

# redefining Graham

Gabelli 19<sup>th</sup> Annual  
Pump, Valve & Motor Symposium

*James R. Lines, President and Chief Executive Officer*

February 18, 2009



# Safe Harbor Statement

*These slides contain (and the accompanying oral discussion will contain) “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995. Such statements involve known and unknown risks, uncertainties and other factors that could cause the actual results of the Company to differ materially from the results expressed or implied by such statements, including general economic and business conditions, conditions affecting the industries served by the Company and its subsidiaries, conditions affecting the Company’s customers and suppliers, competitor responses to the Company’s products and services, the overall market acceptance of such products and services, the effect of the Company’s strategy and other factors disclosed in the Company’s periodic reports filed with the Securities and Exchange Commission. Consequently, such forward looking statements should be regarded as the Company’s current plans, estimates and beliefs. The Company does not undertake and specifically declines any obligation to publicly release the results of any revisions to these forward-looking statements that may be made to reflect any future events or circumstances after the date of such statements or to reflect the occurrence of anticipated or unanticipated events.*

# Graham Corporation

- NYSE-A: GHM
- Founded in 1936. IPO in 1968.
- Common shares outstanding 10.1 million
- Market capitalization\* \$102.0 million
- 52-week price range\* \$54.91 – \$6.85
- Most recent price\* \$10.10
- Avg. daily trading volume\* (12 mos.) 328,929
- Stock splits
  - 5 for 4 1/2/08
  - 2 for 1 10/7/08
- Ownership (*reporting as of quarter ended 9/30/08*)
  - **Institutions** **76.3%**
  - **Insiders** **3.7%**

\* Market data as of February 10, 2009

## Our Vision

*Our goal is to be a  
world leader in the design  
and manufacture of  
engineered-to-order products  
for the process industries*

# Products

**34% Ejectors**

**25% Condensers**

**8% Pumps**

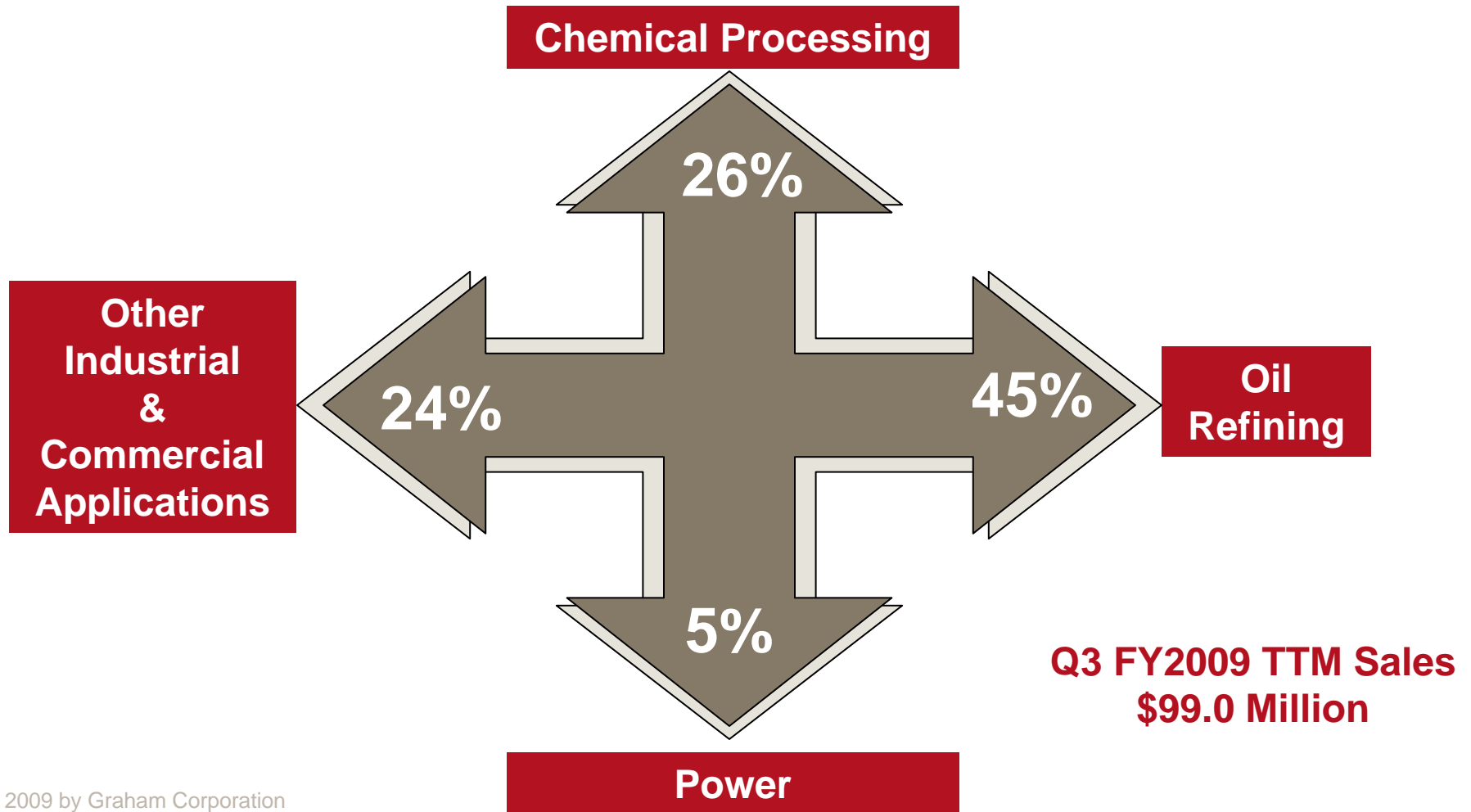
**12% Heat Exchangers**

**21% Aftermarket**



<b>Q3 FY2009 TTM Total Sales</b>	
<b>\$99.0 Million</b>	
<b>U.S. sales</b>	<b>63%</b>
<b>International</b>	<b>37%</b>

# Diversified Markets



# Cultivate Diverse Market Applications

## OIL REFINING

- Conventional crude oil
- Oil sands
- Extra heavy crude oil
- Sour crude
- Lube oil

## CHEMICAL PROCESSING

- Ethylene
- Ammonia
- Nitrogen
- Methanol
- Styrene
- Polystyrene
- Ethylene glycol
- Detergent alcohols
- Plastics, resins, fibers
- Coal to liquids (CTL)
- Gas to liquids (GTL)

