which Graham Corporation believes are useful in evaluating its performance. You should not consider the presentation of this additional information in isolation or as a substitute for results compared in accordance with GAAP. Graham Corporation has provided reconciliations of comparable GAAP to non-GAAP measures in tables found in the Supplemental Information portion of this presentation.



# Financial Overview

Jeff Glajch

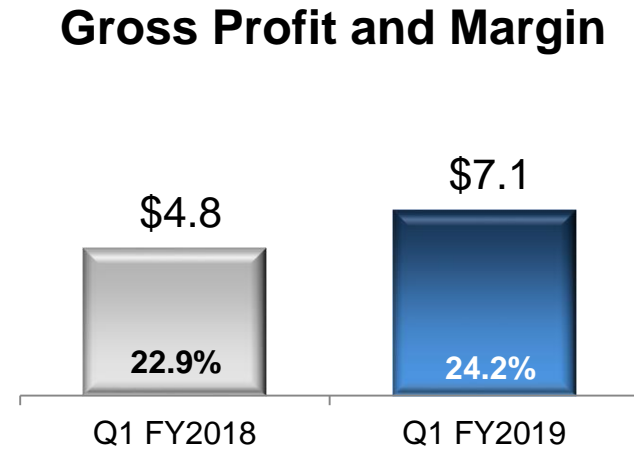
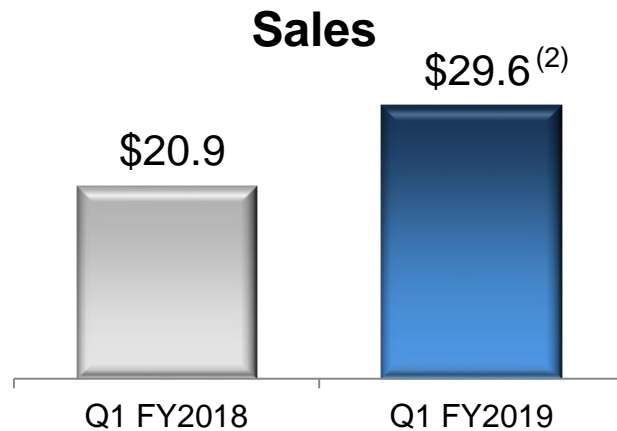
Vice President and CFO

# First Quarter Fiscal 2019 Summary

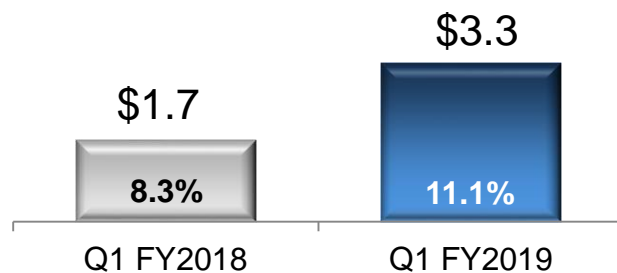
- Q1 revenue of \$29.6 million
  - Up 42% compared with Q1 FY18; up 27% excluding impact of adopting a new revenue recognition standard
- Q1 net income of \$2.3 million, \$0.24 per share
  - Up from Q1 FY18 of \$0.9 million, \$0.10 per share
- Q1 orders of \$22 million
  - Backlog remains strong at \$114.9 million

# Q1 FY19 – Higher Sales, Improved Profitability

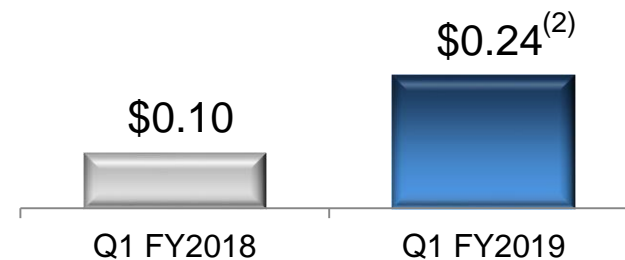
(\$ in millions, except per share data)



### EBITDA and Margin<sup>(1)</sup>



### EPS



(1) See supplemental slide for EBITDA reconciliation and other important disclaimers regarding Graham's use of EBITDA.

