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# First Quarter Fiscal 2020 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 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 discusses 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

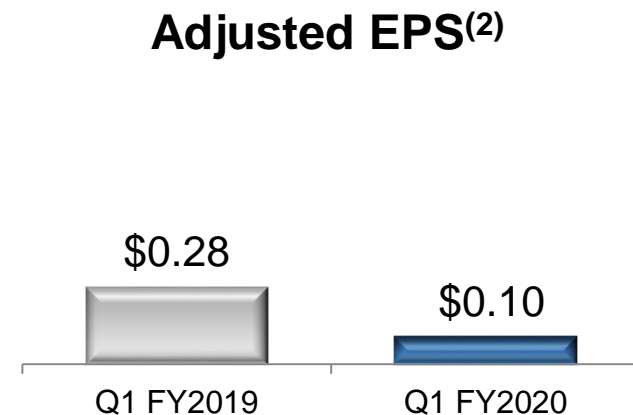
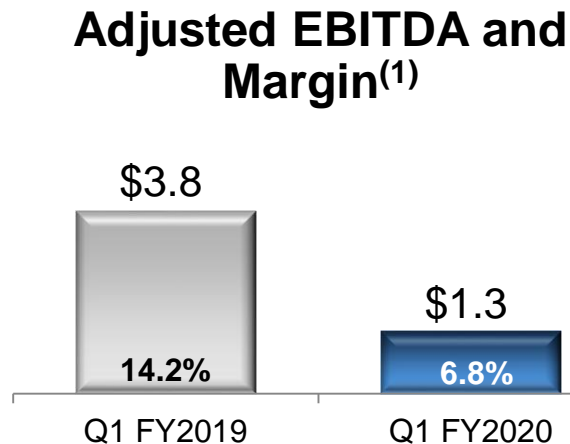
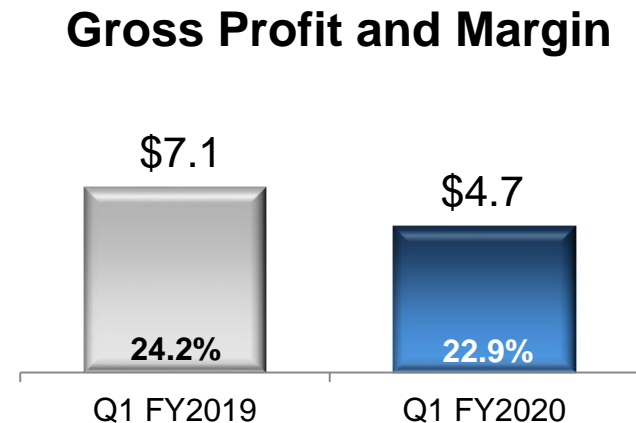
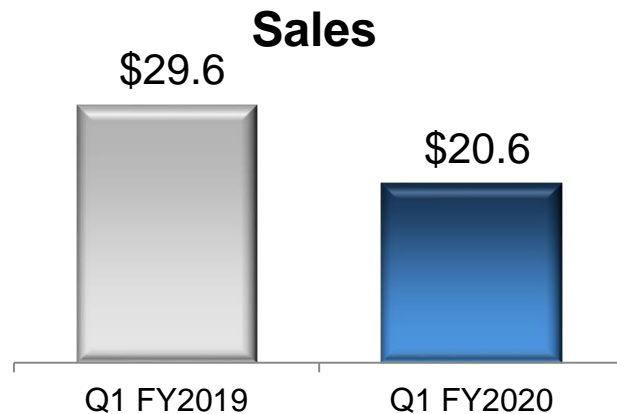
Vice President and CFO

# First Quarter Fiscal 2020 Summary

- Q1 revenue declined 30% to \$20.6 million, impacted by timing
- Q1 net income of \$0.1 million, \$0.01 per share
  - Non-GAAP net income of \$1.0 million, \$0.10 per share, excludes loss on sale and operating results of commercial nuclear utility business
- Divested commercial nuclear utility business, Energy Steel, June 24
- Backlog remains strong at \$117.2 million
  - Decrease in quarter includes \$9.8 million for commercial nuclear utility business

# Q1 FY 2020 – Soft Top Line Impacts Profits

(\$ in millions, except per share data)