## POWER GENERATION

- Cogeneration
- Waste to energy
- Heat, power and light
- Geothermal
- Nuclear
- In-situ

## OTHER APPLICATIONS

- Edible oil/Oleochemicals
- Ethanol
- Biodiesel
- HVAC
- Industrial gases
- Cryogenic

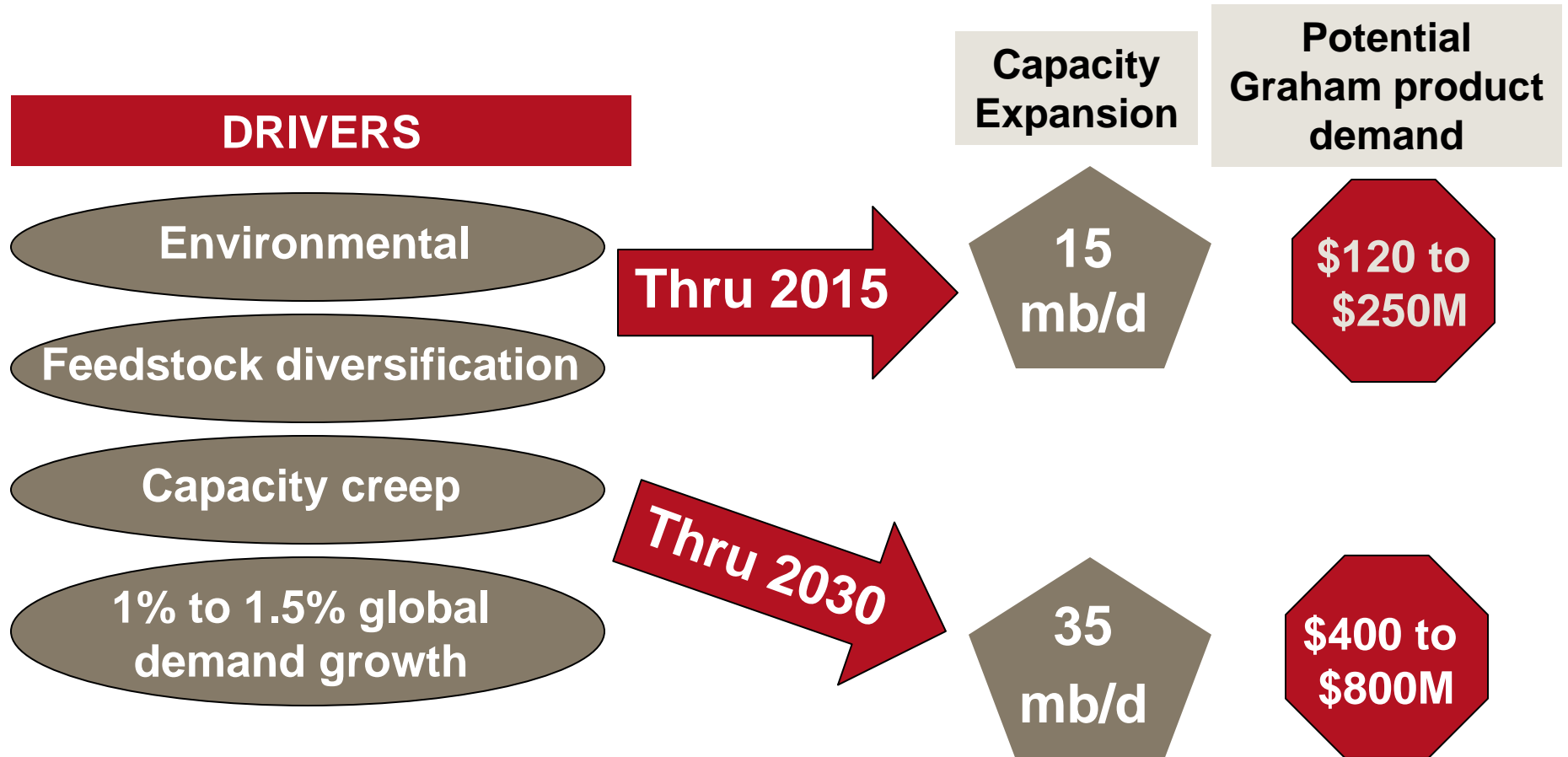
# Diversification of Orders

<b>\$2.5M Ejector Systems</b>	<b>North Africa</b>	<b>Fertilizer Plant</b>	<b>In Backlog</b>
<b>\$3.5M Ejector Systems</b>	<b>China</b>	<b>Oil Refinery</b>	<b>In Backlog</b>
<b>\$5 M Ejector System</b>	<b>South Korea</b>	<b>Oil Refinery</b>	<b>In Backlog</b>
<b>\$1.4M Surface Condenser</b>	<b>Middle East</b>	<b>Oil Refinery</b>	<b>In Backlog</b>
<b>\$1.8 M Ejector System</b>	<b>USA</b>	<b>Oil Refinery</b>	<b>In Backlog</b>
<b>\$2.6 M Surface Condenser</b>	<b>Turkey</b>	<b>Power Generation</b>	<b>In Backlog</b>
<b>\$2.4 M Surface Condenser</b>	<b>China</b>	<b>Petrochemical</b>	<b>In Backlog</b>

