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# Fourth 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

# Fourth Quarter & Fiscal 2019 Summary

## Fourth Quarter

- Revenue grew 7% to \$23.6 million
- Net loss of \$4.6 million includes \$5.3 million of impairment charges
  - Non-GAAP net income of \$0.8 million, \$0.08 per share
- Orders of \$21.6 million
- Initiated process to divest commercial nuclear utility business

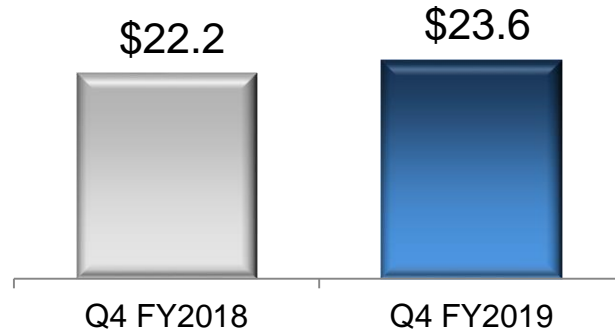
## Fiscal 2019

- Revenue grew 18% to \$92 million
- Net loss of \$0.3 million includes \$5.3 million of impairment charges
  - Non-GAAP net income of \$5.0 million, \$0.51 per share
- Orders of \$101.2 million
  - Contributed to near-record level backlog of \$132.1 million

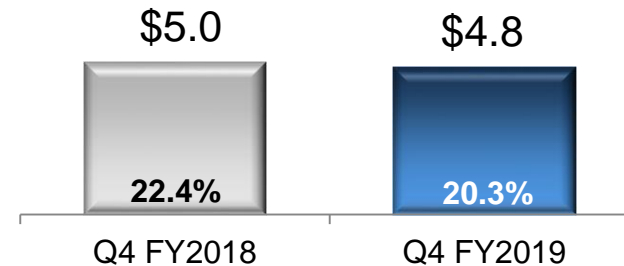
# Q4 FY 2019 – Steady Performance

(\$ in millions, except per share data)