(2) Adopted required new revenue recognition accounting standard "Revenue from Contracts with Customers," applying modified retrospective approach on April 1, 2018. Resulting impact was to recognize approximately \$3 million of additional revenue and \$0.01 earnings per share in Q1 FY2019.

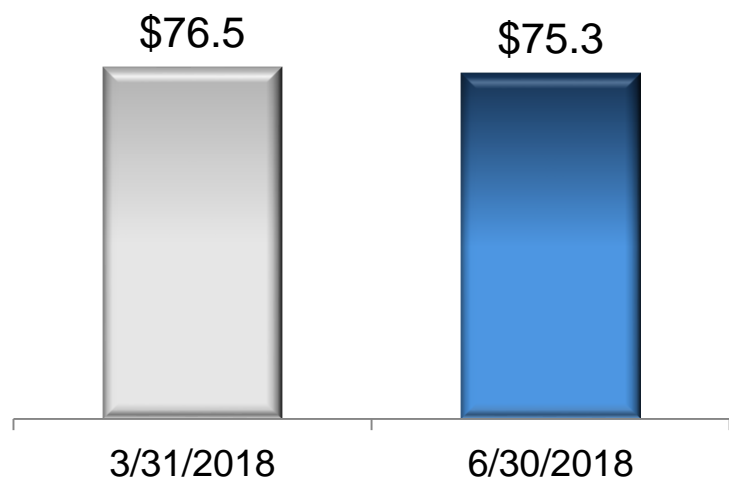


# Capital Provides Financial Flexibility

## Cash, Cash Equivalents and Investments

(\$ in millions)

No bank debt  
at 6/30/18



Cash available for investments in  
organic growth and acquisitions

- Cash<sup>(1)</sup> balance decreased \$1.2 million in Q1 FY2019
  - Cash provided by operations was nominal, impacted by working capital timing
  - Paid \$0.9 million of dividends
  - Cash<sup>(1)</sup> on hand at quarter end of \$7.66 per share diluted
- Capital expenditures in Q1 FY2019 of \$0.2 million compared with \$0.1 million in Q1 FY2018
  - FY2019 capital expenditures expected to be between \$2 million - \$2.5 million<sup>(2)</sup>

(1) Represents cash, cash equivalents, and investments

(2) FY2019 guidance provided as of August 3, 2018



# Sales & Outlook

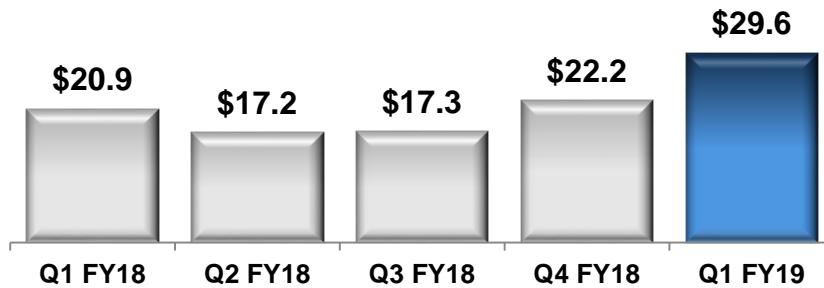
Jim Lines  
President & CEO

# First Quarter Fiscal 2019 Sales

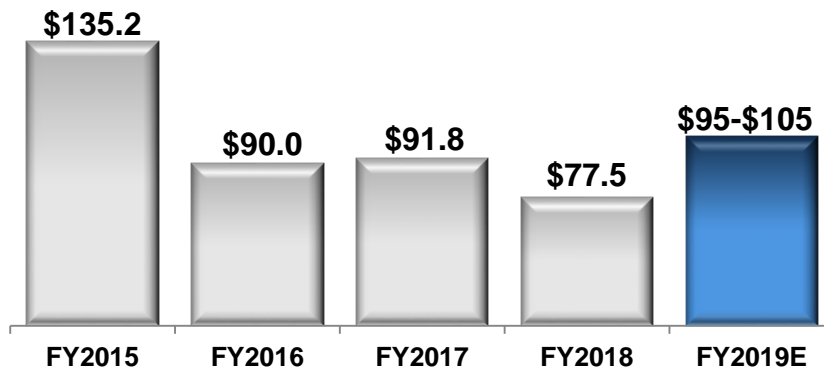
*Core markets recovering*

(\$ in millions)

