Operator: Greetings, and welcome to the Graham Corporation Business Update Conference Call. [Operator Instructions] As a reminder, this conference is being recorded. It is now my pleasure to introduce your host, Deborah Pawlowski, Investor Relations. Please go ahead.

Deborah K. Pawlowski: Thanks, Kevin, and good morning, everyone. We certainly appreciate you joining us today to discuss Graham's business update amid the coronavirus pandemic. You should have a copy of the slides that were distributed this morning and will accompany our commentary today. If you do not have the slides, you can find them on our website at www.graham-mfg.com.

On the call with me today are Jim Lines, our President and Chief Executive Officer; and Jeff Glajch, our Chief Financial Officer. Jim and Jeff are going to cover the outlined agenda that is on **Slide 3** and then we will open it up for Q&A.

If you turn to **Slide 2**, as you may be aware, we will discuss some forward-looking statements during this discussion as well as during the Q&A. These statements apply to future events and are subject to risks and uncertainties as well as other factors that could cause actual results to differ materially from what is stated on this call. These risks and uncertainties and other factors are provided here in the slide deck as well as in other documents filed by the Company with the Securities and Exchange Commission. These documents can be found on our website or at www.sec.gov. We may also discuss some non-GAAP financial measures as well, and you should note that any non-GAAP measures should not be considered as a substitute for measures that are in accordance with GAAP.

So with that, it is my pleasure to turn the call over to Jim to begin. Jim?

Jim Lines: Thank you, Debbie. Good morning, everyone. We appreciate that you are with us this morning. Jeff, Alan and I feel that while there's much uncertainty, it is important to fill the information void to the extent that we can, with commentary about how Graham is impacted or might be impacted by the far-reaching effect of COVID-19 and how low crude oil pricing is impacting our business.

Suffice it to say, it has been two months since our last conference call, and today, we are in an unprecedented time, unimaginable this past January. The Company is responding quickly to the evolving consequences of two external forces, COVID-19 and the price collapse of crude oil.

The strength of Graham's balance sheet is a powerful asset, missing from many other companies' tool bags. Downturns and surprise external events create opportunities for those able to capitalize on them. I am deeply troubled by what we are going through as global citizens in the fight to rid ourselves of COVID-19 and the effect it is having on everyone and virtually everything in our lives. However, Graham's financial strength and commitment to identify, nurture and seize opportunities, be it new orders, repositioning to take greater market share, elevating how we serve customers or M&A and joint ventures can become a differentiator for how we come out of this end market turmoil.

As outlined on **Slide 3**, our agenda today is for Jeff and I to review Graham's core values, end market dynamics, supply chain reliability, backlog quality, current outlook, balance sheet strength, actions that we have taken thus far, and next steps and then, importantly, we will open for Q&A as quickly as possible.

Now moving on to **Slide 4**. The compass that guides our decisions and actions at a time such as we now find ourselves, is our core values. We have in the past and will now rely on three foundation bedrocks. We know by taking care of our foundation, we come through these challenges stronger and able to capitalize on opportunities better than competitors in the midst of this crisis and during the recovery.

Customers are front and center in our decisions. We must stand at the ready to serve, be that for early project work, such as budget or front-end engineering and design efforts, EPC and OEM bidding, backlog fulfillment and aftermarket support. Our consultative selling process has built a reliance by our refining and petrochemical customers on our sales engineering platform to guide critical CapEx and OpEx options analysis and knowledge sharing. We mustn't unwind that.

Our backlog is substantial. And while execution may be delayed, we must maintain capacity and capability to complete our backlog, and this requires holding on to engineering quality and operations competencies and capacity. Also, enabling customers to get the most out of their operating plants is never more important than right now. Therefore, the build-out of our performance improvement engineering organization must continue.

To support customers in such a manner, our talented workforce is critical. We perform complicated work that is mission-critical for our customers. There is a meaningful length of time required to bring a Graham employee to the level of expertise needed. This applies across Graham's value chain from customer-facing teams, to order execution, to specialized fabrication and, of course, aftermarket support. We must not unwind our talent pool. It takes too long to rebuild. If our service levels drop when customers need us the most, it will have a harmful impact to our brand.

Moreover, we operate within a small community and have an employer brand that enables us to attract and acquire the talent we need. How we support the community and employees during unstable and unpredictable times influences greatly our employer brand. It took enormous effort and considerable time to build the employer brand Graham holds. It takes just a moment to harm that employer brand.

Management will use balance sheet strength to keep our foundation strong, and won't optimize near-term costs to maximize income statement results. Short-term centered decisions never have long-term benefit. By holding tight our talent pool, we can gain market share, take advantage when opportunities present themselves, and they will, such as M&A or new orders as a couple of examples, and importantly, enable Graham to grow quickly when end markets return to more normal times. This approach should result in stronger shareholder returns over time than we if focused solely right now on the income statement.