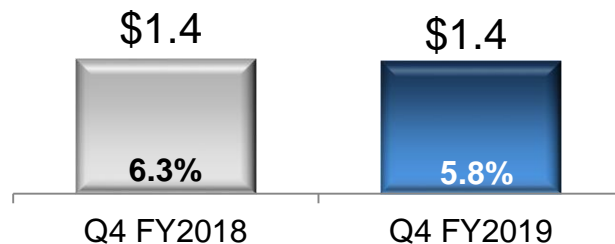
## Sales



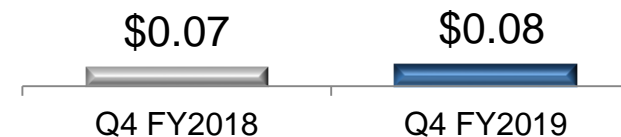
## Gross Profit and Margin



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



## Adjusted EPS<sup>(2)</sup>

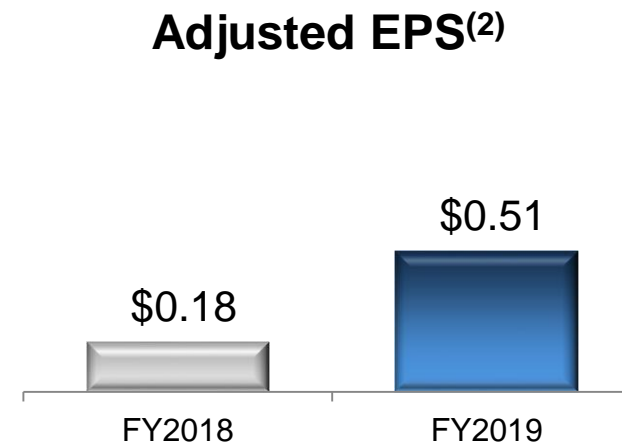
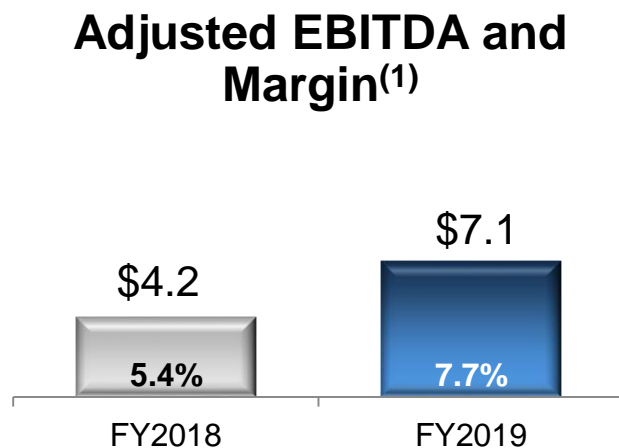
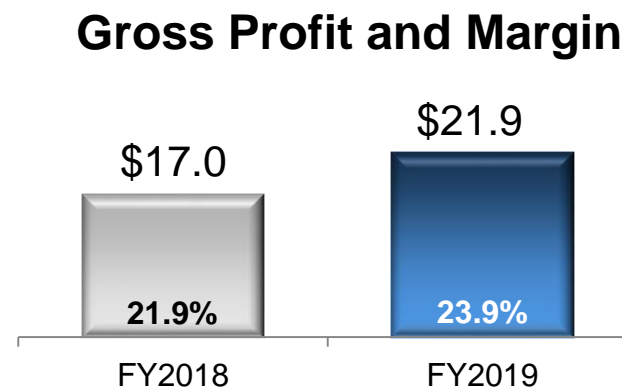
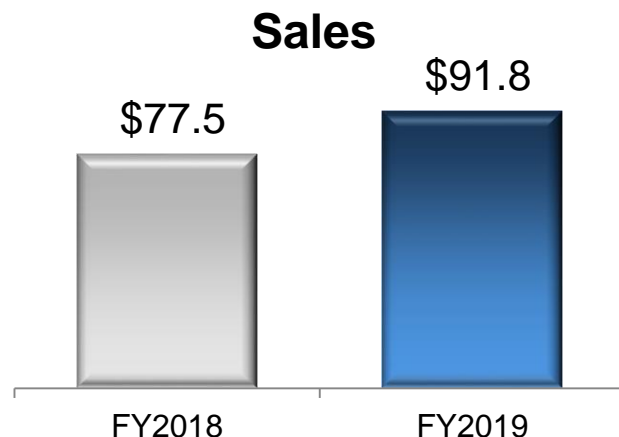


(1) See supplemental slide for Adjusted EBITDA reconciliation and other important disclaimers regarding Graham's use of Adjusted EBITDA

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

# FY2019 – Early Stages of Recovery

(\$ in millions, except per share data)



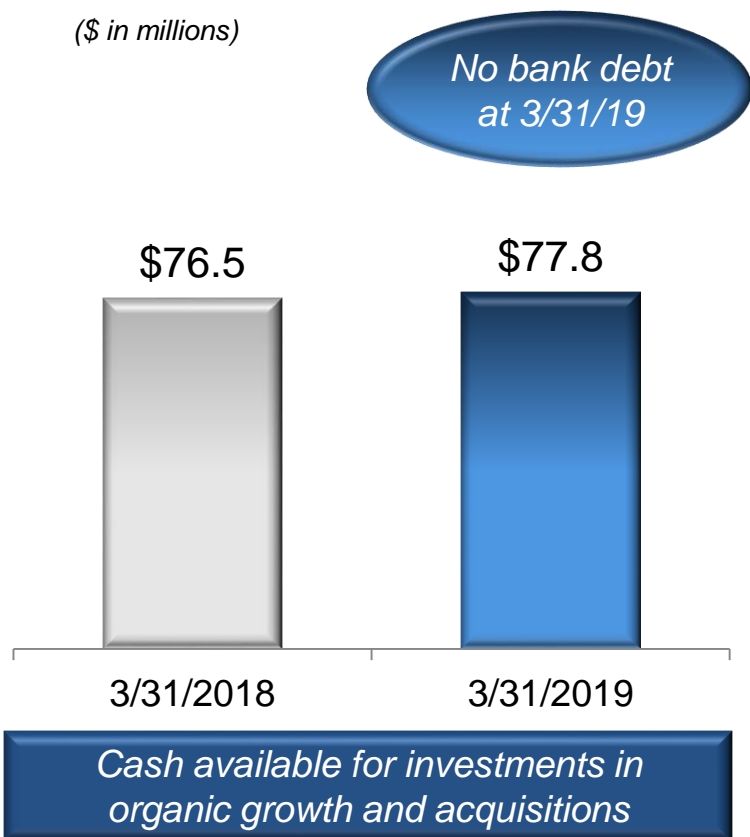
(1) See supplemental slide for Adjusted EBITDA reconciliation and other important disclaimers regarding Graham's use of Adjusted EBITDA

