



GRAHAM
ENGINEERING ANSWERS

Third Quarter Fiscal 2014 Earnings Call

January 31, 2014

James R. Lines

President &
Chief Executive Officer

Jeffrey F. Glajch

Vice President &
Chief Financial Officer



NYSE MKT: GHM

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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.

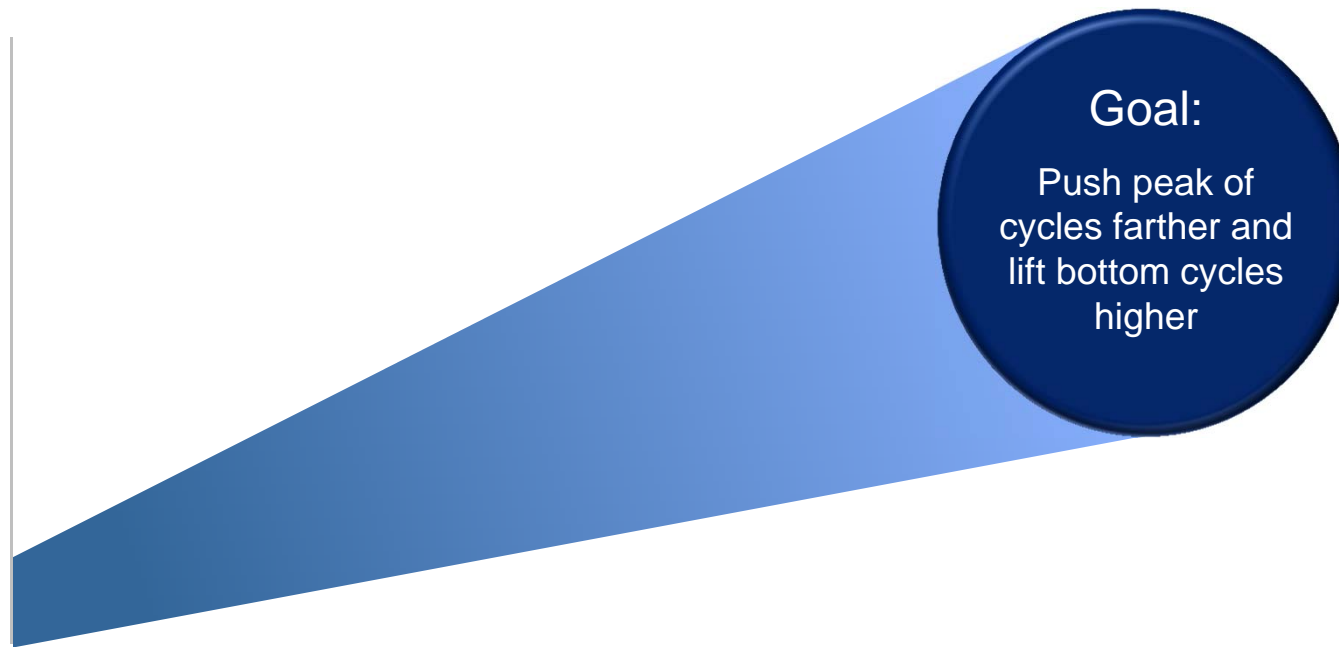
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Double Revenue in Next Cycle

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



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Third Quarter Fiscal 2014 Highlights

- **Record quarter-end backlog of \$114.6 million**
 - Represents diversification of revenue base
- **Cash and cash equivalents and investments increased to \$63.9 million at December 31, 2013**
- **Revenue of \$23.4 million in quarter**
 - In line with expectations; reflects low order levels throughout fiscal 2013
- **Net income of \$1.4 million, \$0.14 per share**
 - Prior year adjusted net income of \$2.1 million, \$0.21 per share, adjusted for unusual item
- **Reaffirming fiscal 2014 guidance and fiscal 2015 topline outlook based on orders and backlog**