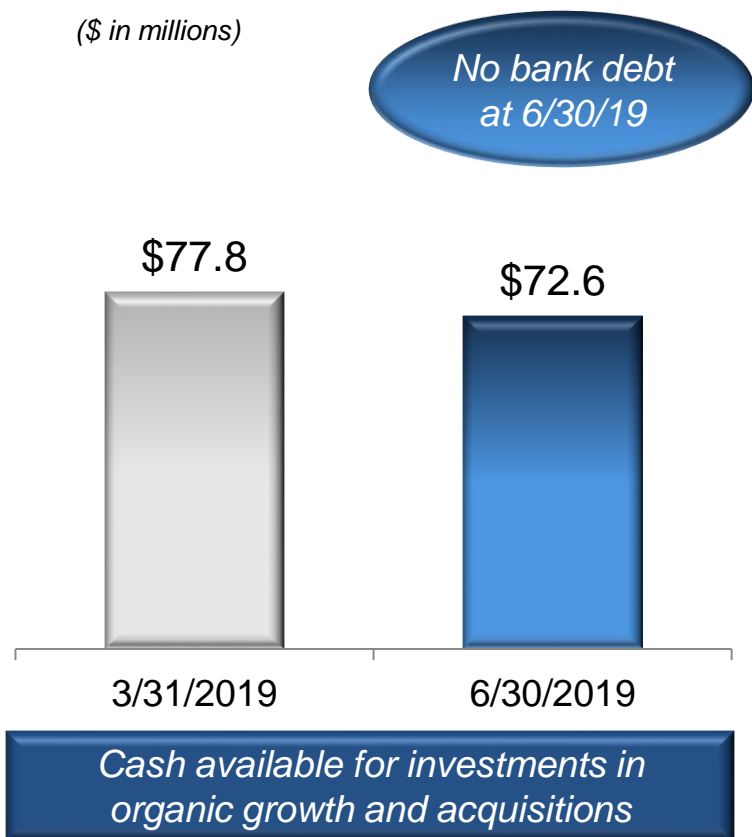
(1) See supplemental slide for Adjusted EBITDA reconciliation and other important disclaimers regarding Graham's use of Adjusted EBITDA

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

# Balance Sheet Remains Strong

## Cash, Cash Equivalents and Investments

(\$ in millions)



- Cash<sup>(1)</sup> balance decreased \$5.2 million in Q1 FY2020
  - Cash used by operations was \$4.8 million, impacted by timing of A/P
  - Paid \$1.0 million of dividends
  - Cash<sup>(1)</sup> on hand at quarter end of \$7.34 per share
- Capital expenditures of \$0.3 million in Q1 FY2020 compared with \$0.2 million in Q1 FY2019
  - 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 updated as of July 26, 2019



# Sales & Outlook

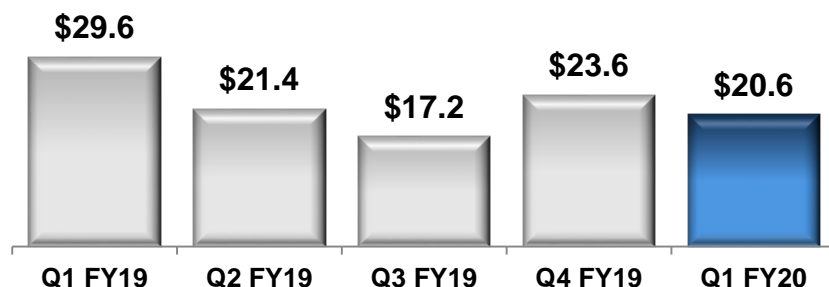
Jim Lines  
President & CEO

# First Quarter Fiscal 2020 Sales

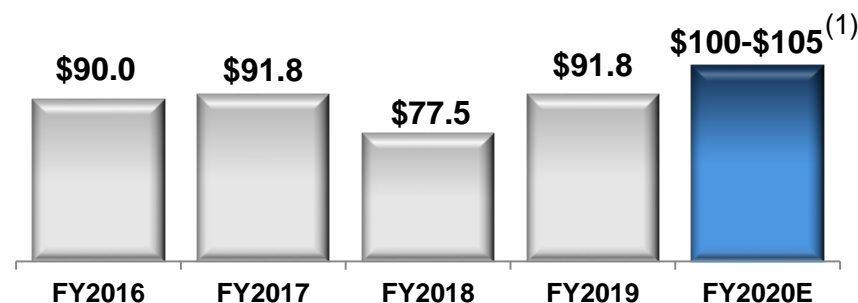
*Driven by core markets*

(\$ in millions)

## Quarterly Revenue



## Annual Revenue



(1) FY2020 guidance updated as of July 26, 2019; excludes commercial nuclear utility business divested June 23, 2019

