NYSE:GHM • July 29, 2016

First Quarter Fiscal 2017 Earnings Call

James R. Lines
President & Chief Executive Officer

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GRAHAM CORPORATION

www.graham-mfg.com

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First Quarter Fiscal 2017 Highlights

- Q1 revenue was $22.4 million
  - Down 19% compared with prior-year Q1
  - Impacted by persistent weak market conditions
  - Short cycle sales down ~20% in quarter
- Q1 net income was $0.1 million, $0.01 per share
  - Excluding $0.4 million, nonrecurring restructuring charge, adjusted net income was $0.5 million, $0.05 per share
- Restructuring: 10% headcount reduction
  - Expecting ~$2.7 million of annualized cost savings, with ~75% of savings in COGS and ~25% in SG&A
- Backlog at quarter end was $99.9 million
  - Negatively impacted by $18 million of orders cancelled since start of Q4 FY2015
  - Mix demonstrates success of diversification strategy

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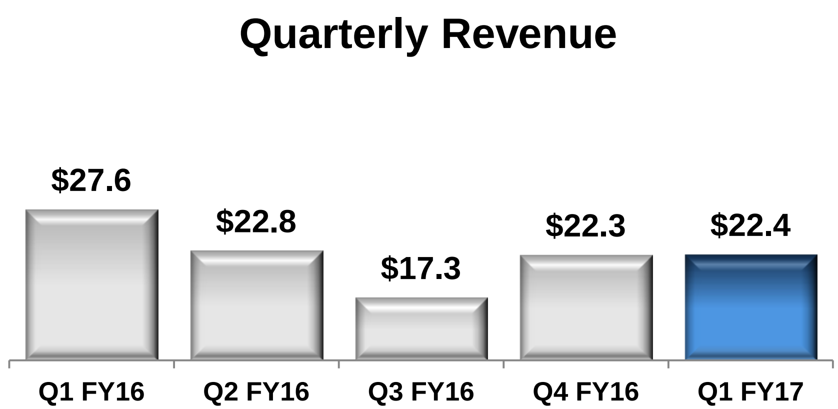
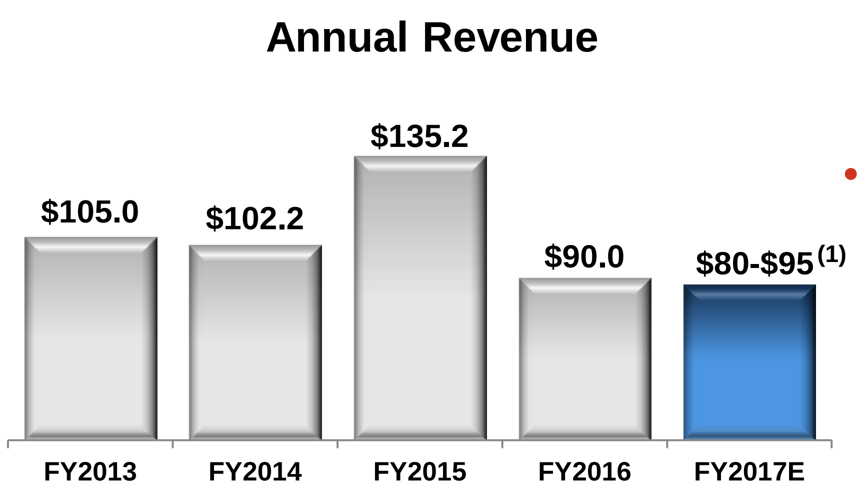
First Quarter Fiscal 2017 Sales

($ in millions)





- Q1 FY2017 sales declined in energy-related industries and most geographies vs prior year
  - Sales to power market were up 27% to $4.7 million
  - Sales to the defense and other industrial market were up 10% to $5.3 million
  - US sales were down 7% to $16.3 million
  - International sales were down 39% to $6.1 million
- Q1 mix by industry
  - Refining industry sales: $7.2 million
  - Chemical/petrochemical industry sales: $5.2 million
  - Power industry sales: $4.7 million
  - Defense and other industrial sales: $5.3 million

