Operator: Greetings, and welcome to Graham Corporation Acquisition of Barber-Nichols Inc. and Fourth Quarter Fiscal Year 2021 Financial Results. [Operator Instructions] As a reminder, this conference is being recorded.

It is now my pleasure to introduce your host, Deborah Pawlowski, Investor Relations for Graham Corporation. Thank you. You may begin.

Deborah Pawlowski: Thank you, Doug, and good morning, everyone. We certainly appreciate you joining us today to discuss Graham's fiscal 2021 fourth quarter and full year results as well as reviewing the acquisition of Barber-Nichols Inc. that we announced simultaneously with earnings this morning. You should have a copy of both the financial results and the acquisition announcement that were released this morning before the market opened. There are also two sets of slides for the financial results and the acquisition that we will refer to during our conversation this morning. If you do not have the releases or the slides, you can find them on the company's website at www.graham-mfg.com.

On the call with me today are Jim Lines, our Chief Executive Officer; Jeff Glajch, our Chief Financial Officer; and Dan Thoren, our newly named President and Chief Operating Officer. Jim will start with an overview of the acquisition and cover the results of the quarter and the year as well as provide our financial guidance for fiscal 2022. Jeff will then review details of the transaction, and we will have Dan discuss Barber-Nichols. Jim will wrap up, and then we will open the lines for questions.

As you are aware, we may make some forward-looking statements during this discussion as well as during the Q&A session. These statements apply to future events and are subject to risks and uncertainties as well as other factors, which could cause actual results to differ materially from what is stated on the call today. These risks and uncertainties and other factors are provided in the releases and in the slide decks as well as with other documents filed by the company with the Securities and Exchange Commission. These documents can be found on our website or at sec.gov.

I also want to point out that during today's call, we will discuss some non-GAAP financial measures, which we believe are useful in evaluating our performance. You should not consider the presentation of this additional information in isolation or as a substitute for the results prepared in accordance with GAAP. We have provided reconciliations of comparable GAAP with non-GAAP measures in the tables accompanying today's earnings release.

With that, it is my pleasure to turn the call over to Jim Lines. Jim?

Jim Lines: Thank you, Deborah, for the introductions. Good morning, everyone. We appreciate you joining Graham's year-end earnings call and also to join in our discussion about Barber-Nichols, a $70 million transformative acquisition we closed today. This is truly an exciting day at Graham, one that benefits all stakeholders: Graham shareholders, employees at both Barber-Nichols and Graham, customers, suppliers, and the Arvada, Colorado and Batavia, New York communities from which we draw workforce talent and create stable, well-paying employment and provide a place where employees are stimulated, challenged, developed, rewarded and able to build long-term careers.

This call will have a different format due to the significance of the growth platform and transformative aspect of the Barber-Nichols acquisition. Thus, we will go through year-end results and quickly move into discussing the excitement surrounding adding Barber-Nichols to Graham Corporation. Barber-Nichols is referred to as BNI throughout our discussions this morning.

I will begin my remarks with **Slide 3**. Let me start by stating, I am thrilled to have completed this acquisition. It was nearly 3 years in the process to get this done, initially engaging with Barber-Nichols in late summer of 2018, when Jeff first visited. Jeff immediately identified that BNI met most of the critical criteria for what Graham strategically wanted in an acquisition. As we have discussed in the past, our process for identifying acquisition targets is to establish necessary key attributes of a target, such as, but not limited to, values and culture, IP-protected products, end markets served, operations model and revenue range.

I must acknowledge and commend Chris Johnston, our Director of Business Development, for his work in getting this deal done. Chris is responsible for developing the messaging for each target, creating the compelling reasons as to why Graham is an ideal strategic acquirer and outlining the value of a proposed combination. Most often the target isn't necessarily for sale, which was the case with BNI. Fortunately, Dan Thoren, the President of BNI, was intrigued by Chris's messaging and agreed to have an initial discussion. It took time to earn trust, develop relationships, establish the value contributions of both organizations to the combination and agree on terms of the transaction. Jeff, Alan Smith, Chris and I were impressed right away by Dan and the BNI management team that are remaining with us as well as with BNI's culture, which represents one of their most important assets. The employee engagement, level of positivity, passion for the company and can-do approach to their business all confirmed that Dan and the BNI team have created something very special and extremely powerful.

The time it took to complete the deal permitted us to observe Dan and his team in action and their ability to make stretch commitments and deliver on those commitments. We first engaged with BNI at a time when they were wrapping up calendar 2018 at $40 million, up from $30 million a year earlier. Over the ensuing 2 years, it was wonderful to observe the planning and forecasting processes and, importantly, their ability to deliver forecasted results, culminating in |$56 million of revenue for calendar year 2020. This demonstrated to us that BNI has strong management capabilities, their systems at BNI have the necessary controls and the business processes are scalable to drive future growth. Barber-Nichols is an outstanding company, and we are fortunate to have them become part of Graham Corporation effective today.

Jeff will go through the deal rationale in detail, and Dan will provide an overview of Barber-Nichols. However, what I viewed compelling about Barber-Nichols was it fulfilled our goal of diversifying into the defense market, which provides greater stability, multiple year visibility and incredible long-term asset-based loading. The wonderful aspect about BNI products is there is no overlap with Graham's. We serve the defense ship builders, specifically the nuclear propulsion program, while BNI serves offensive and defensive systems for the ships. In addition, BNI serves the commercial space market with sophisticated and advanced technologies for rocket engine fuel systems and space life support systems. This is expected to be an expanding long-term growth market due to the Internet of Things, growing communication networks and the ever-increasing way in which people throughout the world are interconnected. Thus, today, we add new market segment revenue within the defense industry and also bring new markets such as commercial space, advanced power generation, alternative energy, along with capabilities for system integration.