Let's move now on to **Slide 5**. There are a handful of multimillion-dollar refining projects in the bidding stage that are for Asia. Each is expected to proceed. Each is aggressively contested by our competition. We don't expect to win them all, although we are pursuing each with a full court press.

Graham has been in low crude oil environments before. National and integrated oil companies in the past responded differently than independent refiners. CapEx plans are being curtailed by the integrated refiners. Not much was occurring at the national oil companies before low crude pricing set in. We don't yet have a clear read on how independents will respond. The 3-2-1 crack spread is down measurably this past month. How enduring a low crack spread is will influence how an independent responds during this low crude oil environment. Our performance improvement and sales engineering teams will continue to dialogue with refiners to gain clearer insight about near-term order pipeline development.

Chemical and petrochemical markets seemed to move in a more measured way during the past year. There were requests for engineering-only orders with fabrication releases scheduled at some undefined time in the future. These requests came from a few of the largest chemical companies. It, to us, was indicative of a general slowing of investment. Going back a few years, it was more urgent and chemical companies were attempting to be the first-to-market with incremental capacity. That was not the way in 2019 or 2020 thus far.

The North American petrochemical boom was tied to fracking and co-produced natural gas that is a feedstock to the petrochemical plants. Rig count for fracking is dropping quickly and operators and service companies around these rigs are prepared to take extreme cost-reduction measures. The impact of how rig count and fracking evolves is anticipated to affect the petrochemical market. It is too early to define this impact. However, we are watching it carefully.

We do have a nice bid pipeline for Navy work that complements our large backlog. Our welders, machinists and assemblers can work on Navy or commercial orders. A greater percentage of our direct labor will move into converting Navy backlog. Navy work is stable, multiyear base load backlog.

Let's now go on to **Slide 6**. Graham largely uses a western supply chain. We aren't globally integrated. We cannot be. Navy contracts primarily drive domestic sourcing. Also, our energy and chemical end markets outside China and India are unwilling to accept raw material from China, India or other lowcost sourcing regions. An Indian or Chinese supply chain is used when building in those countries or for end-use in that country.

Graham has a matrix of suppliers, and for most components or raw materials, there are three to five sources. Certain material may have one or two suppliers, and that is because globally, there are just a few suppliers for that component deemed to be acceptable and capable to achieve required quality standards. We aren't identifying major supply chain challenges just yet. We may step up inventory to protect continuity of backlog conversion. We should, however, anticipate supply chain delays and challenges as COVID-19 continues to evolve. We have to assume our supply chain eventually is impacted.

Let's move on now to **Slide 7**. Backlog was strong and of a high-quality on December 31, 2019. It was $123 million and just over half was for the U.S. Navy. We did have two domestic crude oil refining orders canceled in the fourth quarter. The total value canceled was $3.5 million. These two orders entered backlog during the September to December time frame. We smartly structured the contracts with cancellation protection. We protected the company from cancellation risk. However, we will always take a relationship-based approach, so as not to conclude with a win-loss outcome that affects our relationship with that refiner in the future. We are in negotiations now to settle cancellation terms.

We did secure two petrochemical end market orders in the fourth quarter, valued at $3 million each. Both are for North American end users. One is new capacity for downstream derivatives within the plastics and polyurethane value chain. The other is added equipment for an existing site that improves its environmental footprint.

Short-cycle orders are off about 25% compared to last year. This began to become evident near the end of the third quarter. The trend predated the COVID-19 pandemic. Our lead measures cannot pinpoint the cause, however, low crude oil prices and impact of COVID-19 will keep short-cycle orders under pressure.

I am now referring to **Slide 8**. Fiscal 2020 guidance announced on January 29, 2020 is rescinded. We will fall below top line guidance and also gross margin will be below that guidance as well.

Fiscal 2021 guidance is not yet available. We need more time and to be on more firm footing. The operating plan for fiscal 2021 has been pushed a couple of months to better understand the implications of COVID-19, low crude oil pricing, March through April order patterns, and if there are further cancellations or orders in backlog placed on hold.

Once back to a semblance of normalcy, we anticipate a sequential four quarter revenue level to be comparable to where 2020 will conclude. I cannot yet define when we expect to be back to normal though.

Management is evaluating various scenarios. If we consider China as a template, COVID-19 appears to be a two month event. There are other planning scenarios under evaluation, such as what if it is two quarters or if the global economic pullback spans two years in duration.

Permit me to turn the call over to Jeff. Jeff?

Jeff Glajch: Thank you, Jim, and welcome, everyone. If you could move to **Slide 9**. I'd like to start by echoing Jim's comments on Graham's values. It's those values which focus on our customers, our employees and our community and have been and continue to be the guide for our actions. We believe this ultimately benefits our shareholders.

