

Operator: Greetings, and welcome to the Graham Corporation Third Quarter Fiscal Year 2021 Financial Results Conference Call. Please note that this conference is being recorded.

I will now turn the conference over to our host, Chris Gordon, Investor Relations for Graham Corporation.

Thank you, sir. You may begin.

Chris Gordon: Thank you, Diego, and good morning, everyone. We appreciate you joining us today to discuss Graham's fiscal 2021 third quarter results. You should have a copy of the news release that was distributed across the wire 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 with me today 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. Jeff will start with the financial overview of the period, Alan will then provide an overview of our operations, and Jim will wrap up the prepared remarks with the strategic overview of our business and provide our outlook for the rest of fiscal year 2021. 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 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 Jeff Glajch.

Jeff Glajch: Thank you, Chris, and good morning, everyone. If you could turn to Slide 4, Q3 sales were \$27.2 million, up from \$25.3 million in Q3 last year. Our COVID-19 impact in the quarter was small compared to Q1 but we still lost approximately \$900,000 of revenue due to employee absences related to COVID. Strong sales in Asia supported our refining business. Sales in the defense and the Navy market were \$4.5 million in the quarter and now stand at \$17.4 million year-to-date, approximately 1/4 of our total sales through December.

Q3 net income was \$1.1 million or \$0.11 per share, up from breakeven in Q3 last year. Cash is still strong at \$69.3 million. Orders in Q3 were in excess of \$61 million, our strongest order quarter ever, driven by \$52 million in defense orders. Almost all of the defense orders will not start to convert to revenue until fiscal 2023 and beyond.

Our backlog is now nearly \$150 million, 70% of which is in the defense market.

Moving on to Slide 5. I discussed the sales detail in the last slide with the quarter at \$27.2 million. The split in the quarter was 39% domestic and 61% international. Last year's third quarter was 53% domestic sales, 47% international. The stronger international sales in the quarter were primarily driven by projects in Asia, particularly China, where we had one large project, which was accounted for on a completed contract rather than a percent complete basis; and a second project, which is currently in process and is being accounted for on a percent complete basis.

Gross profit increased to \$6.2 million, up from \$4 million last year primarily due to improved project mix as well as volume. Gross margin was 22.9%, up from 16% last year, which was a particularly poor quarter. EBITDA margins were 6.7%, up from 0.7% in last year's third quarter.

And as I mentioned earlier, net income was \$1.1 million, up from breakeven last year.

On to Slide 6. Looking at our year-to-date results, sales in the first nine months of fiscal 2021 were \$71.8 million, up from \$67.5 million last year. This is despite our challenging Q1 when production was at 50% of capacity due to COVID impacts. Year-to-date sales are 52% domestic, 48% international compared with 65% and 35%, respectively, last year.

Gross profit year-to-date is \$15.5 million, up from \$13.7 million last year, and gross margin is up 130 basis points to 21.6%. Year-to-date EBITDA margins were 5.6% versus 3.1% in the first nine months of last year. Finally, net income was \$2 million or \$0.20 a share, up from \$1.3 million or \$0.13 a share last year. Again, the first quarter of this year had a loss due to COVID, but we have more than recovered in the second and third quarter.

On to Slide 7. Cash is at \$69.3 million, up \$1.4 million from the end of Q2 but still down from \$73 million at the end of fiscal 2020. This was primarily due to timing of working capital. Cash per share is \$6.94. Our quarterly dividend remains firm at \$0.11 a share, and we have paid out \$3.3 million year-to-date. Capital spending to date is \$1.5 million, similar to last year, and we expect the total for the full year to be between \$2 million and \$2.5 million.

Finally, we are continuing to work on our acquisition pipeline activities. COVID has not had an adverse impact on our efforts, as we have built some very good relationships over time. As these continue however, many are now remote rather than in-person communications.

Alan will continue our presentation by providing more depth on our operations in Q3, and then Jim will provide a market update and our updated guidance for fiscal 2021. Alan?