*Representative orders during current fiscal year.*



# Long-term Demand Growth





# FINANCIAL HIGHLIGHTS AND RESULTS



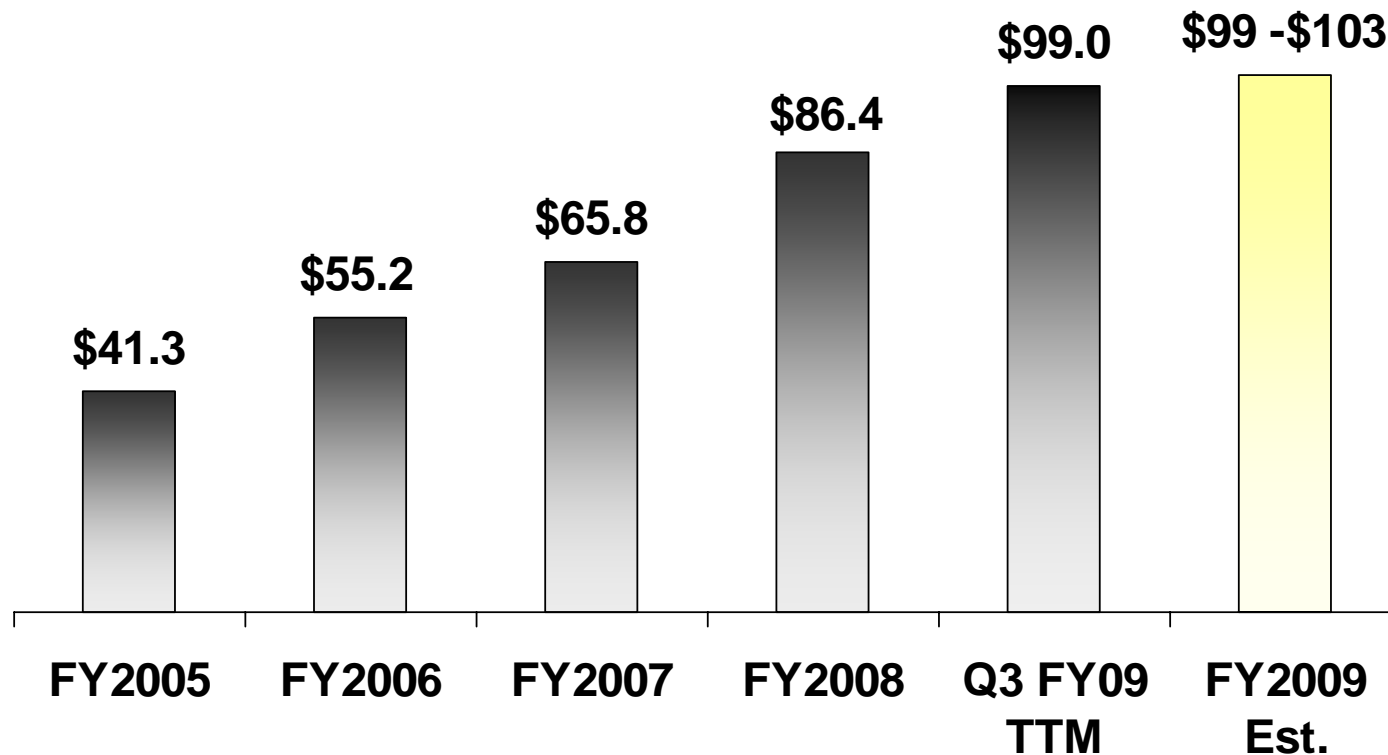
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# Revenue Expansion

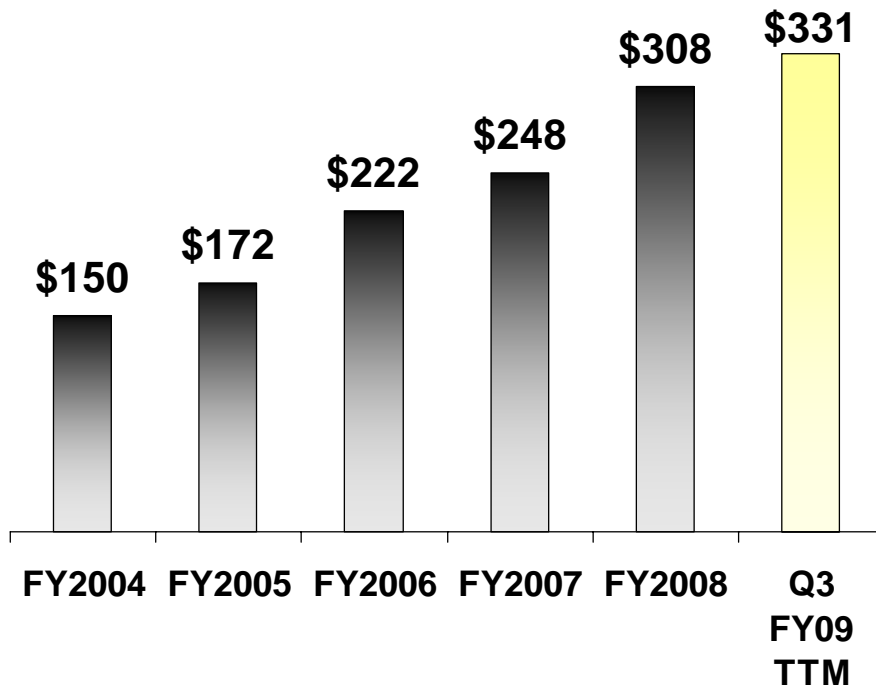
(\$ in millions)