Our balance sheet is strong with $72 million of cash and no debt. We have significant borrowing capacity, which we do not believe we will have to tap, but it is there.

We pay a healthy dividend, and our Board of Directors plans to maintain that dividend.

Importantly, we are continuing to pay our workforce to ensure that they are not economically impacted by COVID-19.

We are proactively looking at our M&A pipeline for potential opportunities.

Finally, as noted, we have $72 million worth of cash. Our cash burn rate, if we are not operating our plant, including our full payroll and maintaining our dividend, is about $3 million per month. We can and will survive fine in the immediate term and will position ourselves well once full business activity resumes.

If you could move to **Slide 10**. Our actions to date and moving forward have and will continue to be proactive. We established a leadership team to make immediate decisions with full decision rights to implement necessary actions. We implemented enhanced safety procedures and thinning out of our work environment ahead of state and federal regulations.

We have closed our facility for two weeks as of the end of business last Friday. Before the shutdown, we stopped international travel in late January and extended this to domestic travel in early March. We proactively required isolation of employees after certain personal travel. We restricted site visitors. We thinned out our on-site employees, and we expanded our office team's ability to work remotely. We have enhanced cleaning in our facilities, provided an increased number of sanitizers in our facilities and educated our employees on enhanced hygiene practices.

If an employee was at high-risk due to preexisting conditions or age, had family issues, including elder or child care, or had any other concerns that impacted the comfort or safety of themselves, their family or their fellow employees, our approach was very simple. Please stay home.

Throughout this period of restrictions, wage continuity was never a concern for our employees. We communicated very early that we would continue to pay our employees if we were closed or if we were open and they could not be at work for the many reasons I just mentioned.

On to **Slide 11**. Looking forward, we plan to update you prior to our fiscal 2020 year end earnings call if the situation changes meaningfully. We are in contact with all of our key stakeholders, those mentioned earlier as well as, of course, our customers, the engineering and procurement companies and our vendors. Our office staff is working remotely quite well. For many of them, this is the first significant time working from home, and I am pleased that over 100 of our employees are able to do so effectively. Management is communicating to our employees as the situation continues. We look forward to having everyone back work at Graham. However, we will be prudent to ensure their safety is the top priority.

To reiterate, our Board intends to maintain its current $0.11 per quarter cash dividend.

Finally, we are currently scheduled to have our fiscal 2020 year-end earnings call on Friday, May 29, but as I noted, if the situation changes, we would plan an interim call.

Jim and I would like to thank you for your interest in Graham, and we hope to have your Company back at full force as soon as possible.

The one phrase I have heard and keep hearing from so many of our employees over the past couple of weeks is, "What can I do to help?"

Kevin, with that, if you could open the line for questions, please.

Operator: [Operator Instructions] our first question today is coming from Joe Mondillo from Sidoti & Company.

Joseph Mondillo: Just a quick question on the cash burn, Jeff. I was wondering what that accounts for in regard to working capital and CapEx?

Jeff Glajch: Sure. The cash burn is primarily payroll. As I mentioned, we included the dividend in there and then some operating expenses which would occur, whether we're here or not, heat and things like that. It does not include CapEx at this point in time. Our current CapEx programs are on hold until we're back and operating.

And from a working capital standpoint, again, because we're closed, there's not much coming in, nor is there much going out. However, we are sensitive to our vendors, particularly our smaller vendors. And should there be an issue with one of them, we're certainly looking to help them out.

Joseph Mondillo: Okay. So a neutral on working cap and a zero on CapEx. Is that correct?

Jeff Glajch: That's correct.

Joseph Mondillo: Okay. All right, Jim, I was wondering, the last two times we saw energy prices decline so drastically was 2009 and 2015. For your energy-related legacy business only, how would you compare this downturn to 2015 and 2009 in terms of the severity? And are there any other differences that you anticipate?

Jim Lines: It's early. My judgment is, it's moving quickly in the downward direction. 2009 came back relatively quickly, but it was a tepid recovery. For a couple of years after 2015, while a pretty quick downfall, it came back about three years later. It's a little bit early to tell, but we've been, as you said, in this low price oil environment a couple of times before. What's important is we have a clear-eyed view of how our customers behave, how their investment decisions are made, which customers we should prioritize and allocate resources toward, to make sure we're nurturing the opportunities that will become available.

So again, we have the benefit of knowing how to run our business in a cyclical downturn such as this. My judgment, to just offer a judgment call, which is not an affirmation, it feels to me like we're moving more toward a fiscal 2017 and 2018 environment.

Joseph Mondillo: Okay. And in those last two downturns, one difference that I noticed, while your revenue was, in both times, down over 30%, you were much more aggressive with your SG&A costs in 2009 compared to 2015.

