Operator: Greetings and welcome to the Graham Corporation Fourth Quarter Fiscal Year 2020 financial results. [Operator Instructions] As a reminder, this conference is being recorded.

I would now like to turn the conference over to your host, Mr. Chris Gordon, Investor Relations for Graham Corporation. Thank you. You may begin.

Chris Gordon: Thank you, Melissa, and good morning, everyone. We appreciate you joining us today to discuss Graham's fiscal 2020 fourth quarter and full year results. You should have a copy of the news release that was distributed across the wires this morning. We also have slides associated with the commentary that we are providing here today. If you do not have the release or the slides, you can find them on the company's website at www.graham-mfg.com.

On the call today with me are Jim Lines, our President and Chief Executive Officer; Jeff Glajch, our Chief Financial Officer; and Alan Smith, Vice President and General Manager of our Batavia, New York facility. Jim will start with a strategic overview of our business and provide our outlook for fiscal year 2021. Jeff will review the financial results for the period, and Alan will provide an operations overview. We will then open the lines for Q&A.

As you are aware, we may make 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 which could cause actual results to differ materially from what is stated on the call. These risks and uncertainties and other factors are provided in the earnings release and in the slide deck as well as with 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.

I also want to point out that during today's call, we will discuss some non-GAAP financial measures, which we believe are useful in evaluating our performance. You should not consider the presentation of this additional information in isolation or as a substitute for the results prepared in accordance with GAAP. We have provided reconciliations of comparable GAAP to non-GAAP measures in the tables accompanying today's earnings release.

With that, it's my pleasure to turn the call over to Jim.

Jim Lines: Thank you, Chris. Good morning, everyone. Thank you for joining us to review fourth quarter and year-end results.

I begin my prepared remarks on **Page 4**. We took quick measures in the latter part of March to respond to COVID-19-related risks. Graham is classified as essential work because we are a critical infrastructure and defense industry supplier. To protect our employees and to mitigate the spread of the virus in our communities, operations were geared down to approximately 10% production capacity. We kept this scaled back production capacity for several weeks and ramped back to near full production capacity at the end of May, as OSHA- and CDC-based work procedures and recommended practices were put in place.

Production capacity will average 50% for the first quarter and will be at 100% for the second quarter of fiscal 2021. While operations were scaled back, we maintained wage and benefits continuity for all Graham employees. I am proud of the response of the management and COVID return-to-work teams that admirably prepared our facilities to have employees safely back on the job full time.

Please refer to **Slide 5**. Disruptions such as COVID, along with the collapse of crude oil prices, had a dramatic impact on our end markets, with an exception being our U.S. Navy work. We believe that new opportunities arise during downturns for companies that are equipped to capitalize on them, and Graham is one of those companies. We entered this disruption with a strong balance sheet and excellent high-quality backlog. We will continue to invest in long-term growth initiatives, in particular: investments to drive our installed base; staffing and structuring our U.S. Navy segment to convert current backlog and expected new orders; acquiring opportunistically assets to strengthen U.S. Navy revenue or broaden participation in energy and petrochemical end markets. Accessing the global fabrication supply chain to expand capacity, improved cost and changed market share in previously underserved end markets provides a new runway for growth. Building out that organization to ensure broad participation, nurture the opportunities, and secure new orders and to control subcontracted fabrication in order to meet quality and margin requirements is critical to the success of this initiative. We will invest in personnel in support of this initiative.

We will also continue investing in process improvement and productivity gains and also in our employees. We don't intend to take our foot off the accelerator. We will focus on the long-term and act during this downturn to strengthen revenue growth and profitability. This disruption was indeed a black swan surprise. Nonetheless, we want to capitalize on the opportunities that such an event creates.

I now refer to **Slide 6**. The refining end market is expected to be weaker this year than last with regard to new orders. There is, however, large project work in Asia - in particular China and India. We are actively in the fight for those projects.

National and integrated refining customers have pulled in CapEx and MRO spending due to cash flow strain that stemmed from oil prices falling and the abrupt drop in end market demand for fuels. Oil prices must recover and more importantly, demand for transportation fuels needs to return to more normal levels before we anticipate that significant investment by our customers returns. We understand due to the global pandemic that demand for crude oil has fallen approximately 30%.

What is a bit different this time is independent refiners are also changing CapEx and MRO plans. This is due to demand abruptly declining and the declining crack spreads. Just as a reminder, crack spread is the difference between selling of refined products and the purchase cost of crude oil. As the global economy recovers, we anticipate investment by independent refiners will recover more quickly to take advantage of spreads with improved demand.

Given all of this, our backlog for refining end market was negatively impacted. To date, approximately $4 million of backlog on 12/31 has been canceled.