Importantly, the acquisition of Barber-Nichols is a catalyst for immediate improvement in revenue and profitability, with top line expanding approximately 50% due to the addition of BNI for the 10 months in fiscal 2022 that we own them, and it provides a terrific platform for follow-on organic and acquisitive growth. I am very pleased and excited to have Barbara Nichols become part of Graham.

Actually, I've been remiss. I've mentioned Dan Thoren a couple of times. Dan is on the call as Deb had mentioned. He and Jeff are in Arvada, Colorado this morning. Dan was President and CEO of Barber-Nichols until this past May when he moved to Chair of the Board. Dan joins Graham Corporation as President and Chief Operating Officer and will report directly into me. Dan will be responsible for near- and long-term performance of both Barber-Nichols and Graham's historic Defense, Energy and Petrochemicals businesses. Dan will work with Matt Malone, our Vice President and General Manager for Barber-Nichols. Matt is the current President and CEO at Barber-Nichols. Dan also will work with Alan Smith, our Vice President and General Manager for Graham. You're all familiar with Alan and the terrific job he has done as our general manager.

I'm really excited to get into the detailed discussion about Barber-Nichols and its benefit to long-term shareholder return. However, let's walk through the fourth quarter and year-end results. I will take you through the fourth quarter performance, full year results and fiscal '22 guidance. Jeff will walk you through the strategic rationale and deal structure, and then, Dan will grab the ball to provide an overview of Barber-Nichols.

I am now referring to **Slide 4**. A key facet of our diversification strategy is to add revenue streams uncorrelated to energy, revenue that is less volatile and provides a long runway for growth and, importantly, offers high levels of multiple year asset-based loading. The acquisition of Barber-Nichols fulfills that objective perfectly. Moreover, Graham's organic defense revenue reached 25% of consolidated sales and was in the mid-$20 million range for fiscal 2021. We expect modest growth in fiscal 2022 and then to move into the mid-$40 million range by fiscal 2025. Complemented by Barber-Nichols defense revenue, we believe the combination will quickly approach $100 million in defense sales.

Our commitment to our installed base for crude oil refining and petrochemical markets will continue to bear fruit. Everything we read here and observed supports continued investment in existing assets for mature markets and new capacity capital investment in emerging economies. Graham's shift into competing in price-sensitive segments of our energy and petrochemical markets, supported by innovation of our operations model, has changed our participation and success in these previously underserved segments. This strategy has been 10% to 15% of sales and last year was at a comparable level in fiscal 2020. The team has done well to navigate the selling cycle to get us in position to win, and also, the execution side, working with the global supply chain for component fabrication, has created cost efficiencies and execution capacity for us. Importantly, Alan and his team achieved margins projected for the orders completed thus far.

A key business initiative is to expand the capacity of our production workforce. Today, we need to grow our capacity within our production workforce by 20% in Batavia. That will permit backlog conversion velocity to improve and also expand margins due to operating leverage and reduction in subcontracting. Energy and petrochemical markets feel different today than 6 months ago. That is encouraging; however, the bid pipeline has a long way to rebuild before returning to pre-2020 levels. We will watch this closely during the next few quarters. Cost measures have not been taken due to the need to have depth across the company's sales, engineering, quality, manufacturing, IT and other critical departments. It takes a long time to build a proficient knowledge worker for Graham. We continue to evaluate near-term benefit and long-term implications of cost-reduction measures. We elected to protect the strength of Graham during this black swan event caused by COVID-19.

Let's move on to **Slide 5**. Fourth quarter sales were $25.7 million. Defense sales were strong at $6.5 million. There also was revenue lift from short-cycle sales driven by the freeze in the U.S. Gulf Coast region. Also, and importantly, 15% to 20% of sales were due to our success penetrating the price-sensitive segment of the refining market.

Earnings per share was $0.04, with net income at $400,000. On March 31, cash was $65 million, of which approximately $40 million was used for the acquisition of Barber-Nichols. Backlog on March 31 was $137.6 million, with $104 million for the defense market. In acquiring Barbara Nichols, approximately $100 million of backlog was added effective today. A nearly $240 million multiyear backlog is a valuable asset for Graham.

Please move on to **Slide 6**. Year-over-year revenue increased 11% and gross profit, 14%. Profitability and margin were pressured due to decisions we made not to address business costs during the pandemic and also our inability to quickly expand production personnel. Government support during the pandemic has made it difficult to compel potential workers to join the Graham team. This should improve in the coming quarters, but is a headwind now as we want to convert more existing backlog more quickly by having a larger production workforce. We have the infrastructure, but not the human resources.

Let's move on to **Slide 7**. Alan Smith and the operations team performed remarkably in achieving full year revenue of $97.5 million. Due to COVID-19, full year throughput capacity was at 85% as an average of what our production workforce could produce if unaffected by lost time due to COVID. This made planning and management of backlog conversion difficult. Alan and his team did a fantastic job, even though that is not apparent in the results. Here, too, profitability and margins were under pressure due to under absorption caused by 15% lower throughput and also strategic decisions to hold personnel at pre-COVID levels.

On to **Slide 8**. We had strong defense bookings of $69 million for the year. Energy and petrochemicals stayed mired due to demand destruction stemming from the range of implications of COVID-19. We do have a terrific backlog that on March 31, as I said earlier, was $137.6 million, up $25 million year-over-year. Importantly, and again, Barber-Nichols adds roughly $100 million into our backlog, bringing the combined total to just under $240 million. $40 million of Barber-Nichols' backlog is expected to contribute to fiscal 2022 revenue for the 10 months we own them. 40% to 45% of our organic backlog is expected to convert into revenue during fiscal 2022.

Now let's move on to the guidance slide. Full year revenue range is $130 million to $140 million, with $45 million to $48 million from Barber-Nichols and the remainder being organic revenue. Adjusted EBITDA is expected to be between $7 million and $9 million. Once we complete the purchase accounting treatment of the BNI acquisition, we will be in a position to provide gross margin and SG&A guidance. This is an exciting start to fiscal 2022. Large elements of recent diversification strategies will come together to dramatically improve fiscal '22 results and, more importantly, reshape Graham's future with a path to stronger total shareholder returns. The Barber-Nichols acquisition is transformative for Graham as a platform for follow-on organic and M&A investment to propel growth.