Alan Smith: Thank you, Jeff. Good morning, everyone. I would ask that you refer to Slide 9. Sales for the third quarter were \$27.2 million. Sales for the refining industry were \$16.5 million, up from \$12.2 million. \$9.4 million of the revenue was from two projects for the Chinese refining market. Sales to the defense industry were \$4.5 million and were up slightly year-on-year.

We continue to see improved backlog conversion as we grow our naval workforce. On prior calls, we discussed first-article or first-time fabrication work. We are largely past that now for what is currently in our backlog. We do plan to expand and take on new first-article work, however, for now, that type of heavy lifting is behind us.

Lastly, our annual guidance remains at \$93 million to \$97 million, which was communicated during our second quarter earnings call. The fourth quarter is set up well for backlog conversion. However, there is always a few million dollars of in-and-out revenue within any quarter.

Moving to Slide 10. We experienced a second wave of COVID-19 infections in Western New York from November through the middle of January. The company's COVID-19 protocols have been tested and have been proven to be effective in minimizing spread of the virus within the company. At the peak of the second wave in early January, the production departments were operating at no less than 90% capacity. Due to the outbreak, we temporarily paused our efforts to recruit skilled workers. As of January 19, we have lifted the pause and are actively recruiting skilled workers. I am pleased to report that we have several candidates in our pipeline.

We continue to prioritize improving our productivity in the Navy areas. Productivity enhancements are focused on build flows; faster welding processes; employee training; the creation of jigs and fixtures; and lastly, applying lessons learned.

I will now turn the presentation over to Jim.

Jim Lines: Thank you, Alan, and thank you, Jeff, for your remarks. I ask that everyone refer to Slide 12 as I begin my prepared remarks.

This chart illustrates how orders can vary considerably from quarter-to-quarter. A highlight, though, is the order level the last two quarters from the defense industry, specifically orders for the U.S. Navy. The orders for defense during the last two quarters were \$65 million. These orders can be large in value and will have multiyear conversion cycles. We have visibility into the Navy's long-term procurement plans. That is a great help and lessens investment risk that may be needed to support growth associated with stronger defense segment revenue.

We are operating within challenging energy and chemical/petrochemical markets. Low oil prices due to supply and demand imbalance, along with demand destruction for chemical and petrochemical derived consumer products have contracted orders within our more traditional nondefense end markets.

It is important to point out the defense strategy, where \$100 million in new orders were secured in the last 12 quarters, representing 30% of total orders, has been a terrific counterbalance to headwinds within our more traditional markets. Also, another set of actions were implemented about two years ago to change our participation, success and execution plans within more price-sensitive international markets where we historically did not play. These, too, have been executed successfully.

Across those same 12 quarters, \$40 million in orders were won because of a different execution plan, a different selling strategy. Stated differently, approximately 60% of orders the past 12 quarters were from our traditional markets or customers and 40% from strategies to broaden revenue streams. I commend our team for a terrific effort on both strategies. It has really made a big difference in order level during this pullback by our historic customers.

Let's move on to Slide 13. There was not too much different from last quarter to report. Refining is weak, as an overall comment. There are mid- and large-sized projects upcoming in India, China and for the mid-East and North Africa. But

overall, refining opportunities have contracted. An active area within U.S. refining markets, however, is related to renewable diesel investment. This is supported by tax policy under the renewable fuels standard and California's low carbon fuel standards. These are smaller, fast-moving projects, however, it has created demand for our products, and that is important right now.

The Navy bookings pipeline remains healthy. These orders will be intermittent and likely not as strong as the past two quarters. Nonetheless, we expect to build backlog within this segment during the next year with a book-to-bill above 1. The chemical sector is still contracted and we have not seen a change in spending by this market. Global markets need to lift up from the pandemic before we are to anticipate more typical order levels.

Short cycle and plant MRO, or plant maintenance, repair and operating, spending is also pulled back. While defense orders have a positive outlook, order levels from our more traditional customers or markets are expected to stay sluggish.