And I think part of that was because the downturn was isolated to oil and gas in 2015, and you thought that it would come back. You talked, in your prepared remarks, about investing in employees and the cost of bringing on new employees, if you were to let some people go and then have to rehire. Understanding this is a sensitive subject, do you have any thoughts on that dynamic of SG&A? Especially given -- I know this is fluid and ongoing, and we're not so sure how this downturn progresses, -- but this is much more, I think, broad-based to the global economy and the U.S. economy this time compared to 2015. So I'm just wondering your thoughts on all that in managing the costs.

Jim Lines: As we reflected upon the decisions we made in the 2008, 2009 time frame and those that we made in the 2014 and 2015 time frame, the leading edge of those downturns were different as you identified. As we looked at our recovery and our capability and the demands of our customers when the markets began to become stronger, we just weren't ready in the late 2000s time frame, following the 2008-2009 downturn. And that's a tough spot to be in because we built this value proposition of “We're here to support. We'll support you up cycle, down cycle.”

And I like when we can take advantage of a down cycle and shift our market position, shift our brand relative to the competition. So when we come out, we take more share because we have the dry powder, we have the capacity, we have the competencies in place. In 2009, we had to rebuild, and it took a fair amount of time.

So our judgment right now is, taking those two comparators and thinking about the implications near term and long term, I would look to preserve SG&A expense to the extent that we must or that we should. So this Company is ready to support our customers and be available to seize those opportunities that can come up relatively quickly. And bear in mind, we have order sizes that can be smallish, a couple hundred thousand, to very, very large. And I don't want to be in a position where we can't execute because we don't have the infrastructure to do so. And that has happened to us in prior downturns when we dismantled the Company.

So the benefit of this management team, a little bit long-winded here, is we've been through a couple of cycles together. We understand end market behaviors. We understand the consequences of near termism versus long-term decisions, and I'm leaning more toward long-term value creation than short-term income statement management.

Joseph Mondillo: Okay. And then a question on gross margins. If you look at these cycles that we've been through over the last 10 to 15 years with Graham, your gross margins seemingly -- the peaks have been lower and the lows have been lower, not necessarily the direction you're hoping for. Just curious on what your thoughts are on that, especially entering this downturn. And is there a floor in that trend, given whatever dynamics are sort of contributing to that?

Jim Lines: That's a great question. And let me speak to it a little bit. One of the headwinds that we faced during the past number of years, which was the right thing to do, we built up our infrastructure to grow our Navy business. And furthermore, we entered some new programs that Graham was never in and to enter, we had to use price as a strategy to dislodge an incumbent. And it takes a bit of time to work that through our backlog, and that had some pressure on our margins, both staffing up ahead of revenue and then decisions we made to take orders so we could demonstrate to the Navy we were an exceptional executor of their orders, and we were different from their normal supply chain. The only way to have done that was to use price as a weapon to get that work.

Now the benefit as we move forward is, our first decade of the strategy was largely competitively bid, and we now have roughly 25% of our backlog under more close to sole source bidding. And as we see the evolution of our bidding for the Navy, we can envision half of our work going forward would be under sole source bidding. And that has the benefit of a different margin profile. So we do see the lift of our Navy strategy from a margin perspective about two to three years out. But I do want to be candid that we had some margin pressure due to the long-term view we took with our Navy strategy. And thank goodness we had the fortitude to do that, otherwise these types of downturns would be more challenging to manage than they are right now.

Joseph Mondillo: Okay. Just looking at the legacy business, would you say anything has changed there structurally?

Jim Lines: Not necessarily. I think you might recall, Joe, on prior conference calls, we were commenting qualitatively that the work coming into our backlog from our legacy markets was of superior margin quality to what was being relieved from backlog. So that suggests our market position, our competitive strength, our ability to manage opportunities and price has not, in general, eroded. So I still feel very good about that. I'm not really noticing any structural changes or any meaningful negative changes in our market position relative to our competition. Again, the onset of low crude oil pricing, complemented by the COVID effects, is just right in front of us. We'll see how it plays out. Nonetheless, we've had a really nice order pipeline of nice margin legacy work coming into our backlog.

Operator: Our next question is coming from Tate Sullivan from Maxim Group.

Tate Sullivan: Thanks for doing the update call today, too. And just to start after those questions, you had some good comments on China in your last conference call in terms of what was happening with your facilities. What specific visibility do you have in the China recovery? Is your factory back online there? What are your workers saying? Or what reports are you referring to, that it lasted two months and now they're in a recovery stage, please?

Jim Lines: Sure,Tate. in China, we have a sales, marketing, and fabrication surveillance team. We don't have operations. Our comments really reflect the information that we're getting on the industrial base in China, in particular, where we have some orders in fabricator shops in China that we're surveying. They ceased to work for about five weeks, all of February through the first week of March. And then the local governments, depending upon the province, were permitting workers to come back in a progressive way -- 10% to 20%, week number one; another 20%, week number two; after the first five weeks, they were at 60% to 70% staffing; and as of today, most of the businesses are back at 100%. So that's why we called it about a two month activity from the shutdown of business to return to production and full staffing.