**24.4% CAGR Sales**  
*(FY2005 – FY2009E at low end of range)*

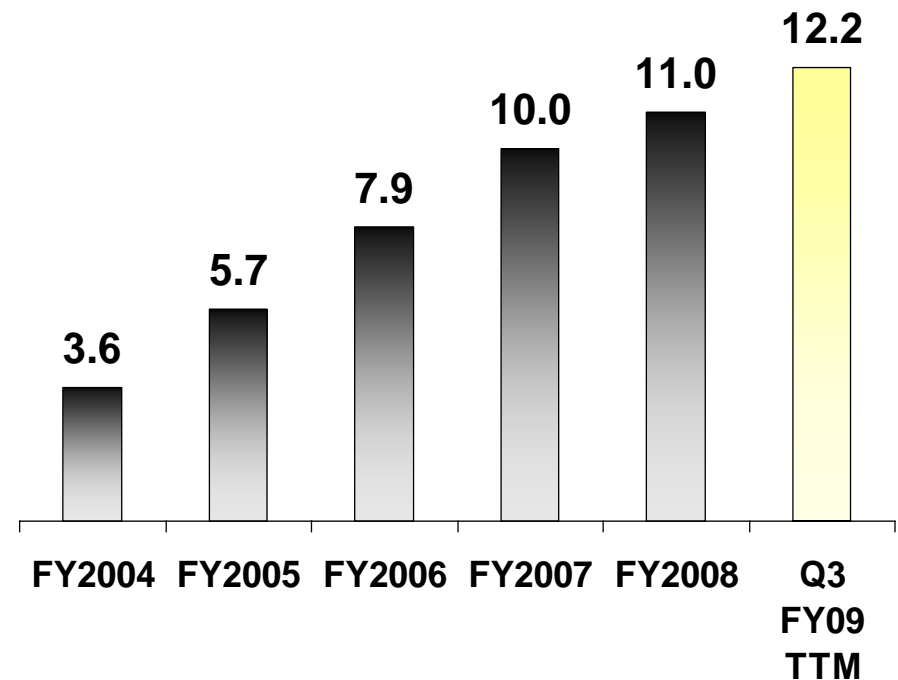


# Improved Productivity

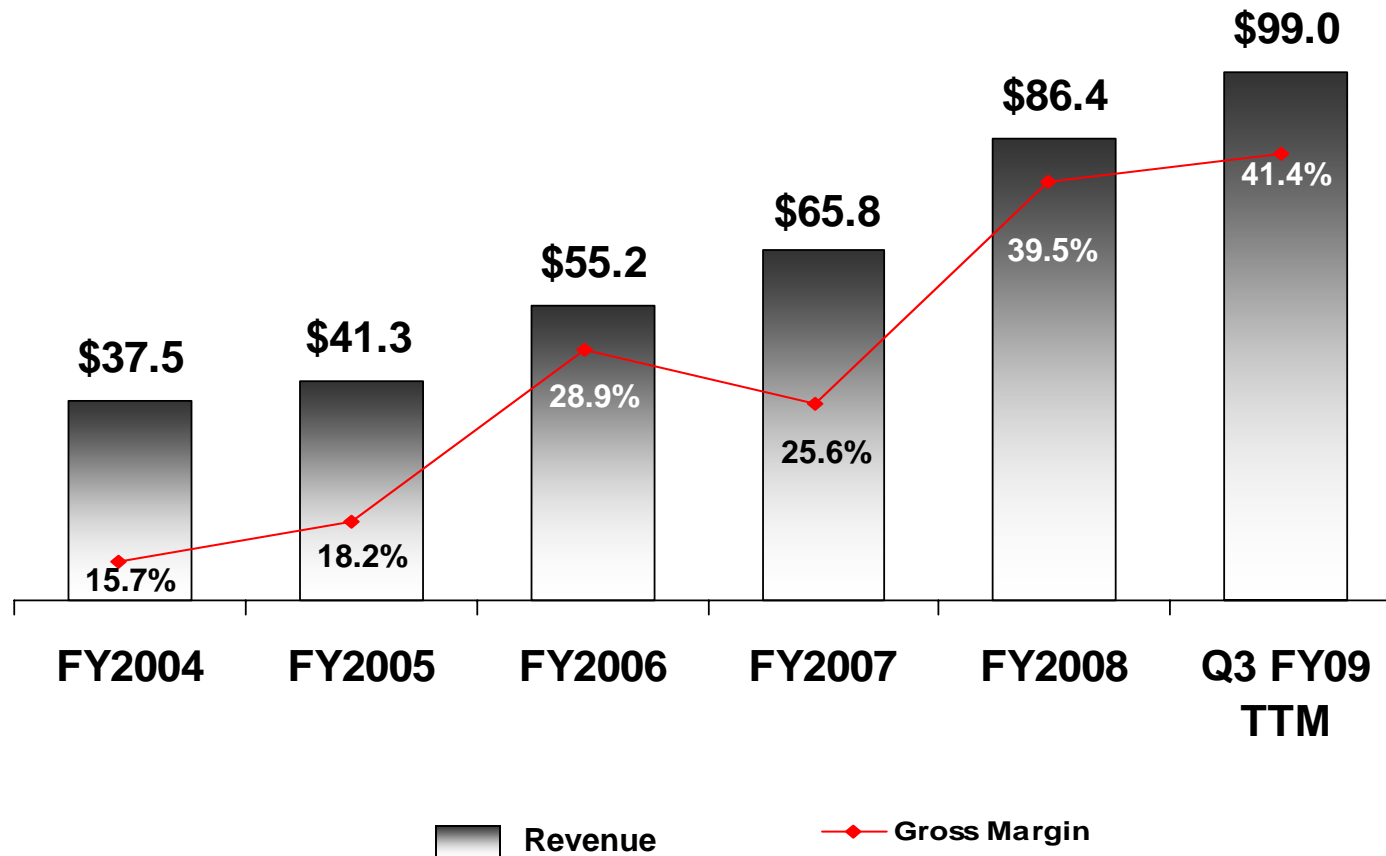
## Sales per Employee *(in thousands)*



## Inventory Turnover *(times per year)*

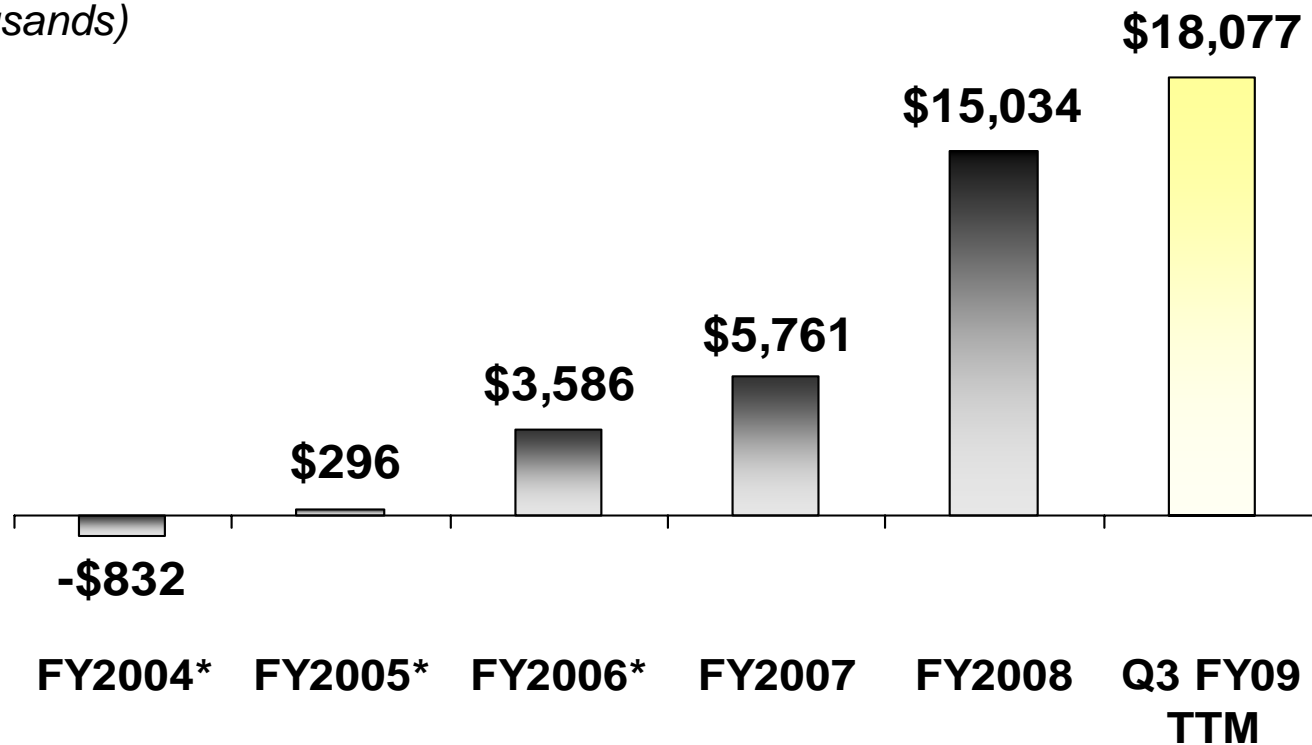


# Improved Gross Profit Margin



# Net Income and EPS Growth

(\$ in thousands)