Let's move on now to Slide 14. The two bright spots during this pandemic are our cash position that was highlighted by Jeff, and our backlog. Backlog is \$150 million with approximately \$100 million for defense and \$50 million for the company's more historic markets. The operational benefits or synergies between defense and commercial markets permit effective utilization of our operating assets, while commercial markets, and here I'm referring to refining and chemicals, petrochemicals, are contracted.

We anticipate that 45% to 50% of our backlog will convert during the next 12 months. The fourth quarter is now essentially set up for backlog conversion, with, as Alan said, a few million dollars, which typically comes in and out within a quarter. Thus, we have high confidence for the full year guidance.

With that, let's move on to the guidance page. We expect revenue for the full year to be between \$93 million and \$97 million, implying fourth quarter revenue between \$21 million and \$25 million. Full year gross margin should fall between 21% to 22%. SG&A expense at \$17.3 million to \$17.8 million for the full year, and effective tax rate is planned to be between 22% and 24%. It is important to highlight that this guidance reflects no significant COVID-19-related disruptions or unforeseen impacts in our fourth quarter.

I will close with a quick progress review on strategic initiatives. Let's move on to Slide 16. We have had an initiative to reduce the volatility of our business performance with greater focus on expanding our predictable revenue streams. The defense industry is one of those revenue streams, as is revenue from our installed base. Our progress with the Navy, or defense, has been very strong. Our backlog has grown. And importantly, we've moved our position from competitively bidding most opportunities to sole-source bidding under a larger percentage of those opportunities. So that all is directionally very favorable.

For our installed base, with the pandemic and COVID, we've had difficulty gaining access to our customers' plant sites. However, we've been working on IT tools and data analytics to analyze different applications and different products so we can implement programmatic processes to proactively drive our installed base. That's underway, but we have had a pause on building out our installed base team. However, there is work ongoing on the IT side.

We are also looking at acquisitions to build stronger, more predictable revenue. Jeff and Chris Johnston, our Director of Business Development, have done a really fine job of bringing some high-quality targets into the conversation. And we have active dialogue with those now, and we're advancing those discussions.

Another initiative we have implemented is around some strategies to change how we participate in more price-sensitive markets, which are primarily in Asia. Now this will be in an area of our project work, so it does have variability and a cyclical nature to it. We've been expanding and modifying our execution path in Asia. I'd say that's gone remarkably well as we jumped into that segment of the sandbox in a different way the last couple of years resulting in 15% of our total orders since late in fiscal 2019 coming from this strategy. We have had to be more measured in how we're evolving our organization to go after this work as we think about the upcoming income statement tied to the pandemic. However, this strategy has been executed well and has had an impact.

You might recall that we did win two very large projects in India in the recent past, and we're queuing up two to three other projects that we're focused on and we're going to pursue aggressively and, hopefully, win those over the next three to six quarters. And then ultimately, all of this rolls up into strengthening Graham's financial performance.

One of the key levers is operational throughput and expanding our revenue conversion here in Batavia. That translates into building out our welding, machining and production workforce. As Alan said, we did place a pause on the additional team member build-out in the last couple of months due to COVID. However, we have that opened back up. We have 20 positions that we are hoping to fill over the next two years that will allow us to expand our backlog conversion and drive

revenue growth. That's a very important parameter, and we have very good program for accessing the direct labor and bringing them on board, putting them through our weld school and training labs and then having them proficient and productive in a short period of time.

As I mentioned earlier, another way to improve our financial strength is the naval strategy and the moving from competitively bid toward a higher percentage being sole-source bid. That has two benefits. One, it increases the predictability of future orders and asset-based loading and lessens our risk around any capital investments to support the revenue growth; and then secondarily, but not always, it can provide a stronger margin profile for that work. Also, as Alan mentioned, as we get past the first article fabrications, we now can move into repetitive builds and then optimize our production workflows to drive productivity and shorten cycle times, and that will lead to margin enhancement as well.

Obviously, our energy markets and petrochemical markets are in a rough spot. So we will balance our investments to benefit us long-term with the realities of short-term income statement pressure. We have this fantastic balance sheet with an incredible amount of cash that we've had for quite some time, and our focus, and the focus of our Board, is to put that capital to use with an investment in new revenue streams.