Chemical and petrochemical markets also were impacted negatively. This was particularly evident in North America. U.S. rig count has fallen by roughly 2/3 and coproduced natural gas supply was adversely impacted. As a reminder, natural gas is a primary feedstock to the petrochemical industry in the U.S. We observed several final investment decisions for petrochemical projects in our bid pipeline get suspended or delayed by a year or more.

On the other hand, the next wave of global petrochemical capacity is starting to enter the early bidding phases. This is principally for international markets, but continues to show the decoupling of petrochemicals from the energy market. We have a solid pipeline of bids for the U.S. Navy that we expect will close in fiscal 2021. The total amount of that pipeline is between $40 million and $50 million.

Our short-cycle orders are off 15% to 20% due to the same reasons cited previously. We expect this to recover as the global economy gets back on its feet. Graham is very fortunate to have a high-quality, large backlog that, on March 31, was $112 million. This will enable fiscal 2021 to have a sharp recovery from the first quarter results in fiscal 2021. With our great balance sheet and terrific backlog, we are positioned well for capitalizing during this downturn.

I will now turn the call over to Jeff to review the financial results. Jeff?

Jeff Glajch: Thank you, Jim, and good morning, everyone. If you could turn to **Slide 8**. Q4 revenue declined 2%, but as Jim mentioned, we had $7 million move out of the Q4 due to the COVID-19 pandemic. Net income was $0.06 per share and net orders were $12.3 million. For fiscal 2020, revenue was $90.6 million, which is down $1.2 million from $91.8 million last year.

Net income was $1.9 million this year or $0.19 per share. Included in fiscal '20 net income was a loss of $900,000 or $0.09 per share related to the Energy Steel business, which we divested in June. Orders for the year were $80 million and our backlog at year-end was $112.4 million.

As Jim mentioned, our backlog will help us rebound from what will be a lighter Q1, where we were operating at approximately half capacity. Including Q1, we currently expect 70% to 75% of our $112 million year-end backlog to convert in fiscal 2021. The midpoint of this range would be just over $80 million, plus additional in-year bookings. Alan will discuss this further.

If you could move to **Slide 9**. Sales in the fourth quarter were slightly below last year. Included in the sales in the fourth quarter of last year's numbers were $1.7 million related to Energy Steel. Gross margin was off 110 basis points and EBITDA margin was off 190 basis points. COVID-19 had an impact on our gross margin in the quarter.

Net income was $600,000 or $0.06 per share compared with a loss last year. Last year's loss included an impairment charge. Excluding the impairment charge, last year had a net income of $800,000 or $0.08 per share.

If you could move to **Slide 10**. For the full year, sales decreased by $1.2 million to $90.6 million. However, please note that there were $7 million more sales last year compared with this year related to the Energy Steel business, which was divested this past June. There was only $1.3 million in Energy Steel sales in fiscal 2020 compared with $8.3 million in fiscal '19.

Gross margin was off 390 basis points and EBITDA margin off 440 basis points as we increased production costs for what was expected to be a strong growth in fiscal 2021 that appears less likely now.

The sales which pushed out of Q4 also adversely impacted margins. SG&A was $16.9 million for the year compared with $17.9 million last year. Included in SG&A was $600,000 in fiscal 2020 and $2 million in fiscal 2019 for our divested business.

Net income and EPS was $1.9 million and $0.19 per share, respectively. In fiscal 2019, they were a loss of $300,000 and a loss of $0.03. However, included in fiscal 2019 was an after-tax impairment charge of $5.3 million.

On to **Slide 11**. Our cash position in fiscal 2020 decreased by $4.8 million to $73 million or $7.39 per share. Our change in customer deposits swung significantly compared with fiscal 2019. We had a swing of $10 million. In fiscal 2020, we had a usage of $3.7 million from customer deposits compared with an increase in customer deposits of $6.3 million in fiscal 2019.

We paid $4.3 million in dividends and spent $2.4 million in capital spending during the year. We expect capital spending in fiscal 2021 to be between $2 million and $2.5 million.

During our interim call in late March, when we provided an update on how we were impacted by, and addressing, COVID-19, I noted that we estimated a monthly cash burn of $3 million if we were completely shut down. Although we never completely shut down, as Jim noted, we did reduce our staff to 10% for a few weeks and have steadily ramped back up from there. As a reference point, our current cash balance at the end of May, 2 months into the quarter, was $70 million, so down $3 million from March 31. We believe we are past any cash burn related to COVID-19 in Q1.

As we look forward, this period of market disruption may present M&A opportunities, which may occur due to market consolidation and contraction. Our business development, management team and Board of Directors continue to be focused on utilizing our strong balance sheet to grow our business, both short and long term.

Alan Smith will complete our presentation with a look at operations and provide more insight regarding our backlog conversion in fiscal 2021. Alan?