Graham's defense revenue is in the mid-$20 million range, with growth anticipated to yield more than $40 million of revenue by fiscal 2025. Importantly, we are beyond first article operations, and therefore, margin should improve as well. Just as a reminder, first article operations are first-time fabrications that involved production R&D, production of jigs and fixturing, and defining ideal build flow or order of operations. Once beyond first article work, productivity gains should be achieved. I am pleased by our success in winning work in previously underserved price-focused segments of the energy and petrochemicals markets that represented 15% of sales, fiscal '19 through '21.

It's also worth noting, $7 million of new orders were secured during the month of May from the crude oil refining market. We became involved in these opportunities in early 2019. It is great to see significant order releases from this end market. Both are from the installed base. One is for a U.S. Gulf Coast refiner undertaking a revamp to enable use of lower-cost, lower-quality feedstocks. The other is a Mid-East refiner debottlenecking the refinery to provide more gasoline and diesel fuels to meet local demand.

With those remarks, I want to pass the call over to Jeff and Dan to walk through the acquisition. Jeff?

Jeff Glajch: Thank you, Jim, and good morning, everyone. If you could turn to the Barber-Nichols acquisition deck. If you look at **Slide 2**, you'll see we have a safe harbor statement similar to that which was in the earnings deck, and I'll allow you to review rather than me reading through it.

Moving on to **Slide 3**. It's great to be speaking with you from Barber-Nichols here in Denver with Dan Thoren. As Jim mentioned, we've been working on Barber-Nichols for quite a long time. My first visit to their Denver facility was in August of 2018 when Dan was graciously willing to meet with me.

Barber-Nichols, which I may refer to as BNI, is a great fit for Graham since it meets all the criteria that most of you have heard me describe over the past several years. It is clearly a transformative acquisition for Graham. Certainly, the most exciting activity in my time at Graham and probably in the history of the company. It will increase the size of Graham by 60% on a pro forma basis and immediately accelerates our diversification strategy. We expect to see 10 months of revenue in fiscal 2022 or approximately 50% growth.

BNI expands our defense business from $24 million in fiscal 2021 to a run rate of approximately $65 million to $70 million currently. Since there was no overlap with our current defense business, this dramatically expands our platform. Barber-Nichols also adds a $10 million in the aerospace business, which is mostly related to the space industry. This will be another exciting market for us.

Looking forward, we expect more than half of our business to come from defense and aerospace. This is a fantastic complement to our refining and petrochemical platform. Along with defense and aerospace, BNI offers us opportunities for growth in cryogenics and advanced energy.

As Jim mentioned, with a backlog of $100 million in addition to Graham's backlog of $137 million, we have a combined backlog of nearly $240 million, of which 80% is in defense and aerospace. This increased multiyear visibility, reduced volatility of revenue and earnings, and ability to grow organically and via M&A across multiple platforms is exciting. We clearly see some exciting organic growth opportunities. And yes, to be clear, once we have Graham and Barber-Nichols working well together, we intend to look for more M&A growth opportunities. Chris Johnston and I are excited to engage with Dan to identify further businesses to add to BNI.

As part of the deal, the owners of Barber-Nichols wanted some skin in the game, so approximately $9 million in Graham shares were part of the purchase consideration. This represents 610,000 shares or approximately a 6% increase in shares outstanding. I have mentioned numerous times that we would use a little equity if it made sense. Clearly, having the BNI owners who are remaining with us post-acquisition to ask me for a stake in Graham was another positive aspect of the deal. The transaction is expected to bring some very nice accretion, though the initial purchase accounting will likely put a near-term damper on it.

Finally, Barber-Nichols brings a strong management team, led by Dan Thoren, who has nearly 30 years at Barber-Nichols, 24 of which as its President. Dan is now ascending to President and Chief Operating Officer of Graham to utilize his capabilities across all of the combined company. Matt Malone has taken over as the new President of BNI. Matt has strong leadership skills and a very high energy level, which I expect will drive BNI towards a very successful future. The remaining leadership team at BNI is similarly top-notch. This is a fantastic team that we are gaining along with the business.

On to **Slide 4**. Let me talk briefly about the deal structure. Graham paid $70 million, made up of $61 million of cash and $9 million of stock, or 610,000 shares. Of the $61 million, $41 million was in cash from our balance sheet, and we entered into a $20 million term loan for the remainder. This leaves us with over $20 million of cash, so our net debt position is $0, but it gives us flexibility to go after future organic and M&A investments. Based on our projections, the initial purchase price is approximately 11x forward-looking EBITDA. There is an earn-out provision based on fiscal 2024, essentially the third year of the deal, which would allow up to $14 million in additional cash payments. The earn-out has a threshold, which, if met, would kick in at $8.75 million of EBITDA in fiscal 2024 and provide a $7 million payout. If the EBITDA achieved that year is $11 million, the payout increases to a maximum level of $14 million. Between those 2 EBITDA numbers, the earnout would be interpolated.

This acquisition assumes no synergies. We believe there will be benefits for the combined organization, but not needing them to justify the deal was great. Will Graham bring some capabilities to Barber-Nichols? I believe so. But just as likely, I believe, Barber-Nichols will bring new capabilities to our current Graham team.

I mentioned Dan and Matt earlier. They will become Graham named executive officers at our annual meeting at the end of July.

On to **Slide 5**. Along with the excitement of the acquisition, we also now have a far more efficient balance sheet. While having a lot of cash was comforting, that dormant cash did not achieve a return for our shareholders. You all know that I've desperately wanted to utilize that cash for growth and a stronger return. Now with Barber-Nichols, I'm confident that it will.