It spanned February to where we are today, about eight weeks.

Tate Sullivan: Great. Okay. And then on the cash and cash equivalents, $70 million as of the end of December, that includes $50 million in short-term investments. Is that fully converted to cash now? Or can you comment on that?

Jeff Glajch: Tate, if it's not converted to cash, it's very easily accessible. And just for clarification of our $72 million, all but about five percent of it is in the United States.

Tate Sullivan: Okay. And then you had some comments on the schedule changes for current projects. And earlier, have you received feedback from customers? Are they waiving? Are there any potential late payments, late penalties on delivering or are clients being flexible with the delivery schedules at this point?

Jim Lines: So far, and I'm proud of our customers, they're recognizing what's going on. They're accommodative. They're feeling the impact across their full supply chain. There was pressure for a couple of projects that were at the one yard line that we just had to get across the goal line over the last couple of days, and we organized resources to be able to do that. But other than that, I think that we are out one quarter or two quarters. Our customers are in conversations with us, they're very collegial. It's not pressure packed. So that's going well.

What we are hearing more qualitatively, and this is from our integrated refining customers, they are focusing on cash flow and payment schedules be altered. We have a benefit with our balance sheet. This is more for new orders to leverage the strength of our balance sheet, to be accommodative to our customers and use cash flow terms to our advantage where our competition may not be able to do so. So that's one thing we are seeing. Our cash conversion cycle may shift to the right. However, we have the capacity to support that with the strength of our balance sheet. And that should be a differentiator for Graham vis-à-vis how our competition would respond in such a case.

Operator: Our next question is coming from David Diamond from High Rock Asset Management.

David Diamond: Two quick questions. One, as it pertains to the earlier margin question. And secondly, as it pertains to the M&A potentiality.

Maybe you could frame for investors the margin question a different way. Could you frame for us, is the gross margin in existing backlog higher, lower, or comparable to historical margins? And as it pertains to new business that you're bidding on, which you referred earlier that there's a number of projects that are going to be let, could you frame for us whether those projects offer comparable, higher, or lower margin?

And then secondarily, as it pertains to the M&A potentiality, could you frame what kind of multiples and what kind of scale for us to think about? Because obviously, you've got a cash-rich balance sheet with no leverage. You're obviously going to bleed through some cash to get through this. I think all investors would appreciate understanding the size and scale that you would be considering because, obviously, that has an impact in terms of the complexion of the balance sheet, were you to do some M&A.

James Lines: Okay, great. David, I will take the first two, and I'll turn it over to Jeff on the M&A side. So I have to answer the backlog question and actually the pipeline question with a time stamp. The quality of our backlog for our legacy business compared to the white-hot time of 2007 and 2008 is less. But we've always implied that we aren't expecting to have 41% gross margin in our future because that was a unique white-hot time that we maximized through price management to get those margins. If I compare it to a more mid-cycle, more normal time, I would say our backlog margin for legacy work is comparable or up a bit.

And then if I think about it in the context of our bid pipeline, for the Asian work that I cited, the Asian refinery work, we're observing those half a dozen or so projects as being highly contested. Everyone's going after those and we have price-focused buyers. We're still going to go after those, even though they're very price-sensitive because they have, in some cases, great follow-on revenue from revamps and parts and service over time. I think our models would average down relative to a time stamp four or five years back. But that's the nature of those types of opportunities in those countries and who the buyer is and their willingness to center on price versus long-term value. However, we know how to manage those situations and we're going to go after those opportunities because they are the right thing to do.

In our more ordinary, outside-of-Asia bid pipeline, I think the quality of the gross margin is comparable to up, consistent with what we've been adding into backlog on average over the last 12 to 18 months. I hope that's answered the margin question.

David Diamond: Yes, that's great on that one.

Jim Lines: And I will have Jeff respond on the M&A side and valuations.

Jeff Glajch: David, thank you. Your question is around multiples and sizes of targets, I believe. First off on multiples, we have been seeing, particularly in the Navy space where we have been heavily looking, that multiples were quite high. Certainly, double digits, even some scenarios that were into the mid-teens. On the commercial side, they were a little better than that, but they were still quite high. What the near-term events will do to multiples, we don't know yet. I would suspect they'll bring them down, but we're certainly paying attention to that.

We're also paying attention to whether there are some companies in our pipeline or that could come into our pipeline on the M&A side that perhaps are having some shorter term cash-related issues, that they're well-run businesses but for one reason or another have cash or capital-related issues, where there's perhaps an opportunity for Graham to jump in.