And with that, I'd like to open the call up for questions, Diego. Would you please open the line?

Operator: Our first question comes from Theodore O'Neill with Litchfield Hills.

Theo O'Neill: My first question is about the naval business. On the General Dynamics call yesterday, they said that work on the Columbia submarines, which I understand they're working on the first 2, will expand significantly. How much of the submarine work is driving your growth in the naval business? And do you think it will also be a long-term driver of growth, as they do?

Jim Lines: I'll take this one, Theo, and thanks for the question. Historically, throughout our 8-year history up until the last five years, we weren't in the submarine programs. However, because of our execution on the carrier program, we did get the door opened, and we have grown into both the Virginia- and Columbia-class programs. Our naval growth is driven by embedding ourselves deeply in the submarine programs. The narrative from Electric Boat on their conference call was very bullish on the submarine programs and the cash generation from that. We believe we will be a benefactor of that based, on our participation and our strength in those two programs.

Theo O'Neill: Okay. My next question is about renewable diesel. Valero Energy said this morning that its Board approved a new 470 million gallon-a-year renewable diesel plant in Port Arthur, Texas. Is there an opportunity there for Graham? And is that the sort of thing you'd be looking at?

Jim Lines: Absolutely. With Valero in particular, they entered renewable diesel in about 2011 or 2012. And at that first site, we were a participant with our equipment in that first installation, which has been replicated three times at that location. And now they're expanding into Port Arthur with yet another renewable diesel project in partnership with Darling, it's called Diamond Green Diesel. And those projects involve our equipment on both the pretreatment side, the feedstock side and then on the refining side.

Now to be clear, these are smaller opportunities. They don't compare with a large classic refining opportunity for us. These are in the range of probably \$250,000 to \$750,000 per item, and there's a couple of items in these opportunities. So they are smaller. They move fast. And not only with Valero, but with Marathon, with Phillips 66, the HollyFrontier. There's a host of renewable green diesel projects that are underway, driven by tax policy and also California's low carbon fuel standards. And we are a participant, and we're focused on it.

Operator: Our next question comes from John Franzreb with Sidoti & Company.

John Franzreb: Nice quarter. I want to start with the defense business. You pulled in a nice number in the order bookings this quarter, almost exceeding -- or certainly seems to be exceeding what your initial expectations were three months ago. And you also alluded to the fact that you expect the book-to-bill to remain above 1.0. So I guess, two questions.

First, are the orders that you booked in the December quarter the result of something unusual in fact that those orders are being pulled forward in any regard? And second, when you think about the book-to-bill into next year, is that largely weighted towards the Virginia-class or the Columbia-class? Or do you expect maybe additional other work that you're not yet involved in?

Jim Lines: I'll take that one as well. The modeling that we had a few quarters back did not consider that the Enterprise program would buy another Columbia vessel from us now. However, that did arrive, and we were able to secure that in

the quarter we just reported. We were only modeling some Virginia-class work and carrier program work. But fortunately, we were able to be a benefactor of stepped-up cadence for the Columbia program.

As we look at the next 12 months, the order slate is principally from the two submarine programs. And some of it is repeat work and some of it is, hopefully, breaking into new programs within those two classes of submarine. We don't have those orders yet, but our team is focused on certainly breaking into the new program and also holding our order pattern for those components that we have built several times now.

John Franzreb: Got it. Second question. Interestingly, I heard something last week from one of the other companies that I cover that suggested that maintenance work in the energy market is flat, and they're actually seeing some orders being pulled forward into the first quarter that normally would be second calendar quarter and some being pushed back into the third quarter that would normally be second calendar quarter type maintenance work. Are you seeing anything like that? I'm curious if it's something that's happening in the industry or it's stand-alone for them?

Jim Lines: As an overall remark, what we have observed is MRO spending, maintenance, repair, routine spending that's in the operating budget has moved to the right, has been pushed out as the refiners, and also the petrochemical companies, focused on cash preservation this year with the dramatic change in demand. We honestly haven't seen any material change in that decision-making of moving things to the right, pushing those spends out.