We have entered into a new bank relationship with Bank of America. It includes a $20 million term loan, which I mentioned earlier, as well as a $30 million revolver. We also have a $10 million accordion feature available on top of that $30 million revolver. We do not expect to utilize the revolver much in the near term, but it provides us with more dry powder and flexibility going forward.

We continue to have a relationship with HSBC, now with a $7.5 million cash secured facility for certain bank guarantees in geographies where they have a strong presence. Overall, our balance sheet will look much different, but in my view, will be far more efficient rather than overly conservative. We are now using our balance sheet for growth today and, more, so going forward.

On to **Slide 6**. When our business development team, that would be Chris and me, talked about an ideal fit for Graham, we could not have picked a better match than BNI. Before I continue, I would like to recognize Chris Johnston again. He has been working behind the scenes. Most of you have not met him, but as I've told many of you, he does a fantastic job for both M&A as well as organic opportunities for us. He's a great partner and a great leader on our team.

Now, I'd like to speak briefly about Barber-Nichols, and then, we'll pass over to Dan to provide far more depth on the business. Barber-Nichols is based in Arvada, Colorado, a suburb of Denver. They have a 55-year history of engineering, development and innovation. As a former engineer myself, they have some real cool capabilities here. They have more than 150 employees, which is double what they had just 4 or 5 years ago. We are looking forward to adding more employees at a similarly rapid pace to support Barber-Nichols' future growth.

They recently completed construction of a 43,000 square foot state-of-the-art manufacturing plant. This is nearly double their facility size, and I cannot wait to bring some of you through the facility for a tour. It looks fantastic. The leadership team at BNI is outstanding and, most importantly, the entire workforce is tremendously skilled, continually enhance their training and are extremely engaged.

Now that I've set the bar high, I will pass over to Dan Thoren, Graham's new President and Chief Operating Officer, who will provide much more depth about Barber-Nichols. Dan?

Dan Thoren: Thank you, Jeff. Thank you, Jim, for your kind and supportive introduction of Barber-Nichols. Good morning, everyone. I'm happy to be with you and provide more background on BNI. We'll just hang out on **Slide 6** here, and I'll tell you more about us.

Barber-Nichols is a team of more than 150 engineers, machinists, inspectors, technicians and support personnel that engineer and build specialty pump, turbine and compressor systems that are used in highly sophisticated applications like submarines, rockets, physics research facilities, advanced power plants and thermal management systems. We've talked a lot about numbers so far, but it's our people and the work environment that we nurture that make the numbers happen. We have an amazing team. Many of us came from large aerospace, defense or industrial companies. I came from a large aerospace company with 5,000 employees at my location. I walked into BNI when it had 35 people, and I was amazed that these 35 people were doing what my company was doing with 5,000, albeit at a much smaller scale. I was sold on BNI, and I decided I had to work there.

Many of us who came from much larger companies found the can-do, continual learning, relationship-driven culture at BNI invigorating. While it has been tough during COVID, we do spend a lot of time helping our people understand the importance of what our customers are trying to do. We excel when we are part of our customers' team. We are fully engaged during development of our equipment and their systems, and we share our customers' anticipation during first launch.

One last comment before we move to Slide 7. BNI leaders and employees like to have skin in the game, Jeff talked about this. One of the alluring aspects of this transaction was the ability to have meaningful ownership in a micro-cap company like Graham. Most BNI stockholders took stock, and many employees will now get to buy stock in their company. That is a powerful incentive when you know your daily efforts will benefit you and your fellow investors.

Now let's move to **Slide 7**. Most of Barber-Nichols' business comes from Defense and Aerospace. The U.S. Navy is a large customer for submarine torpedo ejection systems and torpedo power systems as well as aftermarket parts and overhaul. Thermal management systems are used in a variety of power-dense electronics and other power applications. For aerospace, our involvement is broader, with thermal management systems, fluid management systems, propulsion and power systems that support vehicles and satellites, and environmental control and life support systems for our heroes.

Slide 8 is next. When Kim Nichols and Bob Barber started BNI, their first customer was the U.S. Navy, for whom they designed high-speed turbines. Another near founder, Jim Dillard, got us involved in a prototype air turbine pump used for torpedo ejection systems and U.S. Navy submarines, using a special manufacturing process called electrochemical machining. This initial engineered product development focus has been leveraged into production manufacturing on several Navy programs. We are now seeing full life cycle with spare parts and overhaul of these systems.

Please turn to **Page 9**. NASA has been a fun customer over the years, and we designed and built several cryogenic pumps for them in our early years. My first job with NASA was on the ground-based trainer for the space shuttle manipulator arm. NASA also gave us our first opportunity to design and build a rocket engine turbo pump, using our cryogenic pump and hot gas turbine knowledge. That early experience in 1997 through 2000, set us up well for the new space companies that have been busy developing commercial space launch services over the last 10 years.

I'm now moving to **Slide 10**. BNI works across many markets, and that ability has served us well over the years as all markets go through cycles. When we are able to move from one market in decline to another on its way up, we can manage our business much better. In the physics research arena, BNI is known worldwide as a specialty cryogenic pump supplier. We also work with all the air separation giants that separate oxygen and nitrogen and argon and other gases into industrial gases. BNI's cryogenic blowers are installed in North American LNG import terminals and satellite test chambers around the world.

Since day 1, BNI has been involved in advanced energy systems, building and commissioning geothermal power plants and concentrated solar power systems. More recently, we have been involved in fuel cell power plants making anode and cathode blowers. The new administration plans to spend more money on alternate energy, storage and power gen, and we see opportunity in specialty pumps for hydrogen fueling systems.

On to **Slide 11**. **Slide 11** gives another view of BNI from a product perspective. One thing that jumps out that hasn't been apparent on the earlier slides is the motor generator controller product area. When I first joined BNI, we used generation 1 variable frequency drives to push 3,600 RPM motors to 5,000 RPM. The higher speed provides a more power-dense turbo machine. Since then, we have driven pumps to 30,000 RPM and compressors to over 100,000 RPM. We are now designing and building the electronic boxes that drive our motors and condition the power from our generators, sometimes doing both in the same machine.