So we've looked at the pipeline that we've had in place for quite a while. We're re-scrubbing that to see if there's any unique opportunities right now as well as looking to see if anything else jumps in. But of course, this has only been a few weeks, so with the uncertainty of the times, I'm not sure I could comment. We've seen a lot of change yet, but certainly, that could happen going forward.

With regard to the size of the targets, we have been pretty consistent that our target range falls between $20 million and $60 million. That being said, we've looked above that for sure, and we've also looked below that. The challenge below that level is, if it's a smaller opportunity, you're still going to meet a similar amount of challenges that you would have in a larger opportunity and often, quite frankly, in a smaller opportunity, the depth of the management team can often be down to perhaps the owner or the one key person. So there is, in certain situations, even more risk with a smaller opportunity than with a larger one.

But we're not limiting ourselves relative to size of targets. If we see something that makes a lot of sense and it utilizes all of our cash and even a little beyond that, we're okay considering that.

The one point I made on the cash burn of $3 million a month. If this is an interruption in our business which is, from a monthly standpoint, relatively small, one month, two months, something like that, the amount of cash that we're going to burn is relatively small compared to the amount of cash that we have available to us. So we're not concerned at this point that we're going to burn up a large portion of our cash position. In fact, we're confident that we'll utilize just a smaller piece of our cash position going forward.

So I hope that answers your questions. If there's anything further, please let us know.

Operator: Our next question today is coming from Bill Nicklin from Circle N Advisors.

William Nicklin: I think, given the nature of all the people on the call, we've all experienced situations where something comes out of the blue when we need to get smaller or reduce the size of our footprints in our portfolios. And I imagine it's the same way in a manufacturing business. So do you think, if you found really good opportunities out there, that you would reduce the size of your footprint in your existing business to migrate over to maybe a higher growth, higher profit margin business, but yet still stay within the realm of what you guys are involved with, in energy?

Jim Lines: Sure, if we found the right opportunity where it made sense to transition costs into a different high growth region, we would contemplate that and have that part of our analysis of why such a target makes sense. I can just more fully remark, though, that for our, and you said legacy work, but our defense work, we don't see that as a migration or consolidation strategy. And for a segment of our legacy work, it would be unlikely that we could shuttle all of that into another location. It's just not practical. But we would bear in mind and consider some form of cost shifting as we look at targets that may become available to us during this circumstance we find ourselves, and we'll give that careful consideration and analysis.

William Nicklin: The second part of my question is, I think earlier, you used the word fortitude, which is a great one for this period of time. As you know, and I think you've even mentioned it one time or another, I believe there's a huge shift going with hydrocarbon-based energy and hydrogen-based energy. And I think the most amazing thing that I've seen is, you look at Cummins engine and what they've done over the years, and they went and paid a 200% premium to buy a hydrogen-focused company that basically converts spare electricity from wind and solar into hydrogen, which then can be used for mobility or whatever. So I was struck by that 200% premium.

So also, I was looking at the pipeline and a lot of other people who are in the, let's call it, the hydrocarbon energy business, and now those pipelines, they're carrying hydrogen and so forth. So it kind of supplements the theme of this whole hydrogen economy shift, which brings me to my question.

You guys have had great discipline in the acquisitions that you've looked at. So would you violate that discipline if you had to pay up for something to get you, let's say, into the hydrogen economy or something similar to that, kind of the way that Cummins did? Because it seems to me that while all of these hydrogen opportunities are incredibly expensive in anybody's book, if they become less expensive but still expensive, is that something that you would look at, even if it fell outside of your normal M&A parameters?

Jim Lines: We would certainly give that consideration. We are a participant in the hydrogen economy, if you will. We serve a number of the OEMs that are involved there. The reference you made to the acquisition by Cummins, we are a provider to that OEM Hydrogenics. And that was a rich premium that was paid. We think we understand the basis for that, from how we see the behavior of that post-acquisition of Hydrogenics. So we would look at that. It's only a rich valuation if you can't create the value that supports the rich valuation.

So if we see paying up and we believe in the end market fundamentals and the long-term trajectory of that end market within reason, we would change our risk profile and our modeling tolerance. Our Board is like-minded, to have us complement the strengths of Graham with something outside of classic fossil-based energy and hydrogen would be one of those. The hydrogen economy would be one of those complementary areas as an example, and there may be rich valuations there. But again, it comes down to the financial model, our ability to create value, our ability to have a long-term view of what that should look like in the future. But yes, that's something that we would look at for sure.

Operator: Our next question is coming from John Bair from Ascend Wealth Advisors.

John Bair: Glad that you are having this call. And I want to start off by commending you for the strong balance sheet and your approach to your employee engagement. I think that's wonderful. So I have a couple of questions. I wanted to clarify your Slide 7 saying that there were two refining orders canceled, $3.5 million. Is that $3.5 million each or total?