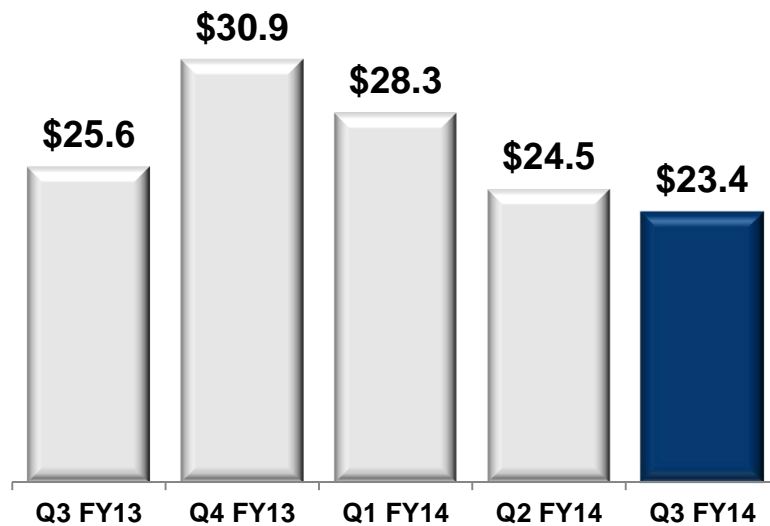
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Third Quarter Fiscal 2014 Sales

(\$ in millions)

Quarterly Revenue



➤ Fiscal 2013 orders impacted Q3 sales levels

- Refining sales were \$7.3 million
- Chemical/Petrochemical industry sales were \$5.4 million
- Power industry sales were \$5.3 million
- Other Commercial and Industrial sales were \$5.4 million

➤ Globally diverse Q3 sales

- U.S sales represented 62%, up 28%
- International sales down 38%:
 - Middle East: 3% of total
 - Asia: 7% of total
 - Canada: 17% of total
 - Other international: 11% of total



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Financial Overview

Jeffrey F. Glajch

Vice President &
Chief Financial Officer



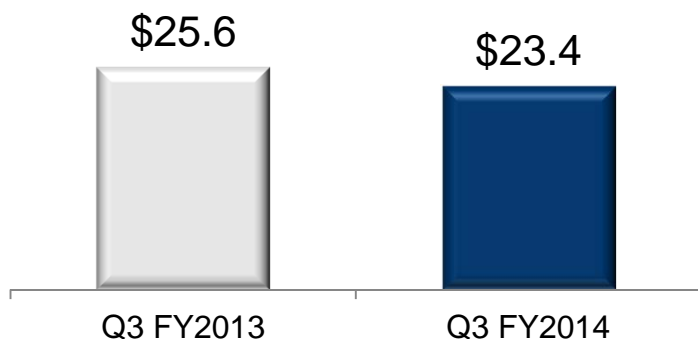
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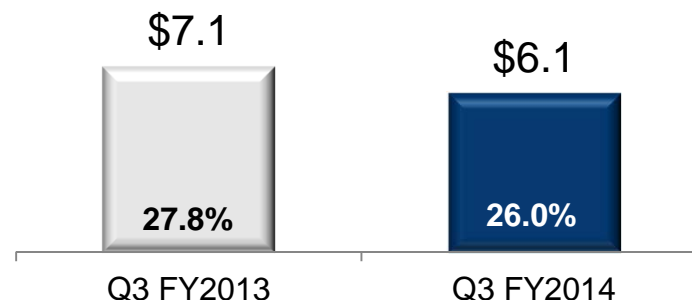
Third Quarter Impacted by 2013 Orders

(\$ in millions, except EPS)

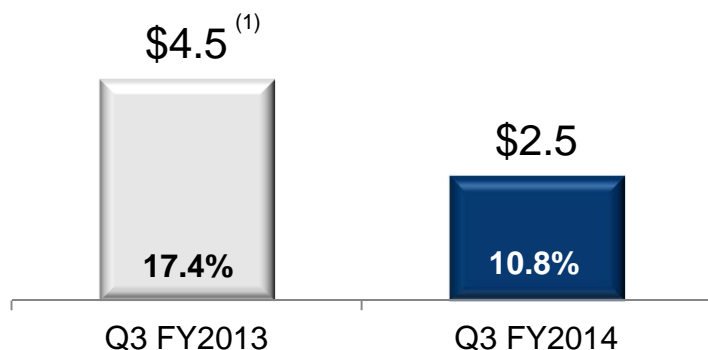
Sales



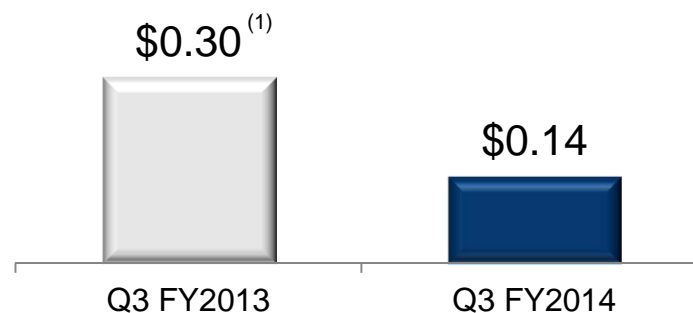
Gross Profit and Margin



EBITDA and Margin*



EPS



* See supplemental slide for EBITDA reconciliation and other important disclaimers regarding Graham's use of EBITDA
⁽¹⁾ Excluding a \$975 thousand reversal of the second year contingent earn-out provision related to the Company's December 2010 acquisition of Energy Steel, Q3FY2013 EBITDA and Margin and EPS would be \$3.5 million, 13.6%, and \$0.21, respectively.