Our refining customers are saying to us they had to get into 2021 before they could make those types of spends. However, we're only three weeks into 2021, and all I can comment on is that our sales team, our market facing teams aren't seeing any change in that behavior by those two markets.

John Franzreb: Got it. And regarding the balance sheet and M&A, can you remind us what you think optimal targets would be for acquisitions, size, end markets, maybe even what you think the kind of products they might produce would be best fit for you?

Jeff Glajch: Sure. John, this is Jeff. First off, and if I missed one of your questions, please remind me, with regard to the markets, we're looking to improve our predictable business, predictable base business.

So how do we do that? We do that really one of a couple of ways. One is looking at opportunities in the Navy or defense markets, which, as we've shown here certainly this last quarter, has the ability to get large orders and then, ultimately, to have them fabricated over a number of years is a very helpful baseload and predictability to our business. And then secondly, perhaps looking at things in the commercial markets, more on the aftermarket or MRO side is another area we would consider. But I would say of the two, the defense on the Navy side is much more interesting to us and much more in front of us right now.

With regard to size, we've pretty consistently talked about looking at businesses somewhere between \$20 million and \$60 million of revenue. Purchase price probably in a similar range, perhaps a little bit higher if they're higher-margin or profit level businesses. And the companies that we've looked at over the last number of quarters, or a couple of years, have been in that range, but we've also looked outside of that range. We've looked above that range, and we've looked below that range. So we're not limiting ourselves necessarily to that range, but it's kind of the sweet spot for us if we could find something in there.

Did I answer all your questions? Or did I miss something?

John Franzreb: I think so. Do you think you would you kind of stick to tangential kind of products to what you make now, like maybe something next to the ejector, like the silencer? Or would you actually think about equipment that is really maybe a step or two beyond your core technology?

Jeff Glajch: Sure. I think we would look at both. Particularly if we're looking at similar customers that we have, the ability to get a larger share of that customer's wallet, even if it's not a tangential product, is something we would consider also.

Operator: Our next question comes from Brett Kearney with Gabelli Funds.

Brett Kearney: I noticed in the press release, and then also in your slide deck, you have kind of a note on opportunities, potential involvement for Graham in kind of the broader energy transition. I guess, you touched on it a little bit already on the call. Just wondering what areas kind of stand out for potential opportunities for Graham. Anything in kind of carbon capture or in the newer kind of fuel sources that folks are talking about, or governments are putting money towards?

Jim Lines: Great question. We play in the renewable diesel. I spoke about that a moment ago as it pertains to the refining, or the use of a bio-based feedstock for producing diesel. But outside of that, in the energy transition, we're in the early phases. We're trying to make sure we're in the conversation. We're a supplier to these markets. We are also in

the hydrogen fuel cell electric vehicle market. And there, we serve that market across three types of customers. We are working with the industrial gas companies that provide the hydrogen, if you will. The hydrogen application for fueling cells is very high-pressure. For a vehicle, it's at 10,000 PSI. For mass transportation, it's at about 5,000 PSI. The gas has to be compressed to those high pressures. We work with compressor OEMs where our equipment supports their compression equipment, and then we also work with integrators that take the components and put them into a fueling system.

And there, on the back end of the system, the hydrogen, when it's dispensed into a vehicle, needs to be at about minus 40 degrees F. We provide heat exchangers that provide that cooling and deliver the hydrogen to the vehicle at the right temperature. Now these are small-ish applications. An average selling price for us is \$10,000 to \$50,000. It's important that we're there. This is a long-term play and these would be highly engineered, standard products, which would be different from our ETO type large project work.

Similarly in the compressed natural gas value chain, our equipment can also be used for natural gas distribution in remote areas. There, we play in a similar manner. Those distribution systems are at about 5,000 PSIG for compressed natural gas. It's a compressor OEM or a system integrator that we're working with.

So those are a couple of examples of how we're in the conversation, taking our products into those markets and making sure we are participating in the evolving energy market as that moves from using fossil fuel to other complementary alternative fuels.