As you can tell, I'm passionate about our people, our customers and our technologies. I'm also very excited to learn about the employees of Graham, their families and their dreams, their customers and their products. Together, I believe we'll do some amazing things.

Jim, I think we're back to you.

Jim Lines: Well, thank you, Dan, and thank you, Jeff, for your detailed review of BNI and the walk down of the acquisition. When Jeff and I first met Dan, we came away with an initial impression of what a fine company, what a fine leader, what a fine team that's been built at BNI, with incredible passion for their products, their people and their customers, and I felt that came through in Dan's prepared remarks. So, thanks so much for that, Dan. Your enthusiasm shined once again.

I am now referring to **Slide 12**. On the integration side, the operating models between BNI and Graham are different. Graham produces large complex welded fabrications to very tight tolerances, and BNI produces very tight tolerance, highly machined fabrications. The asset bases are different in Arvada for BNI and in Batavia for Graham. Also, the markets or segments of the markets served by BNI and Graham are different. The transaction value, as Jeff had outlined, is not predicated on realizing synergies. Of course, there may be some; however, Arvada and Batavia will run as independent operating businesses under one umbrella.

Initial integration is related to benefit plans, accounting and finance systems, and public company compliance and strategic capital investment governance. There are BNI systems and program management processes that Dan and Matt's Arvada business can share with Alan's defense team. Also, there are Batavia constraint management processes and performance improvement techniques that Alan's Batavia team can share with Matt's team in Arvada. Working together to share best practices, we believe margin gains can be realized in both businesses.

With Dan Thoren in the Chief Operating Officer role, working with both Matt and Alan, the talent pool is now nearly a 500-person combined organization that is deep and very strong. Dan, of course, knows Barber-Nichols deeply, and much has been shared with Dan about Graham. In the coming quarters, Dan will learn more about Graham, its people, our culture, our markets, our customers and our competitors, and the passion that every Graham employee has for ensuring our customers are successful and that Graham is successful. I will be thrilled to continue to work directly with Dan in driving both businesses.

Let's move on to **Slide 13**. This graphic projects the transformation the BNI acquisition provides. For fiscal 2021, Graham was approximately $100 million in revenue, with an end market breakdown of 41% to refining, 25% to defense industries, 24% to chemical and petrochemical markets, and 10% to various other end markets. A pro forma projection of fiscal 2022 following the BNI acquisition is for revenue to be between $130 million and $140 million, comprised of 45% for defense, 26% for refining, 16% for chemical and petrochemical end markets, 6% to aerospace and 7% to other end markets served by the combined entity. Excitingly, there is further growth in defense by entering new programs, accelerating backlog conversion and from additional mergers and acquisitions.

Refining end markets also provide growth simply from a recovery from the pandemic, also from strategies enacted to shift position in underserved price-sensitive segments and our continued focus on the installed base. Chemicals and petrochemicals, like refining, have the same growth options with strategic actions already enacted. The aerospace and commercial space market is expected to grow. BNI with its cryogenic and triple pump technology is an important supplier to this market. There is much growth runway in this end market. With the addition of BNI growth prospects for Graham, Graham is becoming an outstanding industrial.

I will conclude with **Slide 14**. The acquisition of BNI deployed capital to expand our presence and diversify revenue from the defense industry and also provide access to an expanding aerospace market. Importantly, it adds significantly to our less cyclical revenue streams that reduced financial results volatility. Defense and aerospace valuation multiples are stronger now than those in energy and chemicals due to end market fundamentals and visibility into future orders. As we continue to grow defense and aerospace revenue, we anticipate that will enhance Graham's valuation multiple.

A catalyst was needed to break out of the revenue range Graham was in. BNI provides that catalyst in that fiscal 2022 revenue is expected to be approximately 50% stronger than without Barber-Nichols. Beyond 2022, with the addition of BNI, it creates follow-on acquisition opportunities, along with organic growth that is meaningful. Once Graham's traditional refining and chemical markets get beyond the pandemic that will provide further revenue and margin improvement. We structured our balance sheet to take on low-cost debt and provide flexibility to invest in additional acquisitive growth or substantial organic investment that may be necessary as new defense or aerospace programs are secured. I trust you share the excitement that Jeff and I have about adding BNI to Graham and then having Dan join our leadership team. Fiscal 2022 is an exciting new chapter for Graham.

We have talked a lot thus far. Let us open the line now for Q&A. Thank you.

Operator: [Operator Instructions] Our first question comes from the line of Tate Sullivan with Maxim Group.

Tate Sullivan: Congratulations all for closing the acquisition after all the work. Just jumping in first for BNI, you gave some detail on your defense exposure at 73% of '20 revenue. Is most of that Navy? And is most of that related to torpedo systems, please, if you can provide some context?

Jim Lines: Sure. I'll take that and, Dan, you can follow-on, if you wish. Yes, it's primarily for offensive and defensive weapon systems that support the vessel programs of the U.S. Navy.

Tate Sullivan: Okay. And then, with your fiscal year 2022 guidance incorporating BNI, does it imply for '22 a lower refining and chemical revenue? Is that related to your comments earlier about needing to ramp up your workforce or was that for your Navy business on the Graham side?

Jim Lines: Sure, Tate. It does. The chemical and petrochemical markets have been quite challenging due to the volatility in crude oil prices and then the pandemic on top of it. If you look at our orders from those traditional markets or Graham's nondefense markets in '20 or in 2021, in '20, our nondefense orders were $70 million, plus or minus, and in 2021, they were $53 million. As a consequence, our backlog entering fiscal '22 for nondefense, not counting BNI, is low $30 million. That's a pretty low watermark, which foretells that it will be low energy and petrochemical revenue cycle in fiscal '22 for us.