Alan Smith: Thank you, Jeff, and good morning, everyone. I'd ask that you refer to **Slide 13**. We entered the fourth quarter with a stronger outlook than what occurred. Sales for the fourth quarter were $23.1 million and were negatively impacted by the COVID outbreak due to production interruptions at our Batavia facility as well as at our global partners in South Korea, Europe and China. Unfortunately, the work stoppages caused approximately $7 million of projected fourth quarter revenue to push into the first and second quarters of FY '21. Moreover, a short-cycle order for the Navy pushed from fiscal 2020 into the first half of fiscal 2021. As of June 1, our Batavia plant and all of our fabrication partners are operating at full capacity.

Moving on to Slide 14. As Jim mentioned in his remarks, the reduction in CapEx and MRO budgets as a response to declining oil prices and the disruption of COVID-19 is causing order placement to be delayed in our refining and petrochemical markets. However, we are still experiencing strong demand for our products from our naval customers. We believe that our naval backlog will increase year-on-year. As a general comment, we are expecting low order levels to persist in the first quarter of FY '21.

I will conclude my remarks on Slide 15. Our backlog remained at a healthy level at the end of FY '20. As pointed out by Jeff, 70% to 75% of our backlog will convert into sales within the next 12 months. Using a midpoint figure, that implies just over $80 million of fiscal 2021 revenue is from backlog as of March 31, 2020. This, of course, assumes no additional cancellations (of which there have been $4 million of refining end market cancellations) or no conversion delays caused by our customers. As you may know, there is a level of revenue that is booked and converted during the fiscal year. Historically, that has ranged between $10 million and $20 million. I would anticipate, within the current order environment, to be on the lower end of that traditional range. Lastly, naval projects are 52% of our backlog and more importantly, all naval programs are in the revenue cycle.

Operator, would you please open the line for questions?

Operator: [Operator Instructions] our first question comes from the line of Joe Mondillo with Sidoti & Company.

Joe Mondillo*:* So, the production shutdowns… was that mainly related to internal safety concerns or customer shutdowns or government guidance?

Alan Smith: Joe, this is Alan Smith. The shutdown was mainly around preparing the organization to comply with the CDC recommendations so that we could make sure we provided a safe work environment for our employees. And that process took us about 2 weeks to complete.

Joe Mondillo: And so it sounds like May was not near 100% quite yet in terms of...

Alan Smith: That's correct, Joe.

Joe Mondillo*:* Okay. So if the operations got back up and running mid-April, help me understand the dynamics, the fact that May was not back up and sort of fully running.

Alan Smith: Sure. We made the decision to bring back our employees in small groups so that we had the opportunity to train them on how we expect them to follow our safety protocols and then train them on the PPE required. So, to make sure everyone is safe, we brought people back in over 3 phases, and that's why it's until June 1 to have everyone back at work.

Joe Mondillo: Okay. So June should be close to 100%. Is that right?

Alan Smith: That's correct, Joe.

Joe Mondillo: Okay. Is there any way you can help us understand the effect of April and May to whether your profits or margins or not sure if there's any way you can help us understand the productivity inefficiencies that are related to essentially, the shutdowns?

Jim Lines*:* This is Jim. As we had indicated in our prepared remarks, on average, for the quarter, we would anticipate that we'll be at 50% production capacity. That doesn't necessarily translate proportionately to what the revenue level would be. However, that's a decent surrogate for how to think about the run rate. It wasn't so much of productivity. What we were amazed at, as our workers returned to work and returned to their workstations after the safety and indoctrination protocols were behind us, they were back working productively and efficiently. So there really wasn't a huge dysfunction or inefficiency related to COVID other than when the team was away. Upon returning, they got right back to work, and we saw the productivity measures and the effectiveness of their work not being materially different from a pre-COVID, if you will. So I think you're trying to maybe figure out, if I can maybe ask the question differently, you're trying to understand what the first quarter revenue might look like?

Joe Mondillo: I mean I gather from your comments with your business, it's so lumpy on a quarter-to-quarter basis relative to how the backlog sort of is converted on a time expectation. And then in addition to that, the margins are also quite lumpy based on the type of work that you're working on and then layer in the fact that you had full plant shutdowns in the first couple of weeks of April. And then when I was talking inefficiencies, I was sort of referring to the fact that the second half of April your employees aren't fully back and then the same with May. So all of that is really sort of hard to understand the near-term way to think about how the business is going to perform.

Jim Lines: Sure. And it's a great question. We're not going to be able to give complete definition for you, but I'm going to try to frame it, try to answer your question.

As we were thinking about how 2021 was shaping up pre-COVID, we were modeling something in the $110 million to $120 million revenue range. That's how we were thinking 2021 was going to shape up. And then, of course, that was materially altered. But just so I can do some simple math in my head, let's just use the $120 million. And that would equate to $30 million a quarter. If we were running at 50% productivity for the first quarter, half of that $30 million is probably not a bad surrogate for how to think about the revenue level. And you've heard us indicate on our interim call in March and also here today, we haven't taken actions to adjust our cost. So therefore, we have the costs that were reflective of that preparedness for that higher revenue level.