**Earnings  
per Share\*\***

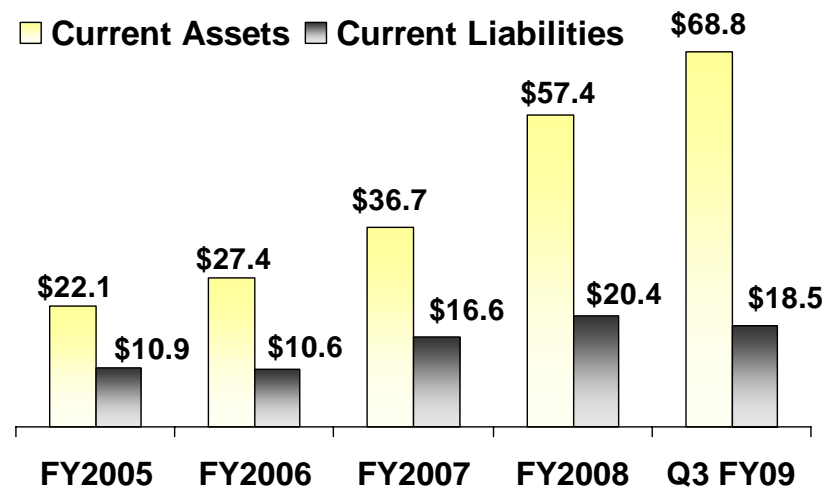
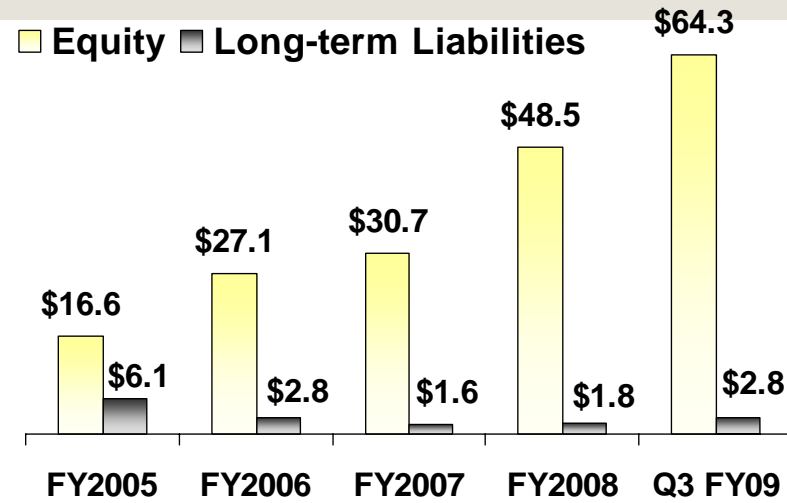
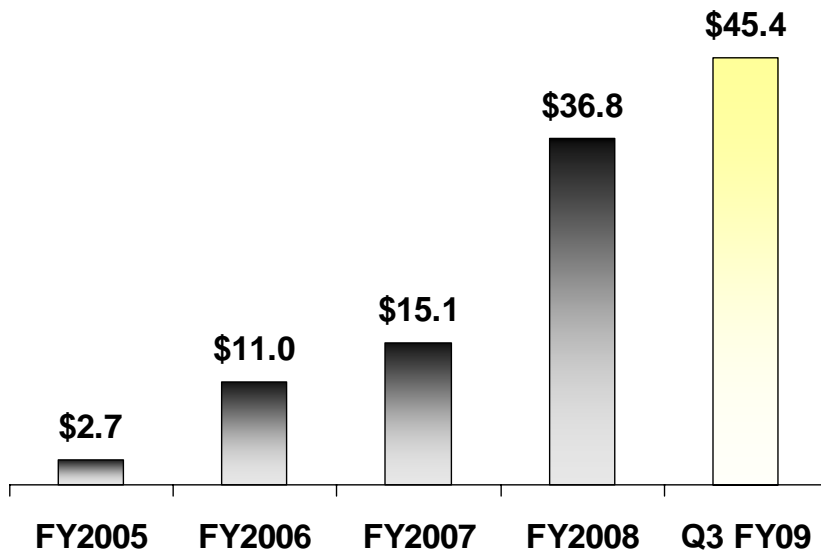
**(\$0.10)\*    \$0.03\*    \$0.38\*    \$0.58\*\*\*    \$1.49\*\*\*    \$1.77**

\* From continuing operations.    \*\* Adjusted for two-for-one stock split.    \*\*\* Includes R&D tax credit of \$0.16 and \$0.02 in FY2007 and FY2008, respectively.