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Fiscal 2014 YTD Growth and Profitability

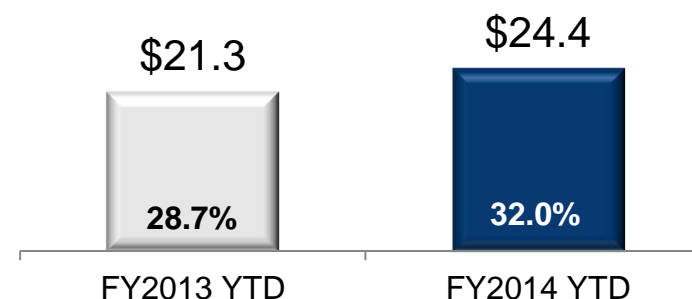


(\$ in millions, except EPS)

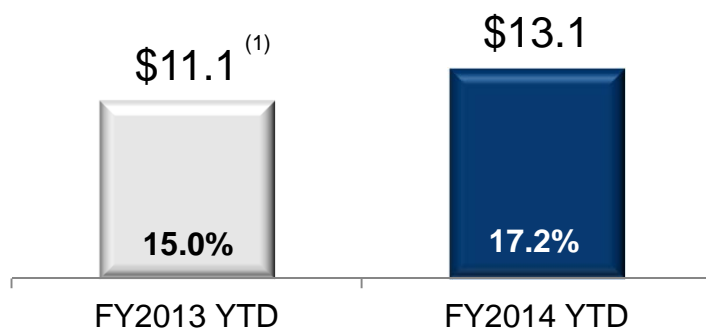
Sales



Gross Profit and Margin



EBITDA and Margin*



EPS



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

⁽¹⁾ Excluding a \$975 thousand reversal of the second year contingent earn-out provision related to the Company's December 2010 acquisition of Energy Steel, FY2013 YTD EBITDA and Margin and EPS would be \$10.2 million, 13.7%, and \$0.61, respectively.

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Strong Cash Position

Cash, Cash Equivalents, and Investments

(in millions)

No bank debt at
12/31/13



- Cash and investments position increased \$12.2 million in first nine months of fiscal 2014
- Portion of fiscal 2014 cash generated to be used for production expansion
- Strong cash and investments position for funding organic and acquisition growth