Putting that all together, we're not trying to be opaque here, the first quarter is going to be rough. And we took action, or should I say we chose to maintain our capabilities and capacity because we feel we're going to have a sharp recovery in revenue and productivity and backlog burn once we get past this rough quarter. And it didn't make sense to try to adjust costs for an event that would be in our rearview mirror relatively quickly.

Joe Mondillo: Okay. That's extremely helpful, helps give a much clearer picture. So related to the cost side of the business and your comments at the end there, your orders in the first quarter were obviously, not surprisingly, relatively low compared to the trend that the business has been running at, and it's not a surprise given what's going on. And I would imagine you would expect, and correct me if I'm wrong, that orders are going to be quite light for the next at least quarter or two. Given that, how do you manage the business on a cost structure perspective knowing that going forward, probably from today, for the next handful of months, your business is going to be running at pretty good rates given the backlog, but then looking out, orders are going to be light. And then at the same time, related to the same question, in your SG&A, if business is sort of slow out there, how are you adjusting SG&A, if at all, considering that there's just not a lot of business? I know that's a long question.

Jim Lines: No. It's an appropriate question. And it gets to our management philosophy and you've heard us speak to this previously. We're not so hyper-focused on maximizing a given quarter or a couple of quarters' performance.

You are correct. Q4 bookings were light, as our **Slide 14** shows, around $12 million. You heard Alan Smith indicate in his prepared remarks that we're seeing order levels in our first quarter of fiscal '21, thus far, persist at that softer level. However, when we look at our bid pipeline, we look at our activity from the defense sector that we have set up for, hopefully, to close. And hopefully, we are successful. It suggests to us that, "Let's get in, let's fight. Let's fight hard for these orders that are available." Recognize we may have a tough Q1. We're going to be focused on how we build backlog and exit 2021 with backlog or book-to-bill above 1, if you will. And we think there's ample opportunity to do that.

And as you've listened to management speak previously, we are an ETO business. We are a custom fabrication business. And the learning curve for our organization, our people, takes some time. So, as we get these teammates to high levels of productivity, we're always very reticent to quickly strip those out in response to what you've just cited. We are mindful of it. We recognize we have to manage our business profitably. But we've chosen in our past, and we're choosing to do it again, not to necessarily try to fix a quarter and harm the long term.

Joe Mondillo: Okay. And last question for me and I'll hop back in queue. Relative to your comments just there in that answer, so essentially, a follow-up to that. The pipeline of business that you have or the opportunity that you have for your bookings this year, I would imagine the pipeline, and again, correct me if I'm wrong, the overall pipeline would be smaller than a year ago. But is it a case in point where maybe your hit rate, your win rate could be higher given the specific projects and your sort of maybe vantage point for those projects? Is that sort of what's happening? Or give me a sense of pipeline and hit rate, or win rate, on these opportunities.

Jim Lines: Sure, Joe. There's really 2 dimensions to it. One, is the end market mix of the pipeline. In our prepared remarks, we've indicated that there's $40 million, or $50 million, of defense work in our pipeline. There's no assurance that we win any of it. But historically, we have a very good success level there. And so, we're expecting to book that, or expecting to book a good amount of that. And then secondarily, there's project size that comes into the equation. So, I'm going to answer your question this way. There are definitely fewer opportunities in the pipeline. And there are some relatively significant projects in our bid pipeline that we feel very strongly that they're going to close. We can have on our project side, our large bid work orders that could be $1 million, or orders that could be $5 million, or orders that could be $10 million. And each of those leverage our engineering organization differently, but they leverage our production assets similarly, depending upon if we're using our global fabrication supply chain or having that work done in Batavia. But as we look at this in totality, it didn't seem to us that the course that this business should take, in light of the near-term trauma of what's happening in our end markets, was to strip a bunch of costs out of here that really affects negatively our capacity and our capability when opportunities arise. And they will arise. And we want to be ready, and we want to be the supplier that can capitalize on that, while others that don't have that same sentiment, don't have that same conviction, don't have that same management philosophy, and will be unable to do so.

Operator: Our next question comes from the line of Theodore O'Neill with Litchfield Hills.

Theodore O'Neill: Just 2 questions. Jim, you said in your prepared remarks that you're expecting a V-shaped recovery. And I'm wondering if there's sort of the assumptions behind that, are there some assumptions behind that, like the price of oil? Or are you hearing that from your customers basically? Is that what you're going to experience?