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

# Balance Sheet Strength Supports Growth

## Cash, Cash Equivalents and Investments

(\$ in millions)



- Cash<sup>(1)</sup> balance increased \$1.3 million in FY2019
  - Cash provided by operations was \$7.9 million
  - Paid \$3.8 million of dividends
  - Cash<sup>(1)</sup> on hand at year end of \$7.90 per share
- FY2019 and FY2018 capital expenditures of \$2.1 million
  - FY2020 capital expenditures expected to be between \$2.5 million and \$2.8 million<sup>(2)</sup>

(1) Represents cash, cash equivalents, and investments

(2) FY2020 guidance provided as of May 30, 2019



# Sales & Outlook

Jim Lines  
President & CEO

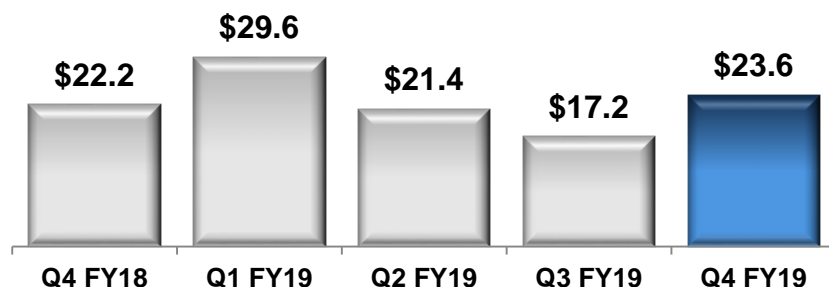


# Fourth Quarter Fiscal 2019 Sales

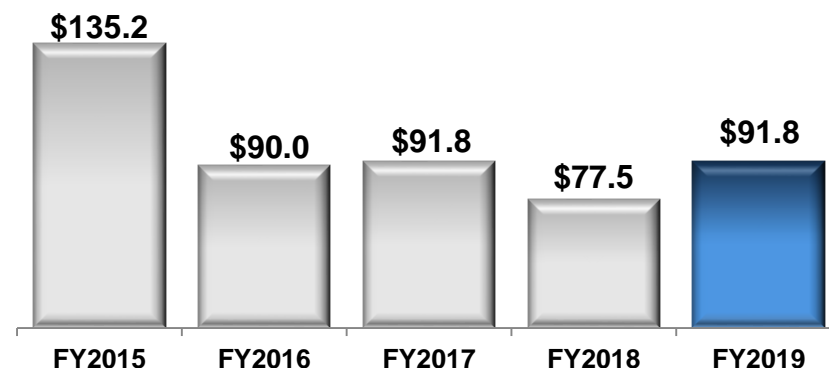
*Driven by core markets*

(\$ in millions)