Cash available for investments in organic growth and acquisitions

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Outlook

James R. Lines

President &
Chief Executive Officer

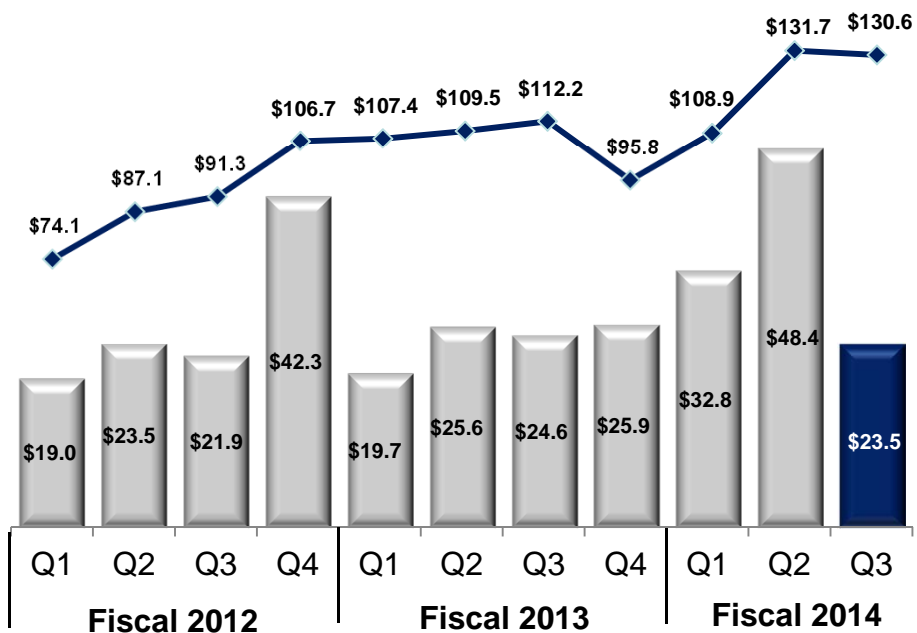


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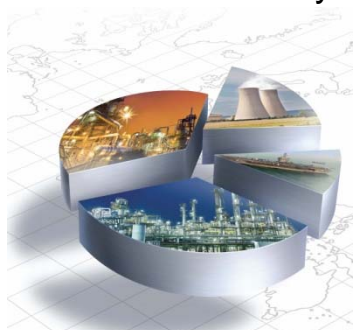


Strong and Steady Order Pipeline

Quarterly and TTM Orders (in millions)



■ Quarterly Orders ◆ Trailing Twelve Month Orders



➤ Quarterly average \$35 million for YTD fiscal 2014

- Q3 FY2014 orders diverse by market
 - Chemical/petrochemical 47%
 - Power 29%
 - Refining 13%
 - Other Commercial & Industrial (including Navy) 11%
- High percentage of Q3 orders, 85%, from the U.S. market
 - Driven by new capacity investments

➤ Strong pipeline intact

- TTM bids: \$800 million to \$1 billion; more than double FY04 – FY05 period
 - North American petrochemical market
 - Global refining opportunities
 - Power market steady

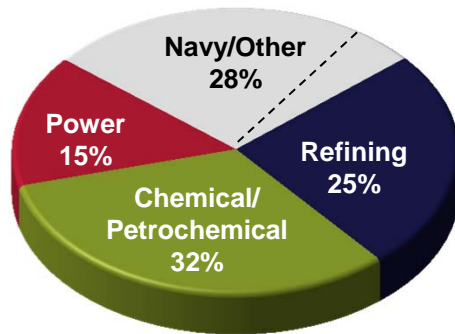
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Record Backlog Level

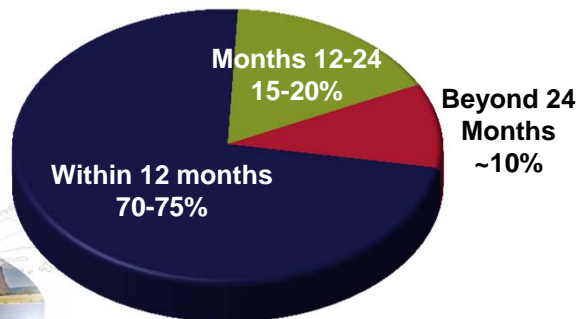
Backlog by Industry

December 31, 2013



Projected Backlog Conversion

December 31, 2013



Backlog

(in millions)



- **Strong FY14 backlog growth**
 - Growing backlog driven by brisk order release pace during first half of fiscal 2014
 - Anticipate continued near-term strength of U.S. chemical/petrochemical market
- **Approximately 40% of backlog from new customers or markets since fiscal 2009**

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Outlook: Fiscal 2014 and Beyond

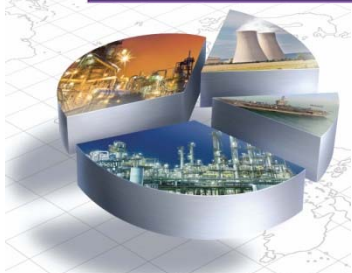
Fiscal 2014 Guidance:⁽¹⁾

- Revenue \$100 million - \$110 million
- Gross margin 31% - 33%
- SG&A 16% - 17% of sales
- Effective tax rate 33% - 34%

Fiscal 2015 Revenue Expectation:⁽¹⁾

- Revenue \$115 million - \$135 million

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



(1) Fiscal 2014 guidance and fiscal 2015 revenue expectation provided as of January 31, 2014

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EBITDA Reconciliation

(\$ in thousands)

	Three Months Ended December 31,		Nine Months Ended December 31,	
	2013	2012	2013	2012
Net income	\$ 1,431	\$ 3,047	\$ 7,828	\$ 7,052
+Net interest (income) expense	(21)	6	(33)	(309)
+Income taxes	578	887	3,645	2,826
+Depreciation & amortization	<u>547</u>	<u>520</u>	<u>1,646</u>	<u>1,560</u>
EBITDA	<u>\$ 2,535</u>	<u>\$ 4,460</u>	<u>\$13,086</u>	<u>\$11,129</u>
<i>EBITDA margin %</i>	10.8%	17.4%	17.2%	15.0%

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



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