We also participate in renewable chemicals. We've been playing in that market for probably over a decade. Those are very intermittent type projects, but we do play there as well.

But today, I'd say the big movers are renewable diesel, the hydrogen economy and the natural gas value chain.

Operator: Your next question comes from Tom Spiro with Spiro Capital.

Tom Spiro: First, my congratulations on the strong bookings for the quarter and year-to-date. They really validate the diversification strategies that have been implemented over the last few years and validates your decision earlier this year to hang in there with the employment and keep the faith. So congratulations. That's most impressive.

Just a couple of questions. With respect to our new business in India and China, we have more exposure now to foreign partners. I was wondering whether you have any concerns that the pandemic, which may be brought under control here in the U.S., may prove to be a much greater problem over there and then our foreign partners may have difficulty performing.

Jim Lines: A great question. In the Asian economies, we are seeing the pandemic or COVID be more pervasive and a larger problem in certain Southeast Asian countries. I don't want to cite them, but we've seen in Southeast Asia that for about three or four months, projects have just stopped.

Now we're not executing any projects in Southeast Asia with a fabrication partner. We have done it in Northern Asia, and we do it in China and also in India where, thus far, COVID has not created execution delays of any magnitude. However, we are watching that. We have localized our quality inspection services with Graham personnel. We've hired individuals in China, we've hired individuals in India to surveil and support our local fabrication partners while being complemented, when we can, by our fabrication experts here in the U.S.

So, it is a potentially challenging situation. But right now, in China and in India, those are the two areas where we have projects ongoing, and they are large projects where we haven't had a COVID-related problem.

Tom Spiro: That's helpful. Jeff, do you have a preliminary CapEx budget for the next fiscal year?

Jeff Glajch: Tom, at this point, we do not.

Tom Spiro: Okay. Would you expect it to vary dramatically from your historical numbers? Is there anything kind of unusual coming up we need to think about?

Jeff Glajch: Nothing out of the ordinary.

Tom Spiro: I see. Okay. And lastly, on the acquisition subject, the stock market is high, and you've got the SPACs out there trying to buy everything. There is a lot of money floating around. I was curious whether the acquisition possibilities that you folks are reviewing are seeing pricing strengthen and multiples going up? Is it becoming more challenging to find opportunities that fall within your price range?

Jeff Glajch: Look, Tom, given where we're looking, as I spoke to on an earlier question, we're focused on the defense market and, to a lesser extent, in the aftermarket and the commercial markets. Both of those are markets, particularly the defense, which has had pretty high multiples to begin with, we haven't necessarily seen it move to get worse. But that is certainly a headwind for us and something that we have to work through. While it's impacting the pricing in the markets, really, the specific markets that we're focusing on are such good markets that they already were at pretty high multiples.

So we'll just work our way through it, and that's part of our process.

Operator: Our next question comes from John Deysher with Pinnacle Capital Management.

John Deysher: I was just curious, when you talk about the Navy business and you're moving beyond first-article cost structure to standardize defense manufacturing processes, could you remind us exactly what you're talking about there?

Jim Lines: Alan will take this one.

Alan Smith: Yes, this is Alan. When we're doing first-article builds there's a lot of testing that needs to be done on the material and specialized jigs and fixtures that need to be developed because these are new builds. These haven't existed, and we have to prep our manufacturing process. That effort is fairly involved, and in my remarks, I was trying to indicate that we are past that effort. We have the materials approved. We have built all of the first-to-Graham equipment and fabrication processes. And now it's becoming more rote, as we take on subsequent work from the Navy.

Jim Lines: Alan, why don't you talk about when there's a first-time build and industry shock testing?

Alan Smith: What Jim is referring to is our work for the Columbia-class, because it's a brand-new ship for the Navy. It's important that the equipment can withstand attacks from the enemy. So when we build our equipment, we also build a prototype unit, which is actually subjected to test charges (concussions) to make sure that the equipment can withstand the shock, survive it, and still work properly.

John Deysher: Okay. So the infrastructure is in place. Have you actually bought raw materials yet for those Navy contracts?