Jim Lines: Good question. I apologize. That's total.

John Bair: Okay. So the two that were added, basically, increases that, offsets that? So if I'm reading that right?

Jim Lines: The two chemical end market orders were roughly $3 million each. We had the two refining orders that, in total, were $3.5 million that were canceled.

John Bair: So you've got $6 million in, but you lost $3.5 million? Is that right?

Jim Lines: Yes.

John Bair: Yes. Okay. And are those types of orders that would be filled in the next, say, 12 months? Or what's the turnaround on those?

Jim Lines: Those are fiscal '21 conversions at this point.

John Bair: Okay, right. Okay. Question on the acquisitions. I mean, you've historically said that you're not in the market to buy fix-me-ups, which is great. And so I'm just wondering if, since you've, for quite a long time now, made it known that you're in the acquisition market, have you seen an increase of inbound inquiries to Graham as opposed to the other way around?

Jeff Glajch: Yes. We've certainly had companies coming our way to communicate that they're available for sale, I think that was your question. Yes, absolutely. We have a lot. Chris Johnston, our Head of Business Development, has a very good grasp of companies that are potentially interested in us. They reach out to us. We reach out proactively to them. So we have a very active program. We don't shut any avenues down. So yes, we absolutely are getting companies coming in, reaching into us and saying, "Hey, we're interested in perhaps selling ourselves." In some of those situations, it makes sense to continue the conversations. In some of them, it does not.

John Bair: Yes. Okay, very good. Two other questions, quick questions. One is, do you have any ability to convert any of your manufacturing operations to address the need for equipment, whether it's ventilator-related type stuff? Have you looked into that? Or is there any possibility that you can do any of that? And if so, has that kind of opened up the thought to perhaps expand new product lines or something along those lines with your manufacturing capabilities.

Jim Lines: That's a great thought. As business leaders, we are thinking about what we can do to help the global fight against what we're confronted with or what we seemingly are confronted with. Our asset base is largely custom fabricated, very large weldments as opposed to more standardized, highly engineered products. So our ops model and our asset base are geared toward what I've described formerly, which is more difficult to be suitable for the more high-to-medium volume, low mix that would support the fight against COVID. But it is on our mind -- What the heck can we do now to help? -- that's first and foremost. And then does that also create revenue opportunities for us after this has been dealt with? I just want to be clear, our ops model, our asset base is very large fabrications as opposed to the smaller, if you will, highly engineered standard products.

John Bair: Right, right. Okay. And then last, this is maybe a left field kind of question, but there's been some talk about assisting companies with regards to payroll to maintain employee base. And from my perspective, I think if a program could be put in place, where whether it's airlines or the hotel and leisure market and so forth, restaurants, whatever, keep the employee base intact as you appear to be doing with the hopes that this turns around within months, two months, three months or whatever, then you don't have your employees all scattered everywhere. And it also alleviates anxiety amongst the individuals. How am I going to pay my rent? How am I going to pay my car loan? And so forth. So I don't know whether the government's working on those kinds of things. I've heard some anecdotal stuff.

And so my question, I guess, with regards to Graham, are you able to do that anyway? If a program like that did come up, would you consider accessing a federal line, if you will, on that? Does that make sense as to what I'm asking, I mean to alleviate the cash strain that you might have?

Jeff Glajch: Sure, John. Certainly we'll pay attention to what's going on with governmental programs. Our first focus, as we noted earlier, as you noted, is toward our employees and to eliminate that anxiety. So we'll deal with that in the immediate term. With regard to anything from the government going forward, we'll see what comes out of that, but we're not expecting anything. That's not the basis for why we made the decisions that we made, but we'll deal with that as we go forward.

Jim Lines: And just one follow-on comment as well, though, is -- and I'm proud of how our government is responding. The defense sector has reached out into the supply chain. The memorandum that acknowledges that the supply chain, and we are in the supply chain, may be under cash flow pressure and they're willing to consider adjusting cash flow terms to move cash flow payments forward to the supply chain to help those businesses. So we would look to avail ourselves of that where it's appropriate.

John Bair: I want to be clear to say that regardless of whether any of that kind of thing manifests, I'm very pleased to be a Graham shareholder. So keep up the good work. And I know we'll get through all this stuff.

Operator: Our next question today is coming from Tom Spiro from Spiro Capital.

Tom Spiro: I guess, number one, I hope, Jim, Jeff, you're staying healthy, your teams are staying healthy. That's job one for us all. Number two, on the Navy work, if Batavia were open today, would the Navy work move forward as you had originally planned?

Jim Lines: Yes. We are open with a narrow group of production personnel that are working on certain critical projects. If we were open for business as normal, starting tomorrow, we would meet our schedules and the backlog conversion would be as planned. We'd have to look at how quickly we, as Jeff said, return to full force. But we do have isolated workers with the right protective measures in place that are advancing some orders and backlog. Some of those orders could be for the defense sector.