Alan has substantial naval backlog and, with additional production resources, we could accelerate backlog conversion to mitigate that risk, and that's the rationale for trying to grow our production workforce.

Tate Sullivan: One follow-up, growing your production workforce is mostly on the defense side, then, is that correct?

Jim Lines: At this point, because that's where we have the large backlog, it would be accelerating backlog conversion velocity. Then, also having capability that, when refining and chemicals pick up and they will, Alan has the execution horsepower to push that work through and minimize the amount of subcontracting that we might otherwise have to do, which is a margin headwind.

Operator: Our next question comes from the line of Theodore O'Neill with Litchfield Hills Research.

Theodore O'Neill: Can you just discuss the approach to bidding processes between Graham and Barber? How it's different at all or similar?

Jim Lines: Dan, do you want to discuss the bidding process on the BNI side?

Dan Thoren: Sure, be happy to. So, we cover a bunch of different markets, so the bidding process is very different across all of them. For the DoD, government, NASA kinds of solicitations, it's often competitively bid. You put together a formal proposal and put it in for consideration. We do have some contracts that are sole sourced, and when they're sole sourced, the government has the ability to come in and audit your entire bid getting down into cost justifications for everything.

On the commercial side, it ends up being probably more competitive, but potentially some opportunity to leverage relationships on the commercial side. And so, it's not necessarily lowest cost, it's often best value for pretty much everything that we bid, both government and commercial.

Jim Lines: Thank you, Dan. On the Graham side, Theo, it's pretty similar to Barber-Nichols in that there is a long selling cycle. The earlier BNI or Graham is involved in nurturing an opportunity, the higher the likelihood there is for success and also improved margins. What's nice about Barber-Nichols from what we've observed is, they have a long sales cycle, a chance to nurture the opportunity, build the relationships, and demonstrate the value of working with Barber-Nichols in a similar way in which Graham does on its energy and chemical side.

As you might recall, Graham has 4 distinct phases of the sales cycle. There's a project concept, very early phase, where nothing is going to be bought for 1 or 2 years. Then there's something called FEED, Front-End Engineering Design, where we're working to more precisely define the equipment scope, utilities and rough capital cost. Then there's Phase 3, which is EPC bid. One of the large contractors is bidding the revamp of a refinery or the retrofit of a refinery or new capacity refinery. We might bid 2, 3 or 4 of those EPCs, one ultimately gets it and then they issue an RFP to buy something. We've always found, and the same holds true for Barber-Nichols, that the longer you're in that sales channel, the longer you're nurturing that opportunity - and Dan's team has good visibility into early concept work, just as Graham does - the more nurturing and the higher the capture rate will be and also the margin profile of that work will be.

So I see it rather similar, although somewhat different, but it's similar in that it's a long sales cycle, which Dan's team does extraordinarily well and the Graham team does very well as well.

Operator: Our next question comes from the line of Brett Kearney with Gabelli Funds.

Brett Kearney: Congratulations to all. It sounds like a very terrific combination for all involved.

Jim Lines: Thank you, Brett.

Dan Thoren: Thanks, Brett.

Brett Kearney: So obviously, I understand no synergies at all are contemplated upfront, and you will continue to, as you go through the integration, get meshed in, I guess, the combined organization, but at the outset, could you discuss some of the commercial and organizational opportunities that have you most excited about Graham and Barber-Nichols coming together longer term?

Jim Lines: Dan, do you want to take that or do you want me to take it?

Dan Thoren: Go ahead, Jim. Take the first cut at it.

Jim Lines: Okay. Well, what has us most excited is the addition of a diversification revenue stream within a diversification effort that we had around defense. So, Dan's team is serving the defense industry, but in a very different segment of the defense industry around offensive and defensive systems for the vessels. As I said, Graham is on the ship building side of those programs, so that provides us with, excitingly, very clear visibility in multiyear outlook, not only from a backlog conversion point of view, but procurement or future orders or future backlog build. And that enables us to have credibility around organic investments we may need to make to realize the full growth potential of the combination. It's a little bit more difficult in the energy space where those orders are more transactional.

In the defense area, we really like the long visibility that industry provides, which gives us confidence when we're deploying capital, say, with an acquisition of Barber-Nichols or around organic investment, because there's more predictability, there's more visibility, and that provides us with a higher confidence when we're making very significant capital investments, which is very exciting because it takes a great deal of the risk away.

Dan Thoren: And then, for me on my side, Jim and I have talked a little bit about this through the months that we've been talking, but Barber-Nichols has a really strong engineering group. And as we think about more sophisticated systems, the system engineering that can go with those and the vertical type of integration that we can start to think about between Graham and BNI and other acquisitions, that piece of it really gets me excited. I'd like to think probably more system engineering, vertical integration and trying to take the strengths of each of the organizations, along with other partners that we can line up, and really go after more higher-end opportunities and offerings to the various markets that we serve.

Brett Kearney: Terrific. And then, maybe just one quick follow-up. I think you all structured the transaction in a very thoughtful, well aligned manner. Given one of the initial integration priorities on the employee benefit side, is there a thought to implement a broad-based employee share ownership plan across the combined organizations?

Jeff Glajch: Brett, this is Jeff. Sure. We have a couple of things. On the employee benefit side, just to clarify, we are initially leaving the benefits alone at both organizations, and we'll look at them thoughtfully going forward to see if there's anything that makes sense to do.

With regard to a share ownership program, we have an employee stock purchase plan in place, which we've had in place at Graham for, I believe, 8 or 9 years now. That will be expanded to Barber-Nichols shortly. And then, the employees of Barber-Nichols will have the ability to buy Graham's stock through that plan. That is absolutely something that Dan and his team are very interested in, and we'll bring over to Barber-Nichols as soon as feasible.

Brett Kearney: Terrific. That's great. And then congratulations to all.

Operator: Our next question comes from the line of John Deysher with Pinnacle Capital Management.

John Deysher: I was just curious. You've been talking since, I guess, August of 2018. BNI is clearly a quality asset. Were there any other bidders for the property?