## Quarterly Revenue



## Annual Revenue

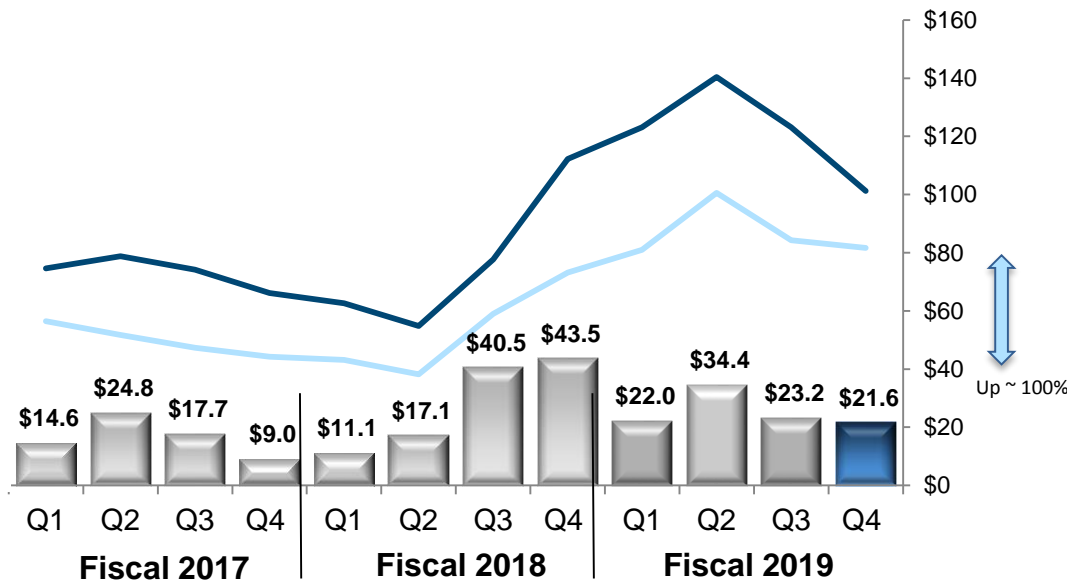


- Q4 sales increased vs prior year
  - Refining industry: \$9.6 million, up from \$7.9 million
  - Chemical/petrochemical industry: \$7.4 million, up from \$3.6 million
  - Power industry: \$2.0 million, down from \$3.2 million
  - Other commercial, industrial and defense: \$4.6 million, down from \$7.4 million
- Q4 sales by geography
  - Sales to the U.S. were up 13% to \$16.6 million, 70% of total, driven by chem/petchem and refining markets; last year was \$14.7 million
  - Sales to international markets were \$7.0 million; down from \$7.4 million last year

# Solid Order Activity

## Quarterly and TTM Net Orders

(in millions)



☒ Quarterly Net Orders

— Trailing Twelve Month Net Orders

— Trailing Twelve Month Net Orders Excluding U.S. Navy & Nuclear

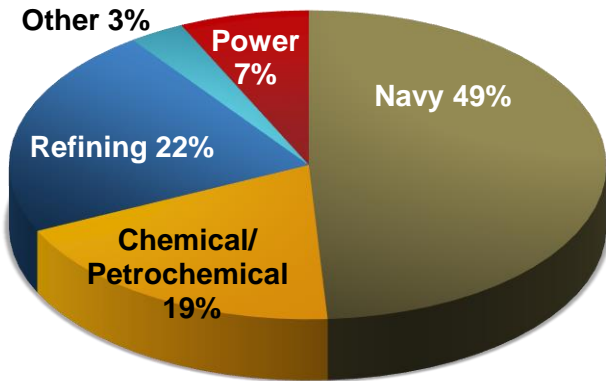
- TTM trend impacted by
  - Timing of large traditional refining and chemical/petrochemical orders
  - U.S. Navy orders
- Q4 FY2019 orders by industry vs Q4 FY2018
  - Refining industry down \$1.9 million
  - Chemical/petrochemical industry up \$1.0 million
  - Power industry up \$0.8 million
  - Other commercial, industrial and defense down \$21.8 million due to timing of U.S. Navy orders