# Strong Balance Sheet

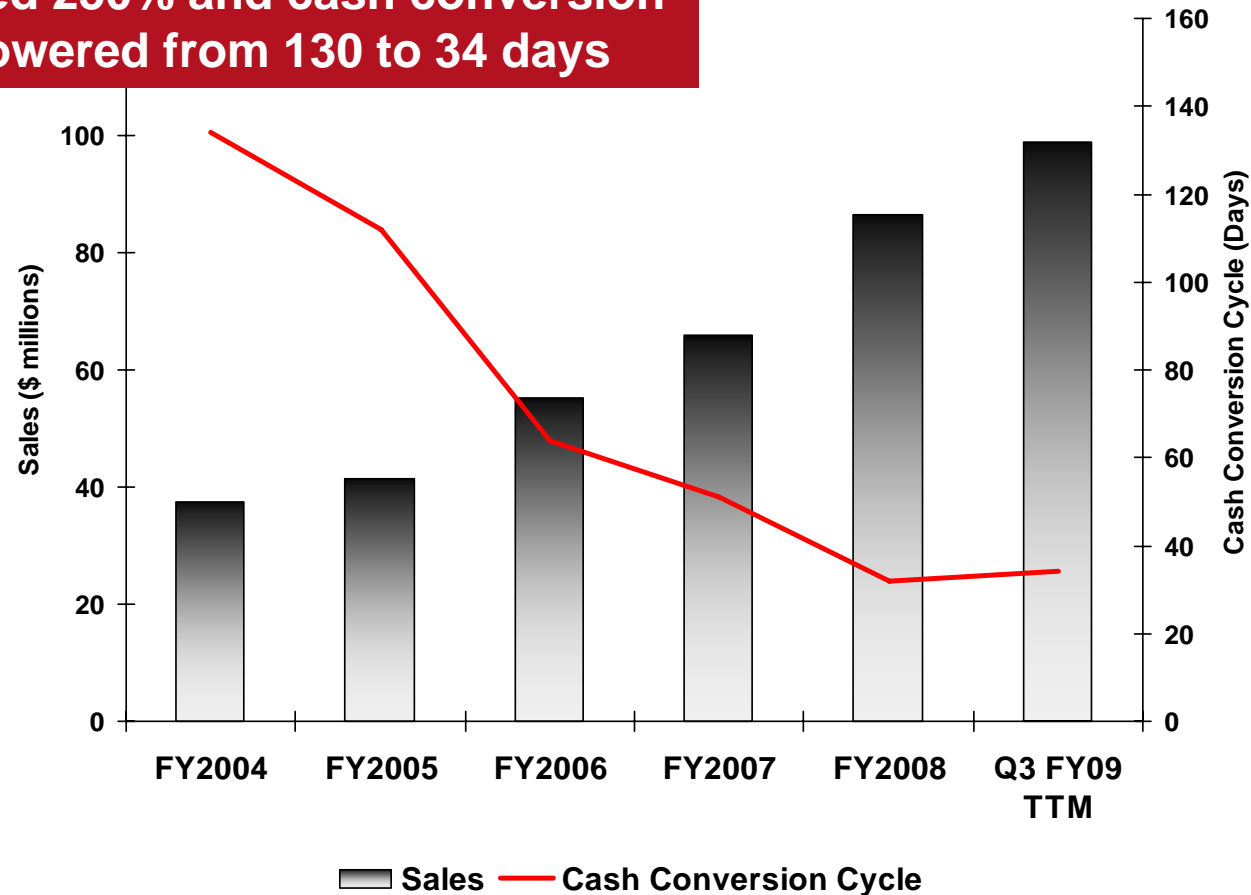
(\$ in millions)