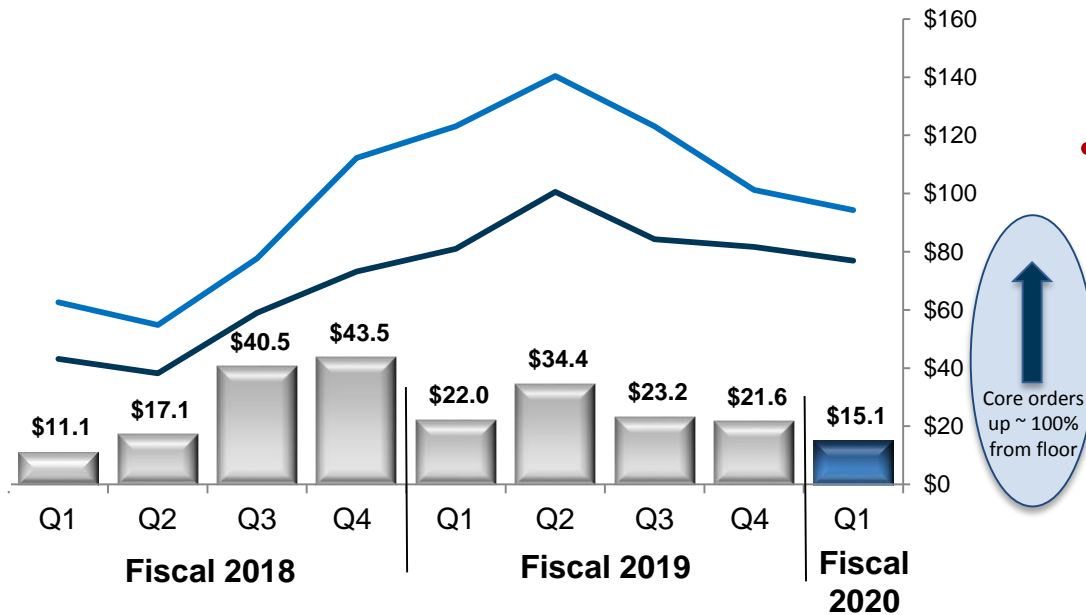
- Q1 sales decreased vs prior year
  - Refining industry: \$7.5 million, down from \$19.8 million
  - Chemical/petrochemical industry: \$7.1 million, up from \$3.0 million
  - Power industry: \$1.4 million, down from \$3.1 million
  - Other commercial, industrial and defense: \$4.6 million, up from \$3.7 million
- Q1 sales by geography
  - Sales to the U.S. were up 7% to \$14.4 million, 70% of total, driven by naval market; last year was \$13.5 million
  - Sales to international markets were \$6.2 million; down from \$16.1 million last year; last year included large Canadian refining project



# Volatile 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

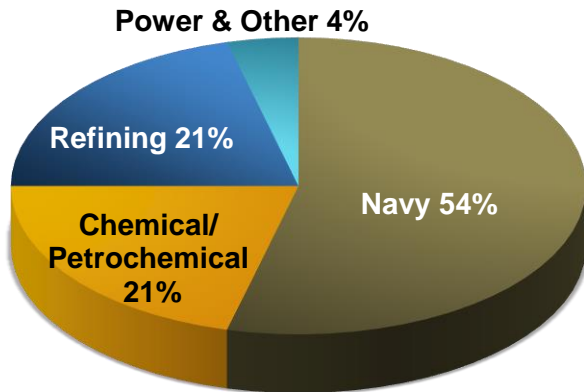
- TTM trend impacted by
  - Timing of large traditional refining and chemical/petrochemical orders
  - U.S. Navy orders
- Q1 FY2020 orders by industry vs Q1 FY2019
  - Refining industry down \$2.5 million
  - Chemical/petrochemical industry down \$2.7 million
  - Power industry down \$1.3 million
  - Other commercial, industrial and defense down \$0.4 million due to timing of U.S. Navy orders