[1] FY2017 guidance provided as of July 29, 2016

Financial Overview

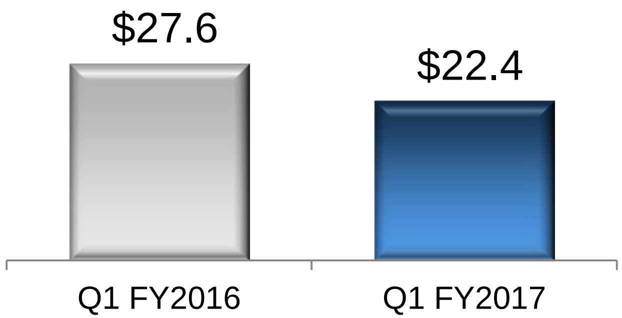
Jeff Glajch

Vice President and CFO

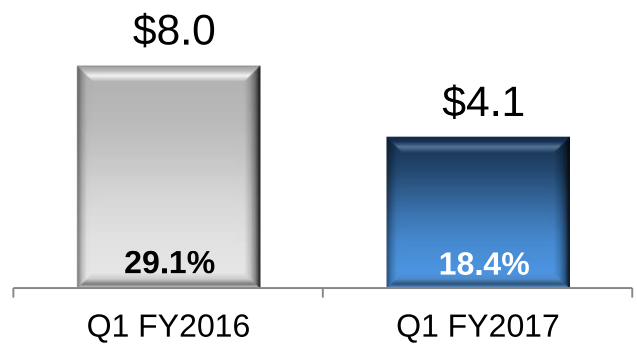
Q1 FY2017 – Persistent Weak Markets

($ in millions, except per share data)

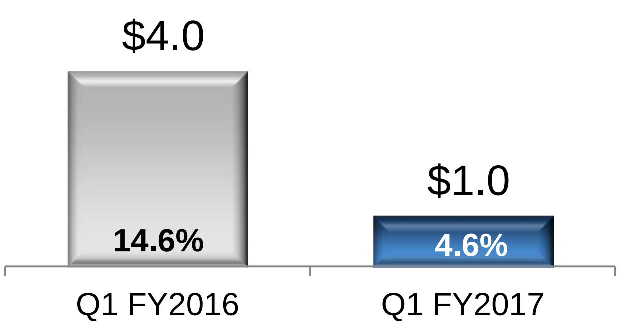
Sales



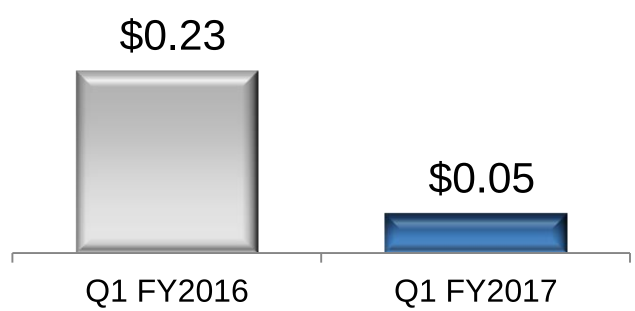
Gross Profit and Margin



Adjusted EBITDA and Margin(1)



Adjusted EPS(2)



(1) *See supplemental slide for Adjusted EBITDA reconciliation and other important disclaimers regarding Graham's use of Adjusted EBITDA*
(2) *See supplemental slide for Adjusted Net Income reconciliation and other important disclaimers regarding Graham's use of Adjusted Net Income*

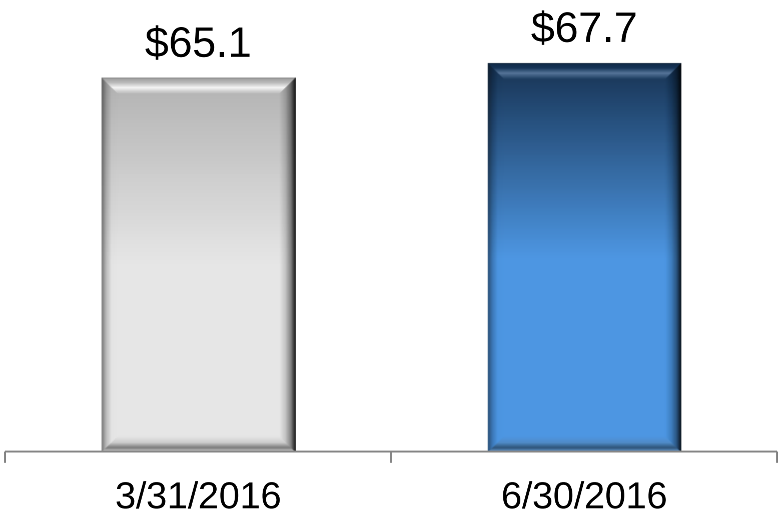
Capital Provides Flexibility

Supports growth as well as shareholder returns

Cash, Cash Equivalents and Investments

($ in millions)