## Quarterly Revenue



## Annual Revenue



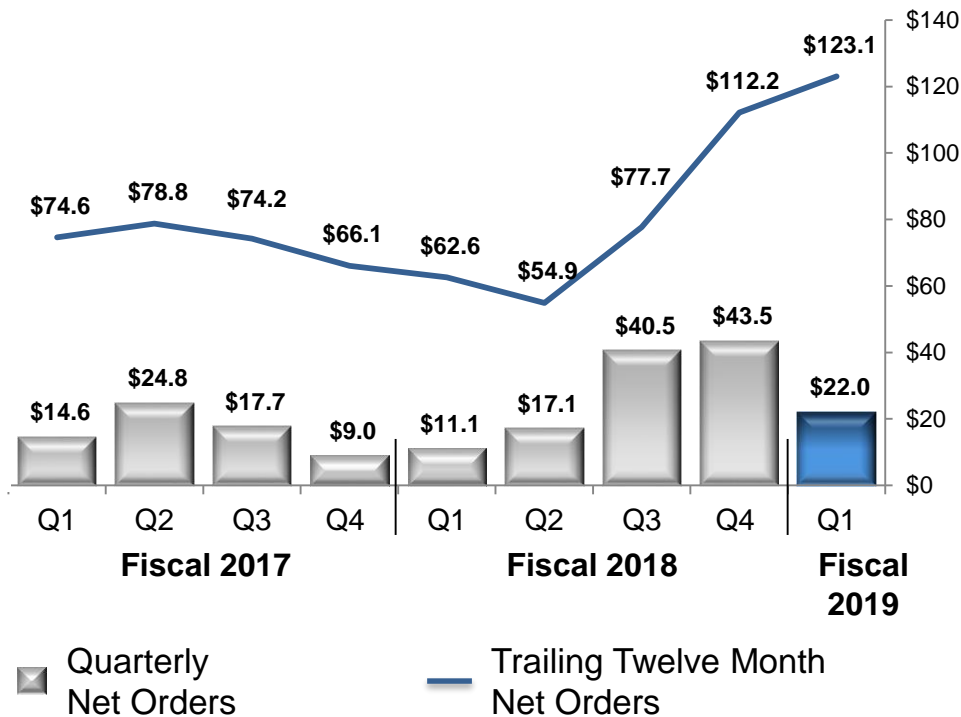
- Q1 sales increased vs prior year:
  - Refining industry: \$19.8 million, up from \$3.6 million
  - Chemical/petrochemical industry: \$3.0 million, down from \$7.2 million
  - Power industry: \$3.1 million, down from \$4 million
  - Other commercial, industrial and defense: \$3.7 million, down from \$6.1 million
- Q1 sales increase driven by Canada refining market
  - Sales to the U.S. were down to \$13.5 million, 46% of total; LY was \$14.8 million
  - Sales to international markets increased to \$16.1 million from \$6.1 million last year



# Strong Order Improvement

## Quarterly and TTM Net Orders

(in millions)



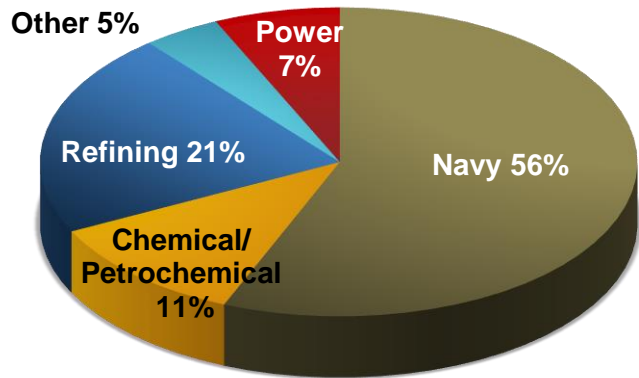
- Q1 FY2019 orders by industry vs Q1 FY2018:
  - Refining industry up \$1.9 million
  - Chemical/petrochemical industry up \$5.9 million
  - Power industry up \$2.9 million
  - Other commercial, industrial and defense up \$0.2 million
- TTM comparison driven by:
  - Increase from traditional refining and chemical/petrochemical industries
  - U.S. Navy orders