Jeff Glajch: John, this is Jeff again. A part of our process around acquisitions is that we interact with companies. We build a relationship; and then, over time, we try to form into more of an exclusive relationship. With regard to Barber-Nichols, we've had this relationship for a little over 2.5 years and, really, the intent was for it to be an off-market individual transaction, so we really didn't have any bidders. There really wasn't a bidding process per se. It was really an exclusive relationship. That was one of the benefits for both sides. It allowed us to get to know them and for them to get to know us, and ultimately, if both sides thought it made sense, it eliminated some of those other, what I would view as, distractions.

John Deysher: Okay. Good. So, no other bidders. I was looking at BNI's website and, under the leadership section, there are about 8 key employees listed there. How many of those 8 employees have signed employment contracts going forward?

Dan Thoren: Sure, John. We don't want to get into quite that level of detail, but we have had some of the key employees sign employment contracts.

John Deysher: Some of them?

Dan Thoren: But all those employees are remaining with the organization.

John Deysher: Okay. All right. Fair enough. And congratulations.

Operator: Our next question comes from the line of John Bair with Ascend Wealth Advisors.

John Bair: Congratulations. As a long time shareholder, I am very pleased to see that you finally got something that looks very exciting and will benefit us all. As they say, good things come to those who wait. So, I have a couple of questions.

I was wondering if Graham and BNI had any kind of actual business interaction over these past 3 years? In other words, working together on a particular project or components?

Jim Lines: This is Jim. No, we didn't have any, let's say, commercial collaboration on products offered to the market; although, the managements of both teams have spent considerable time talking about how to approach the markets that we will collectively serve. As Dan said, around system integration, the thermal fluid flow capabilities of Barber-Nichols, complemented by the thermal and fluid flow capabilities of Graham, and our heat transfer components and Dan system integration capabilities is a fine complement. So, we have had some detailed conversations about the benefit of the combination and how we can expand our offering to the marketplace.

John Bair: Okay. And then, my next question is kind of a split question. I'm wondering if there was any debt assumed by Graham that BNI might have had? And then, the second part of the question is, on the term loan, what is the effective interest rate now as part of that interest rate is tied to this Bloomberg short-term credit index? I'm wondering how often that index is reset and could your rate conceivably change on that?

Jeff Glajch: John, the acquisition did not assume any debt from Barber-Nichols. It's a debt free, cash free acquisition. The only reason there would be any cash is if the working capital target was off. So, with regard to debt, there was none there.

With regard to the term loan, you're right. We're using the BISB rate, and it's based on the 1-month BISB rate plus 150 basis points. I believe the 1-month BISB rate is just under 10 basis points, so right now, the variable rate is about 1.6% or 160 basis points.

We have the opportunity to perhaps set up a derivative of some sort to lock in the rate for the term of the loan. That's something we are considering. Given that we entered into the agreement this morning, we haven't done that yet, but it's certainly something that is high on my thought process, to lock in the rate. It would, obviously. be above the current 160 variable rate, but would be at a rate that we would be comfortable with across the term of the loan.

Just to provide a little more depth on the loan itself, it's a 5-year loan with a 10-year amortization, so obviously, half the principal would remain at the end of 5 years, should it still be in place.

John Bair: Okay. So am I hearing, then, that the rate would adjust on a monthly basis?

Jeff Glajch: Correct. Unless we were to enter into a swap to lock it down as more of a fixed-rate loan, which, again, we are looking at.

John Bair: Right. Well, the no debt assumption fits very, very well with the Graham philosophy, so congratulations again, and best of luck going forward.

Operator: Our next question comes from the line of Andrew Shapiro with Lawndale Capital.

Andrew Shapiro: If I could just flush out the acquisition impacts here, on the shares that were issued, what restrictions, if any, are attached to them and their flowing out onto the market?

Jeff Glajch: Andrew, there's a restriction on the shares of a minimum of 6 months that they cannot be resold.

Andrew Shapiro: Okay. And then, after that, would they then be subject to 144, because they're not registered?

Jeff Glajch: Yes. Correct.

Andrew Shapiro: Okay. With respect to the dividend policy, I don't know if the Board had previously established a payout rate of such. Obviously, you've been running with a lot of cash and no debt for a long time, and now we're going to have a little bit of debt and a lot less cash and, of course, a lot more cash flow. What is the guidance or color you can provide as to the policy thoughts regarding the company's dividends going forward?

Jeff Glajch: Sure. There's an explicit dividend policy per se; however, as the Board has looked at the dividend and increased it over a number of years, the intent was that it would utilize a portion of our normalized cash flow, not a high percentage, but rather a lower percentage of our normalized cash flow. And then, ultimately, ideally grow it so that it would not cause a problem or cause a conflict with organic or M&A investment.

The Board will be looking at the dividend going forward. Certainly, they obviously looked at it last week at the Board meeting and approved keeping the dividend where it was currently. So, that's basically where we are right now. We will, obviously, be monitoring our cash flow and monitoring our balance sheet position. Going forward, while there is no intent to adjust the dividend in any significant way that could change if either cash flow is different or we have significant investment activities well and above what is needed to keep the dividend steady or growing.

Andrew Shapiro: Sure. And on the debt, there is no prepayment penalty at all?

Jeff Glajch: That is correct.

Andrew Shapiro: Okay. And last, but not least, I'm fairly new to the company and the nature of Graham's contracts and would like to get a feel for the nature of the contracts that BNI enters into. Are these primarily fixed-price contracts where you build in a cushion in the event of overages or are they more cost plus? What is the bulk of the nature of your contracts to understand contracting risks and, I guess, the cost accounting if there was a loser contract?

Jim Lines: Dan, why don't you spend a moment just outlining the 3 or 4 different types of contracts on your program side that you typically get involved in.