## Cash, Cash Equivalents and Investments



# Priority: Cash Management

Sales expanded 250% and cash conversion cycle was lowered from 130 to 34 days







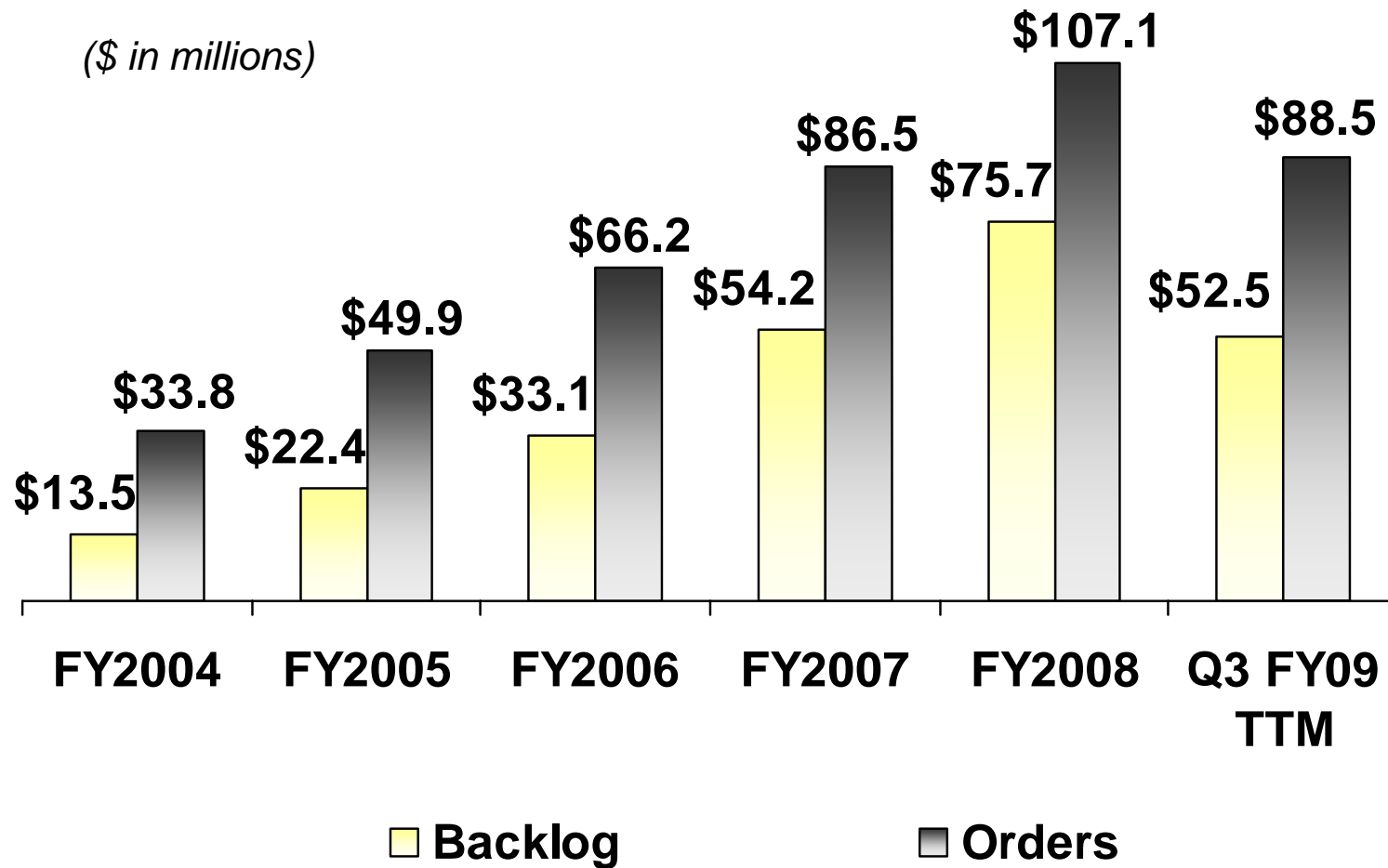
# STRATEGY AND OUTLOOK



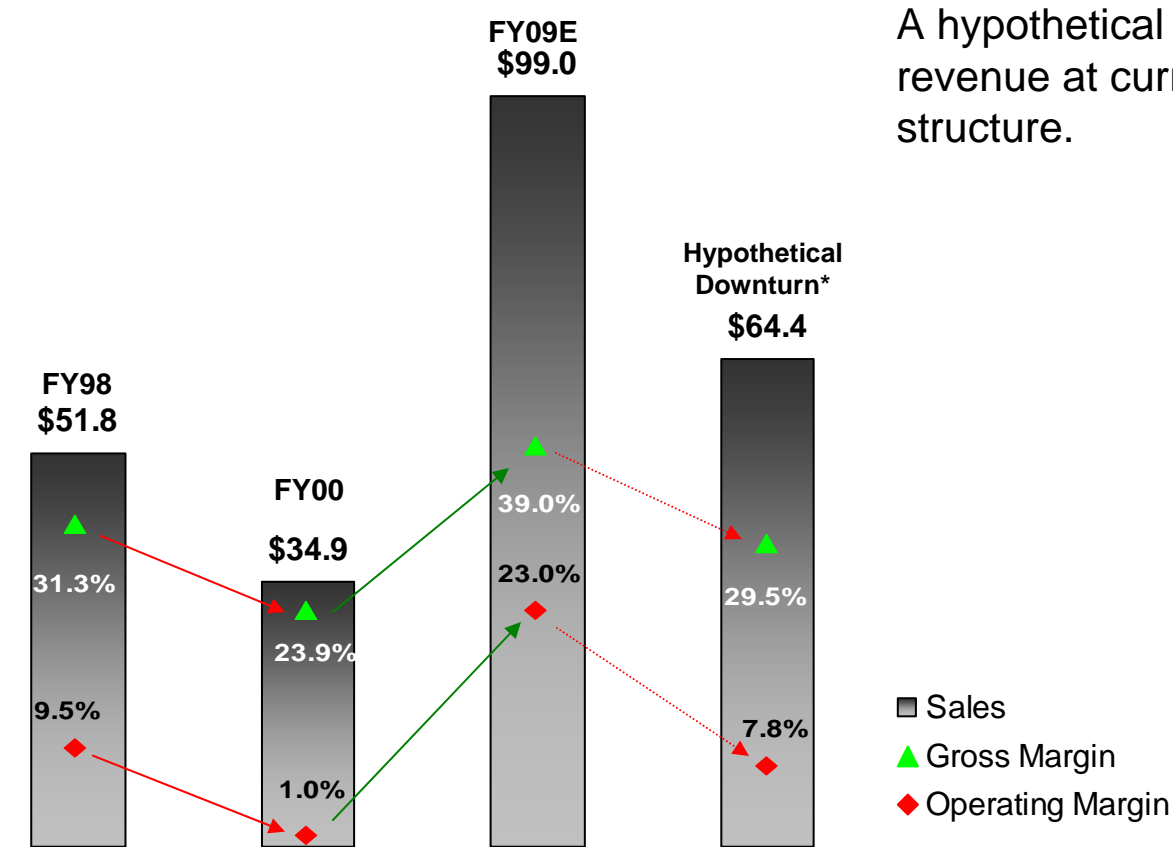
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# Dramatic Cycle Shift



# Reducing Impact of Cyclicity



A hypothetical 35% reduction in revenue at current operating structure.