Jim Lines: A good question. Thanks for having me clarify that. It's actually a low-hanging fruit question for us because of our backlog. The context of that remark is because of our backlog after we get through the first quarter event, we have such a great backlog, it will appear as though, from a revenue and profitability, we're back. The question really arises around how the order book builds while we're going through that backlog, which then manifests in how 2022 shapes up. So the comment, and the context, was around backlog conversion for ear-term revenue, and a benefit that Graham has because of a long-cycle business - or a long conversion cycle business - is we have several quarters of cover, typically, when something like this happens, because of the strength of our backlog. And again, that comment was around the backlog, not end market.

Theodore O'Neill: Okay. Great. And Jeff, you mentioned about M&A activity. Are you seeing any more opportunities there? And can you give us a little color on the level of activity?

Jeff Glajch: Yes. Theo, we're certainly keeping our focus on what's going on in our markets, and we are hearing about some possibilities of companies who may be looking to offload a portion of their business for strategic reasons. So, there's a little more activity right now. But again, it's fairly early, certainly since the COVID-19 has hit our markets. But we think that will continue to pick up.

Operator: Our next question comes from the line of Tate Sullivan with Maxim Group.

Tate Sullivan: Alan, a follow-up question for you, if I may, good comments on detail on the expected rev and backlog conversion this year. I missed one element. You mentioned $81 million of revenue from backlog in fiscal year '21, provided no more cancellations, and then there was another category that you discussed. What was that, please?

Alan Smith: Sure. There's another component, which is revenue derived from jobs booked within a financial year. And what I was sharing was that historically, that range has been between $10 million to $20 million. And the thought now with the current environment we're in, we would be towards the lower end of that range.

Tate Sullivan: Okay. I thought, I thought maybe it's something else after the cancellations, maybe just potential change orders? And then following up earlier comments and I understand keeping employees and the skilled employees in your company. But did you mention, can you convert employees that were working on refining orders to what you can do for the Navy? Or did you mention having to hire new types of workers, workers with different skills for Navy work in the future?

Alan Smith: Sure. Both in our production areas and in our engineering areas, we are able to move staff from our commercial work to our Navy work. And to the extent that we can take those actions, we will.

Operator: Our next question comes from the line of Gabe Birdsall with Brasada Capital.

Gabe Birdsall: I wanted to ask you a couple of different questions. The first one, you mentioned several times during the conference call your plans to capitalize on the current downturn. I think I would like to hear you expand on exactly what that means a little more. It sounds like M&A, but anything else you meant from that?

Jim Lines: Certainly, Gabe, that is one of the elements with our balance sheet and opportunities that we envision could arise through this pandemic and the consequence of the pandemic and also the opportunities that we've been nurturing through our M&A activities. We definitely want to put our capital to work in an external growth strategy. So that is one. And that's clearly focused on by Jeff and Chris Johnston, our Board and myself, to take that type of action during this time on opportunities that might arise. And then secondarily, one of the things we see right now is cash flow strain with our customers, not necessarily where we would define them as credit risk, but how they're being affected by demand changes or the price of crude oil. They might be asking for more customer-oriented cash flow terms. With our balance sheet strength, that creates an opportunity for us that others, without the financial firepower that we have, are unable to accommodate. So, we think that creates an advantage.

And then the last one is, as these projects that can arise sometimes very quickly in our pipeline, there are spare parts, or a large spare part, and these can be $1 million, $2 million, or sometimes a revamp. It's so imperative that we retain our capacity and our capabilities to execute those orders because even in a tough downturn like we likely will be in for a period of time, those bluebirds do arise. And if you take actions to strip out your capabilities, you can actually drive a self-fulfilling prophecy of how far you can push down revenue, versus how you might be able to capitalize on those opportunities. We've chosen to be prepared with the dry powder to capitalize on those, rather than try to bring down our costs to more align with near-term revenue that corresponds to the bookings. It just didn't make sense to us.

What you have is, perhaps, the benefit of a experienced management team. I wish I didn't have to have these experiences, but we're now on our fourth downturn going back from the late '90s. And we understand how these play out. We understand customer behavior. One thing our customer cares little about is “what” we've chosen to do to respond to the downturn. What they care about is: Can we stand up? Can we support them when they need us? And they need us a lot during a downturn… with engineering support, to be ready for that bluebird, to handle a crisis situation. That’s when you lose a customer, if you're ill-prepared for that support, and I've lived the consequences of being ill-prepared, and we're very reticent to be ill-prepared now.

Gabe Birdsall: Fair enough. And I just want to ask, I mean, I know the liquidity of the stock and the market cap that you have. But 54% of the market cap is in cash. You're going back to 12-, 15-year lows of equity given the environment. Do you guys try to balance M&A versus your own company stock in that equation?

Jeff Glajch: Gabe, we certainly have that discussion frequently. At this time, we believe that there's a good amount of opportunity, particularly in this downturn, in the M&A pipeline that we want to keep as much dry powder as we can in the immediate term.