# Backlog Level Supports Continued Growth

*Mix highlights importance of diversification strategy*

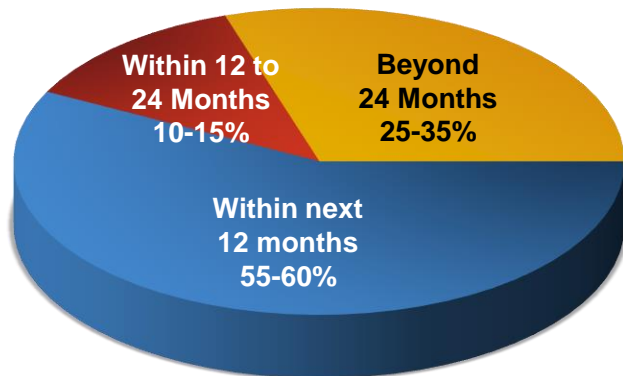
## Backlog by Industry

June 30, 2019



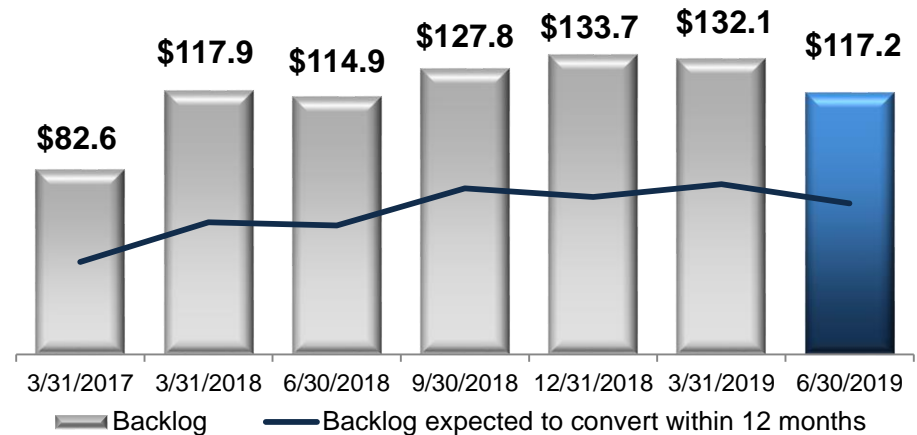
## Projected Backlog Conversion

June 30, 2019



## Backlog

(\$ in millions)



- Backlog at 6/30/19 reflects reduction of \$9.8 million for June 2019 sale of commercial nuclear utility business
- Increasing traditional projects in backlog expected to drive commercial growth
- High percentage of U.S. Navy projects in backlog provides stability and growth

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

- Revenue \$100 million – \$105 million, 20% - 26% growth excluding divested commercial nuclear utility business
- Gross margin 24% – 26%
- SG&A \$17 million – \$18 million
- Effective tax rate ~20%

*(1) FY2020 guidance updated as of July 26, 2019*



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# Supplemental Information

# Adjusted EBITDA Reconciliation

(Unaudited)

(\$ in thousands)

	<b>Three Months Ended June 30,</b>	
	<b>2019</b>	<b>2018</b>
<b>Net income</b>	<b>\$ 82</b>	<b>\$ 2,323</b>
+ Net interest income	(396)	(287)
+ Income taxes	25	702
+ Depreciation & amortization	501	549
+ Loss on sale of commercial nuclear utility business	87	-
+ Operating loss of commercial nuclear utility business	1,016	498
<b>Adjusted EBITDA</b>	<b>\$ 1,315</b>	<b>\$ 3,785</b>
<i>Adjusted EBITDA margin %</i>	<i>6.8%</i>	<i>14.2%</i>

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

*Adjusted EBITDA is defined as consolidated net income before interest expense and income, income taxes, depreciation and amortization, and the operating loss and loss on the sale 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 June 30,			
	2019		2018	
		<i>Per Diluted Share</i>		<i>Per Diluted Share</i>
<b>Net income</b>	\$ 82	\$ 0.01	\$ 2,323	\$ 0.24
+ Loss on sale of commercial nuclear utility business	87	0.01	-	-
+ Operating loss of commercial nuclear utility business	1,016	0.10	498	0.05
- Tax effect of above	(203)	(0.02)	(99)	(0.01)
<b>Adjusted net income</b>	<b>\$ 982</b>	<b>\$ 0.10</b>	<b>\$ 2,722</b>	<b>\$ 0.28</b>

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

Adjusted net income is defined as GAAP net income excluding the operating loss and loss on the sale of the commercial nuclear utility business. 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.

# Commercial Nuclear Utility Business

(Unaudited)

(\$ in thousands)

	<u>6/30/2019</u>	<u>3/31/2019</u>	<u>12/31/2018</u>	<u>9/30/2018</u>	<u>6/30/2018</u>
<b>Net sales</b> .....	<b>\$ 1,276</b>	<b>\$ 1,748</b>	<b>\$ 1,847</b>	<b>\$ 1,819</b>	<b>\$ 2,922</b>
Gross profit .....	41	154	(84)	(36)	137
Other expenses:					
Selling, general and administrative .....	621	280	418	647	635
Other expense / Goodwill and other impairment.....	436	6,449	-	-	-
<b>Operating loss</b> .....	<b><u>(1,016)</u></b>	<b><u>(6,575)</u></b>	<b><u>(502)</u></b>	<b><u>(683)</u></b>	<b><u>(498)</u></b>
<b>Net loss</b> .....	<b><u>\$ (813)</u></b>	<b><u>\$ (5,409)</u></b>	<b><u>\$ (407)</u></b>	<b><u>\$ (563)</u></b>	<b><u>\$ (399)</u></b>

The above unaudited financial information reflects the actual historical quarterly results of Energy Steel, Graham's commercial nuclear utility business that was divested as of June 24, 2019.



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