Dan Thoren: Yes. So, we do firm fixed-price contracts and those are the majority of contracts that we have. We also have cost-plus fixed-fee contracts, and we also have time and materials contracts. We essentially line up the contract type with the amount of risk that's associated with these jobs as we bid them. So, when we first get an inquiry, we understand how much risk is involved and then propose a different type of contract if the customer is not proposing the contract that we believe is appropriate.

But the majority of them and the majority of the dollars relative to revenue, are firm fixed price. They're pretty well-defined, manufacturing types of jobs that we feel relatively comfortable with.

For fixed-price contracts, where they're longer term and we're worried about raw material costs, for instance, we'll often propose that we buy all the material upfront, so we minimize the risks associated with commodity pricing. But yes, it's a mix, and we carefully choose and propose the contract approach if different than what the customer is proposing and then negotiate around that. Certainly, with the higher development types of jobs where the scope isn't really well defined, the likelihood of success is a little bit lower than normal and we'll definitely push for time and materials or cost-plus types of contracts.

Andrew Shapiro: Historically, over the last 5 years, how often have any of these contracts resulted in developing into a loss contract?

Dan Thoren: Certainly, some do, because we run into issues here and there, but in other instances, we'll make more than we had projected. All in all, it kind of comes down to bottom line, and overall, we end up, I think, Jim and Jeff had advertised a low-teens kind of EBITDA number. That's, typically, where we'll land, even with some losers in that mix.

Andrew Shapiro: Okay. When you're bidding for these things, are you running into the same competitors? If so, do they tend to be larger than you and thus, more adapted to absorbing these things? Can you name some of the main competitors that you run into on these bids that Graham now will run into?

Dan Thoren: I probably won't name them today, but, certainly, we have competitors that can be much larger than us. There are not many that are smaller than us. There are not many people who have the capabilities in a 150-person company, so, typically, they're larger than us. Typically, they can absorb more loss. Typically, they're more expensive. Their overheads and operating costs are more expensive. And so, typically, we'll have a cost advantage against them. What that allows us to do is build a little bit more margin into our bids and take into consideration that additional risk that we may have as a smaller company.

So yes, we've been doing it for a while, so we've kind of figured it out, and we feel like we have a good handle on development-type contracts and production-type contracts that we can bid appropriately.

Operator: Our next question comes from the line of David Wright with Henry Investment Trust.

David Wright: Congratulations on the transaction and great to see you putting the balance sheet to work. There was the comment that 11x forward EBITDA was what you're paying for BNI. Can you define forward EBITDA?

Jeff Glajch: Sure. This is Jeff. The forward EBITDA would be our expected EBITDA over the first 12 months post acquisition. Most of that will fall into fiscal 2022, but there's 2 months of fiscal 2023 technically in there.

David Wright: So okay, Jeff, that's 12 forward months, so that will be $6.4 million.

Jeff Glajch: Something in that range. Yes.

David Wright: Okay. And so, if the transaction is debt free and cash free, what are you buying? You're buying the business. Are you buying the new facility as well? Is that within the company?

Jeff Glajch: No. The facilities here at Barber-Nichols are leased, so we're buying the business. We're, obviously, buying some working capital with the business and buying the majority of the fixed assets that are within the buildings, but not the buildings themselves.

David Wright: Are those leased from third parties or from BNI people?

Jeff Glajch: They are, I'll call them, related individuals. Some of them are still at BNI, but some of them are retired or former BNI employees.

David Wright: Okay. And that's a total of how many facilities, Jeff?

Jeff Glajch: Well, there's the new facility that I mentioned earlier. And then, on the campus here, there's just about 43,000 of roughly 96,000, 97,000 square foot facilities. There are a number of buildings, one big one and a bunch of smaller and medium-sized ones. The leases are for one campus. It's not spread out over multiple campuses.

David Wright: Are these existing leases or have you entered into new leases coincident with the transaction?

Jeff Glajch: They were existing leases. Certainly, the new building was a new lease, but the other leases had been existing. They were expiring recently and under discussion, and –we, myself and Chris Johnston, were directly involved in the lease negotiations. This was not a scenario where Barber-Nichols alone did the lease negotiations. We were part of those discussions, and we're very satisfied with the leases themselves.

David Wright: Okay. Will we get an 8-K with the acquisition agreement and pro formas in the period thereafter?

Jeff Glajch: Yes. It'll take a little while, obviously, a couple of months, but yes, you'll have those.

Operator: Our next question comes from the line of Gary Schwab with Valley Forge Capital Management.

Gary Schwab: Yes. I was just wondering, does the BNI combination have any sharing effect on enhancing your current capacity constraint at Graham?

Jim Lines: This is Jim. The asset base that are bought off and the newly expanded facility, they're flowing into that very well with their backlog and the conversion of that backlog. However, actually, the facilities, the plant and equipment, aren't well suited for the large weldments that Alan's operation would build, and vice versa.

Gary Schwab: Okay. And a second question, the fact that you're two small companies, does Graham and BNI have any overlap in material procurement that could give the overall materials a volume purchase breakpoint allotmentfor better cost to goods margins?

Jim Lines: Certainly, we would look to create supply chain efficiencies through the combination; however, the types of materials are rather different, so I would not expect to see in a classic sense a volume-based improvement because there are dissimilar types of materials.

Operator: There are no further questions. I'd like to hand the call back to Mr. Lines for closing remarks.

Jim Lines: Well, thank you, Doug, and thank you, everyone, for your time today. Again, we're so very pleased and excited about the Barber-Nichols acquisition and the benefit it provides all stakeholders of Graham, in particular to the shareholders and the employees and the combined entity. This is an exciting new chapter for Graham, and we look forward to updating you in July on the progress and the integration of BNI into Graham.

Thanks so much for your time today. Dan and Jeff, thank you from Arvada.

Jeff Glajch: Thanks, everyone.

Dan Thoren: Thank you.

Operator: Ladies and gentlemen, this does conclude today's teleconference. Thank you for your participation. You may disconnect your lines at this time, and have a wonderful day.