Gabe Birdsall*:* No. I get that. I'm just wondering if it does come into the equation.

Jeff Glajch: Oh, absolutely. We discuss it every Board meeting. It is a topic of discussion with management and the Board.

Gabe Birdsall: Is any of the cash restricted?

Jeff Glajch: Very, very small amount. A couple of million dollars is restricted, about $2 million of our roughly $73 million at year-end or $70 million at the end of May. And almost all of it's in the United States, it's about $3.5 million. About 5% of it is outside of the United States.

Gabe Birdsall: And the catalyst for us to be seeing you guys more active on the M&A during this downturn, is it caution on your point? Or is it caution on the sellers' point given the environment, they think price is too low or something? What would be the holdup at this point on potential M&A given you're clearly patch full. You're not as strong as you were going to be. But I mean, you've got 100% booked pretty much in revenues than what we're looking for. It looks like you're going to be slightly positive on the year from an EBIT standpoint. What would be the triggers to get us to see an M&A on your standpoint?

Jeff Glajch: Sure. I mean you need two parties to come to an agreement if you want to buy someone. But there's really nothing that will hold us up, as long as we can find the company that fits us, not just for today or tomorrow, but for the long term, and that's in line with our strategic growth areas. If we can find that right company, we'd certainly move forward quickly.

Gabe Birdsall: But it sounds like there's a potential pipeline of deals that you're looking at?

Jeff Glajch: Absolutely. There's always a pipeline of deals. It's just a matter of where things are in the pipeline. Part of our process, Gabe, is to build a relationship with a potential company that we're looking to acquire. And those aren't things that typically happen over a couple of months or a quarter or two. They often can take many quarters or quite frankly, a couple of years. And as we're going through this process, there are companies that we may have been talking to a year or 2, or 3 years ago that maybe weren't ready at that time to be acquired but might be more interested now. So, we're looking back at not just companies that we've spoken with recently, but also companies we spoke with over the past few years. And hopefully, between them and us, we've built some trust and some open communication, and we'll continue to pursue things that are there. But we always have a pipeline of opportunities. It's just a matter of where companies are in that pipeline and where we are in that relative to them.

Jim Lines: And Gabe, just an add-on to further what Jeff had said, where these have broken down, when we've been in the pursuit of trying to get a deal done, has been a valuation gap. And we're focused on not an accretive type of deal. We're focused on an equity-based return deal structure. And it's getting the owner and us to be aligned with year 1, year 2, year 3 and perhaps year 4 revenue projections. And we found very often, the owners are far more ambitious in the outlook than we think the reality of the market is, and that's translating into a valuation gap. And we're not keen on, "Let's figure out how to close that gap through creative synergies" because they're difficult to actually manifest in the end. So, we have been very focused on this. We have had a number of deals that have nurtured through the process that have unwound. And in the end, Jeff, you can confirm this, this has really come down to a valuation gap and how our process evaluates revenue growth and resulting profitability of the combined entity versus the owners' perspective, and it's really been typically a valuation gap. We had some very nice strategic fits. However, we weren't able to convince ourselves moving forward would return appropriately what was necessary to us and our shareholders, and it caused the deals to unwind.

Gabe Birdsall: But correct me if I'm wrong, the last deal was 2010, right? Was that Energy Steel & Supply? Was that the last one?

Jeff Glajch: That's correct, Gabe. But I can assure you, as Jim has mentioned, that there were quite a number in the interim that, unfortunately, we decided to pass on, even though we had gone far down a path with them. But as we got closer to the end, we decided to pass. While we were disappointed that they didn't move forward, in retrospect, understanding how those companies performed subsequent to us moving forward and moving on, we're happy we passed on them.

Gabe Birdsall: Yes. I understand. They're tough. I get it. But it just seems like the odds of a deal getting done is going to be difficult. It always is. And did you all exhaust that buyback that was in place from 2015, the $18 million, worth of shares?

Jeff Glajch: Yes. It is still technically active, but we've not bought back shares in quite a few years.

Gabe Birdsall: Any reason? I mean I know you want the business to settle. And that makes total sense. Cash is king right now. We totally understand that. But any reason why? I mean it sounds like business is starting to stabilize. You're back to almost 100% on utilization of your workforce. And you have a healthy backlog. Any reason why you wouldn't accelerate that down here with over 10-year low in the equity?

Jeff Glajch: Sure. Again, we're focused on using our cash to grow inorganically.

Operator: Our next question comes from the line of Ross Taylor with ARS.

Ross Taylor: I'm curious on you guys giving us more background into how you see the Navy business shaping up. Is it developing as you expected it to earlier this year? And how do you see the cycle playing out? It seems like we're probably in a fairly early stage of that cycle. And I'd love to get more color from you on how you see that.