Tom Spiro: And if we look at some period of time, we don't yet know, a month or two and Batavia is open, and we have the Navy business beginning to move forward as planned, and there's some bare minimum of commercial work, maybe it's repairs or maintenance, quite modest. What do you think your cash burn rate in that environment would be per month?

Jeff Glajch: Sure. Tom, there's a couple of things. First off, just to clarify, we do have a very, very small number of employees here working on critical Navy programs which, despite the ban in New York State, we are allowed to do. So we are moving those forward. With regard to cash burn, if we are operating the Navy at a fuller force, but the commercial work at a lesser force, so I would think of that more as if we don't go fully on stream immediately but we do it in stages, as was done, for example, I think, Jim mentioned it, in China, that was kind of their path. They brought back a portion of their workforce at a time. The cash burn is going to probably range somewhere between that $3 million that I had noted earlier and a positive cash flow.

So I suspect it will, depending on how much we're operating, maybe $3 million becomes $2 million or something like that. But ultimately, once we're back at full force, we would see positive cash flow being generated. Hard to give a number without a specific case kind of how many people would be in or not. But certainly, it would be less than the $3 million.

Jim Lines: Tom, I'm going to come at it a little differently. We have this incredible backlog of $123 million as of December 31. And we've talked about a couple of orders that were canceled. I don't know if other orders will be canceled, but I'm still anticipating Graham has this very strong, powerful, high-quality backlog. We've already begun a process before COVID, before low oil, of shifting some of our production resources to be more heavily weighted into the Navy backlog conversion because that was the right thing to do at that point in time.

What we have modeled and how we have been thinking about this is when we return to some semblance of normalcy, because our intention is to not dismantle this Company. We have our competencies, our capacity, which is our worker, ready to come back to work when we call them. We'll get back to work more quickly than if we had to rebuild, retrain and hire and acquire the talent. Our talent, our bench, is being held. So when this returns to normal, and it will, we are ready, and our team can get into production and work can flow far more quickly than if we dismantled our workforce.

And that's been our thesis, which is we have this great backlog, we have this high-caliber workforce that we've invested incredible sums of money and effort to develop and train and the worst choice we could make would be to manage the near-term income statement rather than the long-term benefit of that backlog juxtaposed to an incredibly talented workforce. So we think once we're back to some sense of normalcy, we'll be able to produce over the sequential four quarters, a revenue level that's comparable to where 2020 will end.

Tom Spiro: That's helpful. Just to continue the thought. Do you have a rough sense of your breakeven revenues that would be needed to have a cash burn rate of zero? You make some assumptions about whether the revenues will be weighted a little bit more towards the Navy because the commercial stuff is weak. Do you have any sort of rough sense of what kind of revenues you would need to have a cash flow breakeven kind of operation?

Jim Lines: Sure. It's something we tend to look at a lot. Without dramatic cost measures, which is not our intention, just as a range, we would think in terms of a $75 million to $80 million run rate as cash neutral.

Tom Spiro: That's helpful. And lastly, I know we have the $70 million or so on the balance sheet. Some of that reflects customer deposits. Is there much of an ability for a customer to recapture those deposits? Is there much of a likelihood of that happening?

Jeff Glajch: Tom, there's not a high likelihood of that happening. And as you think, if you look at our balance sheet and look at the other side of the balance sheet, you'll see an unbilled revenue number, which is pretty significant at any point in time, which often offsets or meaningfully offsets the customer deposit number. But the customer deposit number, if I look at the makeup of it, is not something that we are concerned that customers will, for some reason, come back and get.

And furthermore, because of the change in the accounting rules about two years or so ago, the customer deposit number that is on our balance sheet has a meaningful portion of it that has been utilized already to purchase inventory. In the past, if you went back more than two years ago, you were allowed to net those, and so you would see a lower inventory number and a lower customer deposit number. We're not allowed to do that anymore. So both of those numbers have increased meaningfully. Nothing's changed in how we operate the business. Nothing has changed from a reality standpoint. It's just the accounting treatment that's changed.

But I can assure you a significant portion of that customer deposits number is sitting in our inventory today. But again, we don't expect customers to be coming back at that cash.

Operator: Thank you. We've reached end of our question-and-answer session. I'd like to turn the floor back over to management for any further or closing comments.

Jim Lines: Thank you, everyone, for your time this morning and for your insightful questions. As Jeff said, we will update you as soon as we practically can. And certainly, if there are any meaningful changes, we would update everyone as quickly as we possibly can. Our scheduled year-end conference call is for May 29, and we would look to update in the interim, if necessary.

So again, thanks for your time. Thanks for your questions. And everyone, stay safe and stay healthy. Thanks so much. Goodbye.

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