No bank debt at 6/30/16



Cash available for investments in organic growth and acquisitions

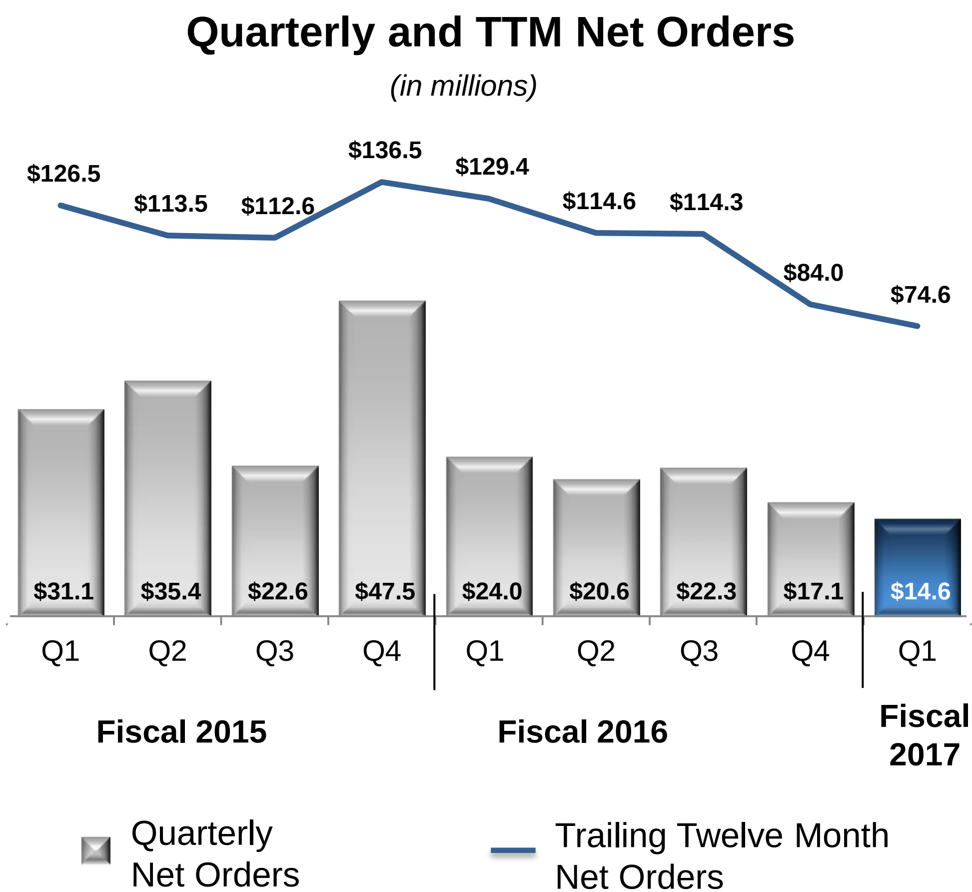
- Cash balances increased $2.6 million during Q1 FY2017
  - Cash provided by operations was $3.8 million
  - Paid $0.9 million of dividends
  - Cash on hand at end of Q1 was $6.97 per share
- Capital expenditures in Q1 FY2017 were $0.1 million compared with $0.3 million in Q1 FY2016
  - FY2017 capital expenditures expected to be between $2 million and $2.5 million

Outlook

Jim Lines

President & CEO

Weak Traditional Order Climate

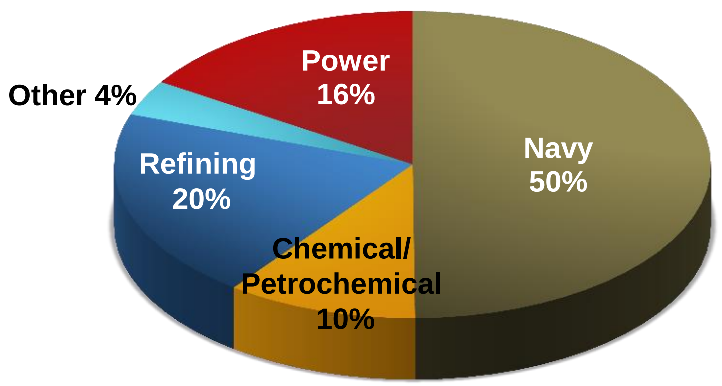


- Q1 FY2017 orders by industry vs prior year Q1:
  - Refining and chemical/petrochemical industry orders were down $3.4 million and $3.3 million, respectively, due to market conditions
  - Power industry orders were down $4.1 million due to timing
  - Defense and other industrial orders were up $1.4 million
- TTM comparison impacted by:
  - Large U.S. Navy orders in Q4 FY2015
  - $12.1 million of orders cancelled during TTM Q1 FY2017 period; $5.9 million cancelled in Q4 FY2015
- Bidding pipeline of ~$600 million to ~$800 million is active, but movement to order status remains slow