Alan Smith: Yes. For the contracts in our backlog, we have the material, and we've actually moved into production. So, not only do we have the material, we are actually actively fabricating those jobs in our backlog.

John Deysher:

Okay. And you're doing all of that in-house? You're not outsourcing it to anyone else, correct?

Alan Smith: Yes.

John Deysher: Okay. And when do you anticipate invoicing the Navy for this product? I would guess there's milestones that have to be met, but what's your best guess as to when you're going to start invoicing the customer?

Alan Smith: We have been invoicing the Navy for some time now. Our work is a mix of milestone-based as well as percent complete. So on the percent complete, as we apply labor, we are invoicing our customer each month.

John Deysher: Okay. Did I miss it on the presentation? What percentage of the revenues were Navy in the December quarter?

Jeff Glajch: In the quarter, it was about approximately \$4.5 million. And year-to-date, it's a little over \$17 million.

John Deysher: \$17 million. And what do you anticipate it to be for the full fiscal 2021?

Jeff Glajch: Sure. For the full year, we have communicated that we expect it to be about 1/4 of our revenue, which is where it is year-to-date through December. I think we're at about 24-plus percent of our total revenue, and we expect to be somewhere around 1/4 of our total revenue at year end, which given the guidance that Jim spoke to would be somewhere around \$23 million to \$24 million approximately.

John Deysher: Okay. And so for the next fiscal year, fiscal 2022, how does it ramp from there do you think?

Jeff Glajch: We haven't given explicit guidance in that regard other than we've suggested that over the next number of years that the number will be between \$20 million and \$30 million and the opportunity to perhaps grow it beyond the upper limit somewhere in that window. But we've not given explicit guidance on what we expect that to be next year yet.

John Deysher: Okay. So \$20 million to \$30 million per year?

Jeff Glajch: Correct.

John Deysher: Okay. Good. And I guess, finally, do you have a credit line in place? I know you've got a lot of cash, but sometimes these government contracts can be a little lumpy in terms of money going out, but no money coming in. Is there a credit line in place to support the cash?

Jeff Glajch: Yes, there is. We have a \$15 million revolver, as well as two lines for letters of credit, one of \$7 million with JPMorgan Chase, who we also have our \$15 million revolver with, and then we also have a \$15 million letter of credit line with HSBC. Those two letter of credit lines are really helpful for our international business. Jim mentioned the work we're doing in India and China, as well as other international locations. Those letter of credit lines are really important to support that work and to protect us going forward.

And then I wanted to add to Alan's answer to your question regarding our payments from the Navy. The Navy is very similar to our commercial business in that we structure our invoicing and our payments to try to mimic our expected cash outflow so that our need for working capital to support these projects is relatively small.

I think if you look back historically at our net working capital, and I'll define net working capital as our net working capital excluding cash, it's typically somewhere between 0% and 10% of sales. I think right now, it might be toward the higher end of that range. But our working capital needed to support our business is relatively small because of the way we structure our contracts, and our larger projects are funded by the customers who we're doing the work for. So the Navy, for example, is funding the project as we're doing the work, so we don't get too out of sync with regard to cash. There are times, actually, when we end up ahead a little bit on some of those, but that's usually a short-term thing. As we get cash in, we're typically using it fairly quickly for inventory purchases. So we try to manage our cash two ways. One is through the customer milestone payments. And then, when we do need to utilize our cash, we're pretty careful about that. So we're not out of cash on projects at any point in time.

John Deysher: Okay. Good. And I guess, finally, is the profitability of the Navy business equal to, greater than, or less than the non-Navy business on an operating income level?

Jeff Glajch: It's in a similar range at an operating level. It does have a lot of labor, so we certainly have a lot of cost that travel with that, but it's in a similar range.

Operator: There are no additional questions. I'll turn it back to management for closing remarks. Thank you.

Jim Lines, Thank you, Diego, and thank you, everyone, for your attention and your thoughtful questions this morning. We appreciate the engagement, and we look forward to updating you in the coming call. Stay safe. Goodbye.

Operator: Thank you. This concludes today's conference. All parties may disconnect.