# Backlog Level Supports Continued Growth

*Mix highlights importance of diversification strategy*

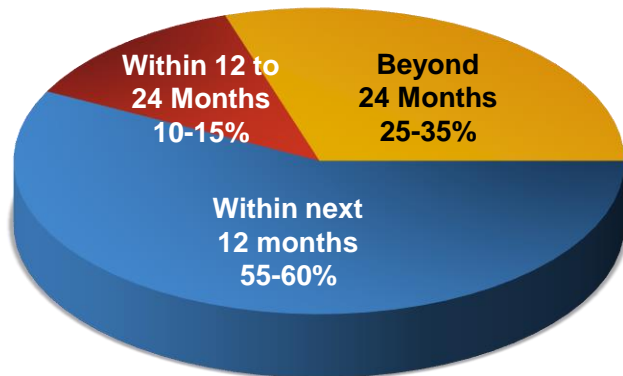
## Backlog by Industry

March 31, 2019



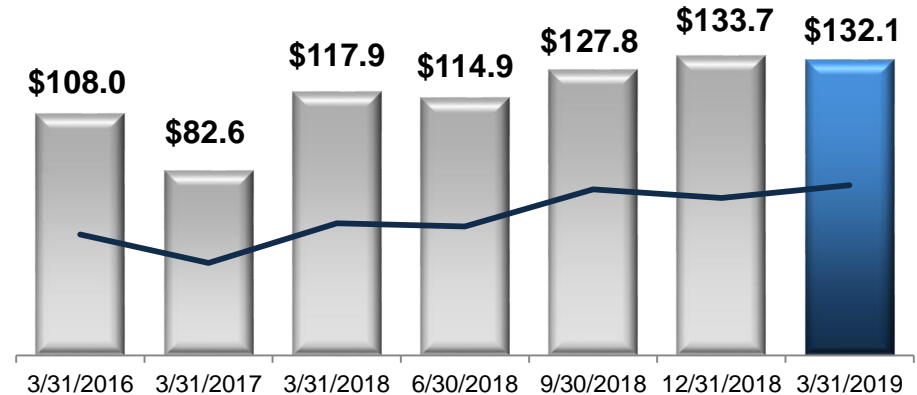
## Projected Backlog Conversion

March 31, 2019



## Backlog

(\$ in millions)



■ Backlog    — Backlog expected to convert within 12 months

- Backlog at 3/31/19 includes \$8.0 million for commercial nuclear utility business held for sale
- Increasing traditional projects in backlog expected to drive commercial growth
- High percentage of U.S. Navy projects in backlog provides stability and growth

# FY2020 Guidance<sup>(1)</sup>

- Revenue \$95 million – \$100 million, 14% – 20% growth excluding commercial nuclear utility business held for sale
- Gross margin 23% – 24%
- SG&A \$17 million – \$18 million
- Effective tax rate ~20%

*(1) FY2020 guidance provided as of May 30, 2019*



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# Supplemental Information

# Adjusted EBITDA Reconciliation

(Unaudited)

(\$ in thousands)

	Three Months Ended March 31,		Year Ended March 31,	
	2019	2018	2019	2018
<b>Net (loss) income</b>	<b>\$ (4,553)</b>	<b>\$ 833</b>	<b>\$ (308)</b>	<b>\$ (9,844)</b>
+ Net interest income	(414)	(147)	(1,450)	(594)
+ Income taxes	(661)	164	163	(3,010)
+ Depreciation & amortization	558	555	2,205	2,222
+ Restructuring charge	-	-	-	316
+ Goodwill and other impairments	6,449	-	6,449	14,816
+ Bad debt charge on commercial nuclear utility business	-	-	-	280
<b>Adjusted EBITDA</b>	<b>\$ 1,379</b>	<b>\$ 1,405</b>	<b>\$ 7,059</b>	<b>\$ 4,186</b>
<i>Adjusted EBITDA margin %</i>	<i>5.8%</i>	<i>6.3%</i>	<i>7.7%</i>	<i>5.4%</i>

## Non-GAAP Financial Measure:

Adjusted EBITDA is defined as GAAP net (loss) income before net interest income, income taxes, depreciation and amortization, a nonrecurring restructuring charge, goodwill and other impairments, and a charge associated with the revaluation of the commercial nuclear utility business. 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.

# Adjusted Net Income Reconciliation

(Unaudited)

(\$ in thousands,  
except per share data)

	Three Months Ended March 31,				Year Ended March 31,			
	2019		2018		2019		2018	
	Per Diluted Share		Per Diluted Share		Per Diluted Share		Per Diluted Share	
<b>Net (loss) income</b>	\$ (4,553)	\$ (0.46)	\$ 833	\$ 0.09	\$ (308)	\$ (0.03)	\$ (9,844)	\$ (1.01)
+ Restructuring charge	-	-	-	-	-	-	316	0.03
+ Goodwill and other impairments	6,449	0.66	-	-	6,449	0.66	14,816	1.52
+ Bad debt charge on commercial nuclear utility business	-	-	-	-	-	-	280	0.03
- Tax effect of above	(1,129)	(0.12)	-	-	(1,129)	(0.12)	(2,981)	(0.31)
- Impact of new tax law	-	-	(209)	(0.02)	-	-	(786)	(0.08)
<b>Adjusted net income</b>	<b>\$ 767</b>	<b>\$ 0.08</b>	<b>\$ 624</b>	<b>\$ 0.07</b>	<b>\$ 5,012</b>	<b>\$ 0.51</b>	<b>\$ 1,801</b>	<b>\$ 0.18</b>

## Non-GAAP Financial Measure:

Adjusted net income is defined as GAAP net (loss) income excluding a nonrecurring restructuring charge, goodwill and other impairments, a charge associated with the revaluation of the commercial nuclear utility business and the impact of the new tax law in fiscal 2018. 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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