Jim Lines: The naval end market has shaped up strategically with what we wanted to do. We entered the strategy narrowly in one program, which was the carrier program. And then we, shortly thereafter, were able to enter an additional program, which our company had never been in before, which was a submarine program. And then following that, we entered into another submarine program. And now it's about diversifying components within those programs.

So, we're quite pleased while it's been a long process, but that's the nature of the defense market. We like it for the stable revenue, the predictability of it. And our bid pipeline, as Alan had cited, is $40 million to $50 million of opportunities that are expected to close in 2021. We won't have that level of revenue burn in 2021. So therefore, we're expecting our naval backlog to continue to expand if we compare entering 2021 to exiting 2021. So we're quite thrilled.

And an area of that, I'm going to go back to the other caller, don't mean to do that on your call here, but it's important. An area of focus for us is that more predictable stable revenue end market for M&A and defense provides that, which is different from the energy market, which has been highly cyclical, highly unpredictable. And getting a deal done and the vacillations of that market and getting the projections of revenue and valuation correct have been extraordinarily challenging. We're finding that to be less challenging in the defense sector because of the stability of the revenue. And we're looking at how do we do deals in more stable end markets.

Ross Taylor: So historically, the Navy submarine programs have had runs that went in decades. Is your winning business, and it sounds like you have got 2 submarine programs, that would imply you have the Columbia-class SSBN and the Virginia-class attack submarine, both of which I believe the Columbia-class is just moving into basically revenue generating right in here, maybe this year. And the Virginia Block V is what I assume you're talking about. So that also was a rollout just starting this year. You've indicated these are stable. Is my read of the space that basically, you're getting in some place where you're going to see production runs that are going to go on for a decade to 2 decades. I think the Los Angeles class attack submarine had an over 2-decade build cycle.

Jim Lines: Your perspective is accurate. There are some components where, say, a Block V order is placed, which covers 10 submarines, and you have that level of predictability. The way our components are being awarded, we're not getting a block of 10 subs, but we're getting an annual release of components by year. And the Columbia-class, we don't see that as a block buy, like Virginia is -- again, I'm sorry, Block V was 10 subs for Virginia. And again, where we are with our prime contractor, we're getting more of an annual award for components for, say, block sub VI and VII, VII, VIII and IX on an annual basis. So we don't have that classic predictability, but we have predictability in that we know the timing of those orders. We feel good about our position with those components, although they can be competitively bid. And it provides us with a level of confidence and predictability that goes beyond our current backlog with how we see the procurement patterns of the defense contractors, the primes, for carriers for Columbia and for Virginia. It's a great business unit for us because it has high levels of predictability, even though we may not have that classic 10-year production run of a Block V for Virginia that some companies have. We don't have that.

Ross Taylor: Well, and that's because of the nature of how they ordered. And generally, although they could recompete a product, my assumption would be that unless you want to end up like the German Army in World War II, you don't want to have a lot of different products inside your boats over time. If the quality is good, you want to be able to keep and retain that quality, I would think. Is that something that you see?

Jim. Lines: Sure. Quality is paramount, on-time performance is paramount, and predictability is paramount. This is the customer feedback to us. And management's focused to get back on track if something arises. And that can happen with these projects. So when we do our blocking and tackling correctly, and I feel we do that well, we deliver strong value to our customers. And someone could always displace us, but I don't believe it would be due to performance.

Ross Taylor: Okay. Great. But you guys, I see your business as 2 different industries and the like. And when you look at it, you got 1 on the early stage of a ramp-up. And how do you see the energy space playing out versus the defense-oriented business?

Jim Lines: Well, we think about it in a comparable way. We serve the energy markets. We're going to continue to serve the energy markets. We're going to look to grow organically in underserved segments of the energy market that we didn't do as well in the past, and we have thoughts, and the strategies in place on how to capitalize in those underserved markets. And then I think you heard me say or you heard us say we're intent on growing our more predictable revenue streams. And of course, that's defense. That could also be our focus on the installed base.

I also commented that we're looking at M&A in the defense and then say, aerospace market because of the predictability there and the barriers to entry that are there. So once you're in, you never can rest on your laurels, but you don't have the international low-cost price leaders to contend with in the defense area because of the barrier of entry, the nature of that fabrication of of it. And in some of the energy sectors, prices can be in the bid process.

Ross Taylor: Yes. I want to congratulate you on what looks like an excellent job transitioning and working through this whole COVID situation. It looks like, I have to be honest, I'm surprised by the strength that you guys have shown and the nimbleness that you've shown and I think it speaks to your ability to manage your business long run. Congratulations.

Operator: Our next question comes from the line of Tom Spiro with Spiro Capital.

Tom Spiro: Tom Spiro, Spiro Capital. Jim, I imagine you and your competitors are going to be quite hungry for business over the next several quarters. I wondered if that implied that business that we win over the next several quarters will have unusually low margins.