Backlog Remains Solid

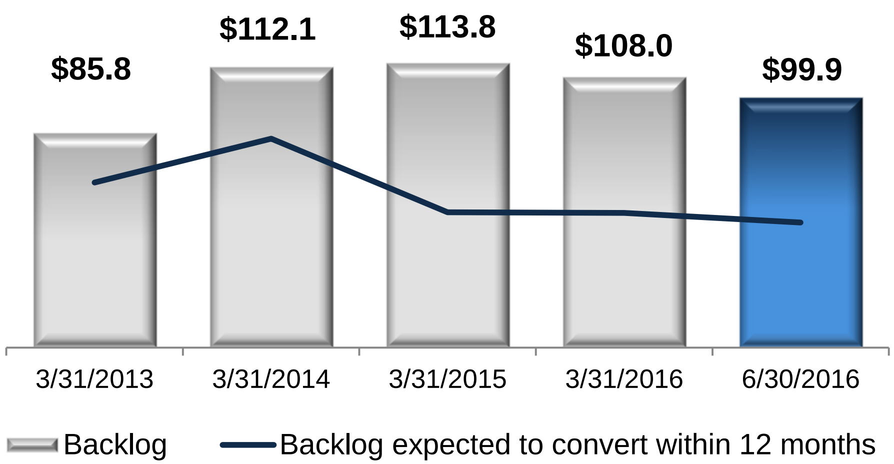
Reflects success of diversification strategy

Backlog by Industry
June 30, 2016

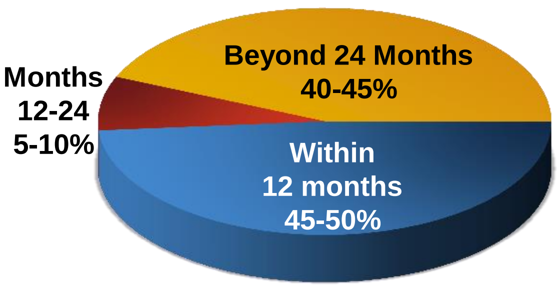


Backlog

($ in millions)



Projected Backlog Conversion
June 30, 2016



- Predictable base supports future growth; high percentage of U.S. Navy projects in backlog
- ~60% from markets or customers not served by the Company five years ago
  - Reducing the impact of more cyclical sales in the energy industry

FY2017 Guidance[1]

• Revenue	$80 million – $95 million
• Gross margin	24% – 26%
• SG&A	$16 million – $17 million
• Effective tax rate	30% – 31%

Strategic Target: Exceed $200 million in organic revenue

(1) *FY2017 guidance provided as of July 29, 2016*

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Supplemental Information

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Adjusted EBITDA Reconciliation

(Unaudited)

($ in thousands)

	Three Months Ended June 30, 2016		Three Months Ended June 30, 2015	
Net income	**$**	**85**	**$**	**2,361**
+Net interest income		(85)		(49)
+Income taxes		(100)		1,087
+Depreciation & amortization		582		621
+Restructuring charge		555		-
Adjusted EBITDA	**$**	**1,037**	**$**	**4,020**
Adjusted EBITDA margin %		*4.6%*		*14.6%*

Non-GAAP Financial Measure:

Adjusted EBITDA is defined as consolidated net income before interest expense and income, income taxes, depreciation and amortization and a nonrecurring restructuring charge. Adjusted EBITDA margin is Adjusted EBITDA divided by sales. Adjusted EBITDA and Adjusted 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 Adjusted EBITDA and Adjusted 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 Adjusted EBITDA and Adjusted EBITDA margin are non-GAAP measures and are thus susceptible to varying calculations, Adjusted EBITDA and Adjusted EBITDA margin, as presented, may not be directly comparable to other similarly titled measures used by other companies.

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Adjusted Net Income Reconciliation

(Unaudited)

($ in thousands)

	Three Months Ended June 30,							
	2016				2015			
			Per Diluted Share				*Per Diluted Share*	
Net income	$	85	$	0.01	$	2,361	$	0.23
+Restructuring charge		383		0.04		-		-
Adjusted net income	$	468	$	0.05	$	2,361	$	0.23

Non-GAAP Financial Measure:

Adjusted net income is defined as GAAP net income excluding a nonrecurring restructuring charge. Adjusted net income 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 Adjusted net income is important for investors and other readers of Graham's financial statements, as it is used as an analytical indicator by Graham's management to better understand operating performance. Because Adjusted net income is a non-GAAP measure and is thus susceptible to varying calculations, Adjusted net income, as presented, may not be directly comparable to other similarly titled measures used by other companies.

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