# Backlog Remains Strong

*Mix highlights importance of diversification strategy*

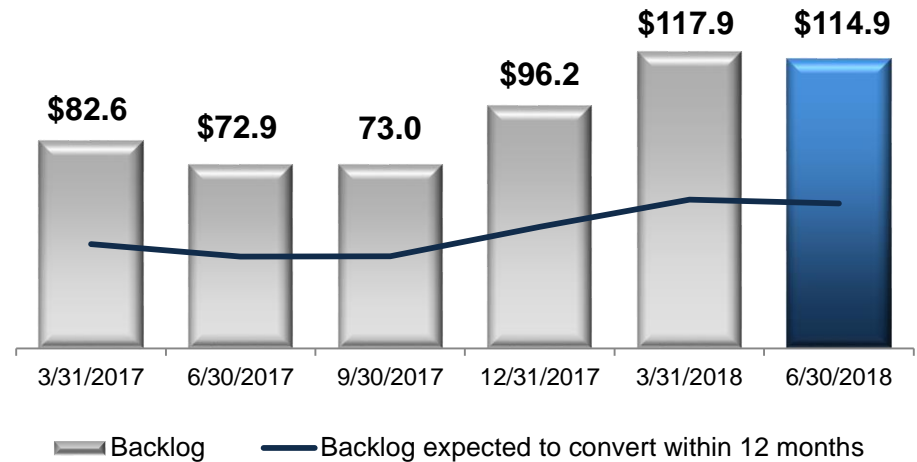
## Backlog by Industry

June 30, 2018



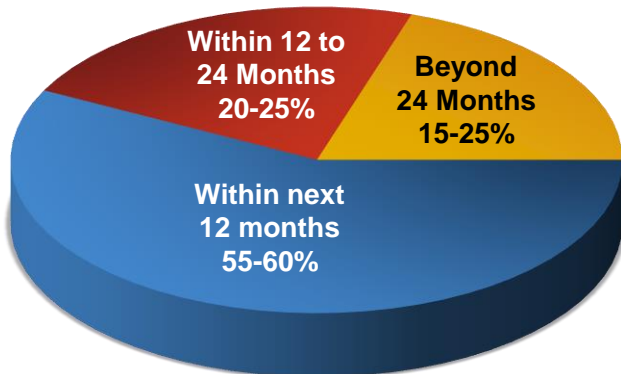
## Backlog

(\$ in millions)



## Projected Backlog Conversion

June 30, 2018



- High percentage of U.S. Navy projects in backlog provides stability

# FY2019 Guidance<sup>(1)</sup>

*Increasing revenue expectations*

- Revenue \$95 million – \$105 million
- Gross margin 24% – 26%
- SG&A \$18 million – \$18.75 million
- Effective tax rate 20% – 22%

*(1) FY2019 guidance updated as of August 3, 2018*



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# Supplemental Information

# EBITDA Reconciliation

(Unaudited)

(\$ in thousands)

	Three Months Ended June 30,	
	2018	2017
<b>Net income</b>	<b>\$ 2,323</b>	<b>\$ 935</b>
+ Net interest income	(287)	(148)
+ Income taxes	702	398
+ Depreciation & amortization	549	555
<b>EBITDA</b>	<b>\$ 3,287</b>	<b>\$ 1,740</b>
<i>EBITDA margin %</i>	<i>11.1%</i>	<i>8.3%</i>

## **Non-GAAP Financial Measure:**

*EBITDA is defined as consolidated net income before interest expense and income, income taxes, depreciation and amortization. EBITDA margin is EBITDA divided by sales. EBITDA and EBITDA margin are not measures 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 and EBITDA margin are important for investors and other readers of Graham's financial statements, as they are used as analytical indicators by Graham's management to better understand operating performance. Graham's credit facility also contains ratios based on EBITDA. Because EBITDA and EBITDA margin are non-GAAP measures and are thus susceptible to varying calculations, EBITDA and EBITDA margin, as presented, may not be directly comparable to other similarly titled measures used by other companies.*





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