Jim Lines: You're astute. You recognize what's happening in the marketplace. We are seeing some recklessness on price management by others. We don't try to break our discipline, but we will look to defend our position or make sure we expand our market share. But we are seeing some very unusual behaviors that we don't think are enduring. But obviously, it might speak to their appetite to get whatever is available at whatever price they can. And I think there's enough out there that we don't necessarily have to race to the bottom with them. But I can attest to you, there's likely going to be some skinnier projects that come into our backlog.

Tom Spiro: That's helpful, Jim. And just one other question on China. Moving away from COVID and shifting over to China. Tensions between China and our country seem to be growing rapidly. I was curious whether you think that will affect your ability to win business in China, to work with the supply partners in China? Generally, how do you think it will affect our activities in China, if at all?

Jim Lines: No. We had discussions at the leadership level about that potential risk. And at this point, we haven't seen it manifest in any way in an adverse manner with respect to our ability to win. We've won some work recently for China. That was our typical type of work, refining work. It happened in this current quarter, rather sizable refining petchem project. And so that didn't feel indifferent to us. We haven't seen a change in sentiment at the seller to buyer level.

Tom Spiro: And your ability to work with some partners over there? I think you may have supply partners over there. That's unchanged?

Jim. Lines: That is unchanged.

Tom Spiro: I see. And that one, the China project that was delayed, I think your press release mentioned a $4 million or $5 million job that was delayed. Do you think that was delayed for economic reasons? Or perhaps in reaction to some of these growing tensions?

Jim Lines: It was delayed solely because of COVID, and that province shut down its workforce. That was teed up to be completed. We were at the 15-yard line, and we couldn't get them all across the 15-yard line until May. The job is done. It's 100% complete. It was just a 7- or 8-week stoppage of work tied to shutdown of an industry in China. Nothing to do with anything other than how they managed COVID.

Operator: Our next question comes from the line of Bill Baldwin with Baldwin Anthony Securities.

Bill Baldwin: I'll make it brief since I know it's running long. But Jim, just looking for an update as to how the initiative that you had in place, I guess, now for a year or two on putting engineers out closer to working with the end-user customer to generate, I guess, a lot of the MRO business and also revamp business. Can you kind of bring us up to date as to how that's progressing and how many of those jobs you now have won and what the plan is for 2020 for those positions?

Jim Lines: Bill, that's a great question. It has been hit with a headwind near term because of COVID and our customers shut down access to their plants. Our folks weren't permitted to go into the sites at the customers' control, if you will. They need us to help them unlock capacity and improve performance reliability. The strategy is a long-term strategy. We're continuing to invest in adding resources to that strategy, relocating people to densely populated installation areas. And it's the right strategy for us, especially if we think about the reshaping of the refining demand curve over the next couple of decades. There's going to be ever-increasing focus on getting the most out of what they currently have, and that's the refinery getting the most out of what they currently have.

Same is true of a petchem operator. And that's what the installed base strategy really is focusing on, it's helping them leverage those assets they currently have and not have an unscheduled shutdown or not have some form of a performance calamity. They need us to help do that. It's a great long-term strategy. But to be candid, the last 3 or 4 months, while in COVID, it changed our ability to have customer intimacy in the manner that we want. But that will change. That will shift. We'll get through this. It'll be in our rearview mirror in, hopefully, not too long.

Bill Baldwin: Right. And that business there, will that probably come back quicker perhaps than the bigger-project business in the refinery area?

Jim Lines: From our historical perspective, that is indeed what happens. It takes a fair amount of calendar time to gear up on a strategic investment, say, new capacity or a large revamp. But MRO and quick turn work, that comes back first.

Bill Baldwin: And Jim, is that business like that? Is that less price-sensitive than the big-project business?

Jim Lines: It has a different margin potential that's more favorable.

Bill Baldwin: Okay. Is there any less competition out there for that business based on what you're doing, going directly to the end user?

Jim Lines: Typically, if you're able to provide equipment for your original installed component, it creates an advantage because you're providing a part or a reconfiguration of your system perhaps. That doesn't mean competition doesn't find their way in somehow, but it's less competitive.

Operator: Thank you. Ladies and gentlemen, that concludes our question-and-answer session. I'll turn the floor back to management for any final comment.

Jim Lines: I thank you for your time this morning. We had some really good Q&A that delved in more deeply than we ordinarily would. And so, we appreciate the thoughtfulness with which you questioned Alan, Jeff and myself, and we look forward to updating you some time mid-August, or next...

Jeff Glajch: Late July.

Jim Lines: Late July? That quick? So we look forward to updating you. And again, thanks for your time today and your ongoing interest in Graham. Have a good day.

Operator: Thank you. This concludes today's conference. You may disconnect your lines at this time. Thank you for your participation.