# Strategy for Long-term Sustainable Growth

**Increase base of less cyclical sales**

**Geographic diversification**

**Grow aftermarket revenue**

**Drive Long-term Growth and Earnings Power**

**Broaden array of markets**

**Optimize operational performance**

# Acquisition Criteria



**Up to  
\$80 million  
in revenue**

**Accretive to  
earnings in  
first year**

**Diversify  
products**

**Engineered  
to order  
products**

**Geographic  
expansion**

**Strong  
management  
team**

# Pipeline of Major Projects

**Chevron**  
**U.S. refinery**

**SinopecChina Refinery**

**Petrochina**  
**China refinery**

**BAPCO**  
**Bahrain refinery**

**QAFCO V**  
**Qatar fertilizer plant**

**Singh Refinery**  
**Ethylene plant**

**Aramco/ConocoPhillips**  
**Saudi Arabia refinery**

**Jihua Group**  
**China petrochemical**

**Aramco/Total**  
**Saudi Arabia refinery**

**KNPC**  
**Kuwait refinery**

# Growth Potential

 **Dynamic  
Market Conditions**

 **Strong Worldwide  
Brand Recognition**

 **Internal Organic  
Capacity Expansion**

 **Acquisition  
Opportunities**



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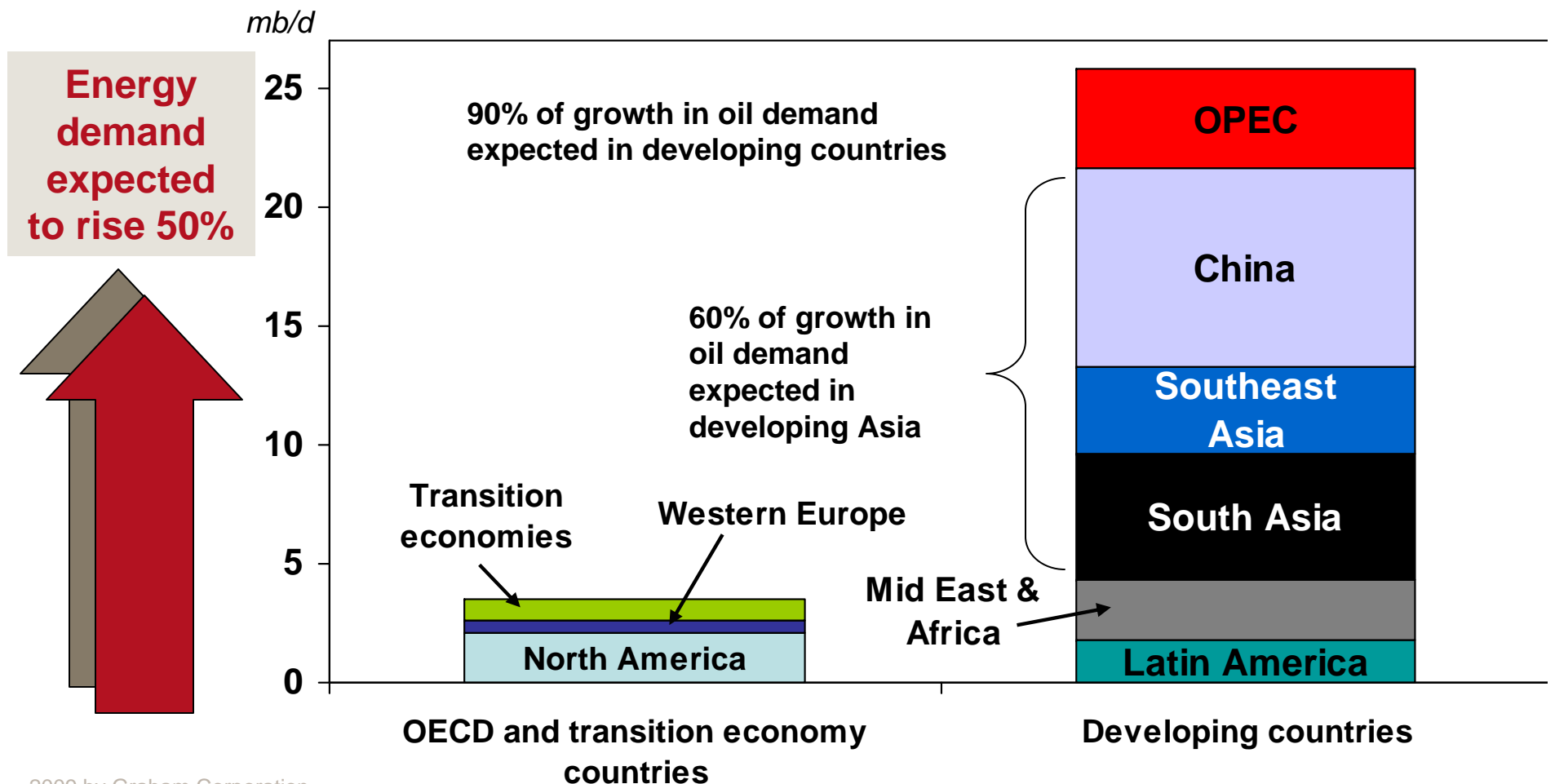
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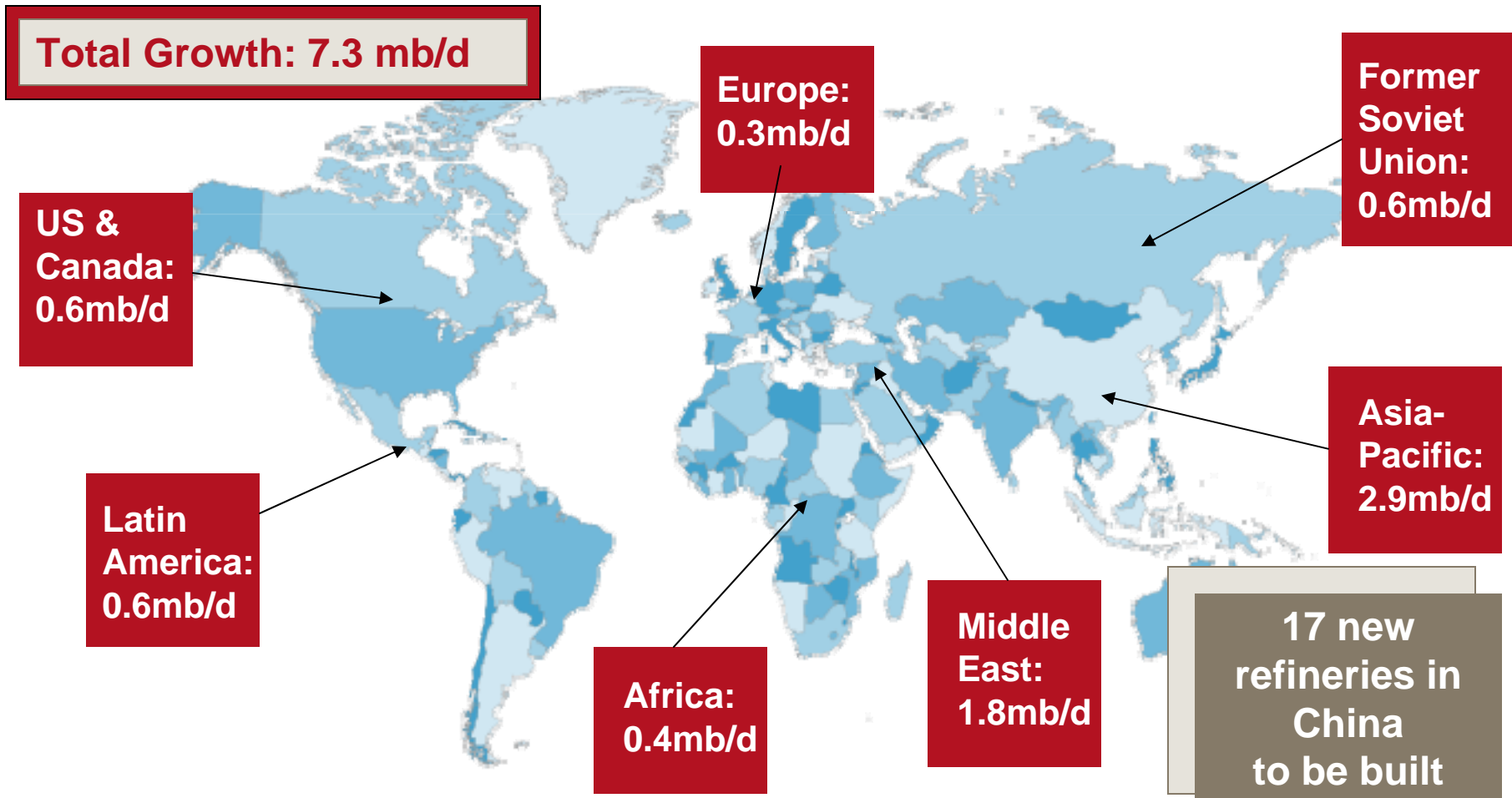




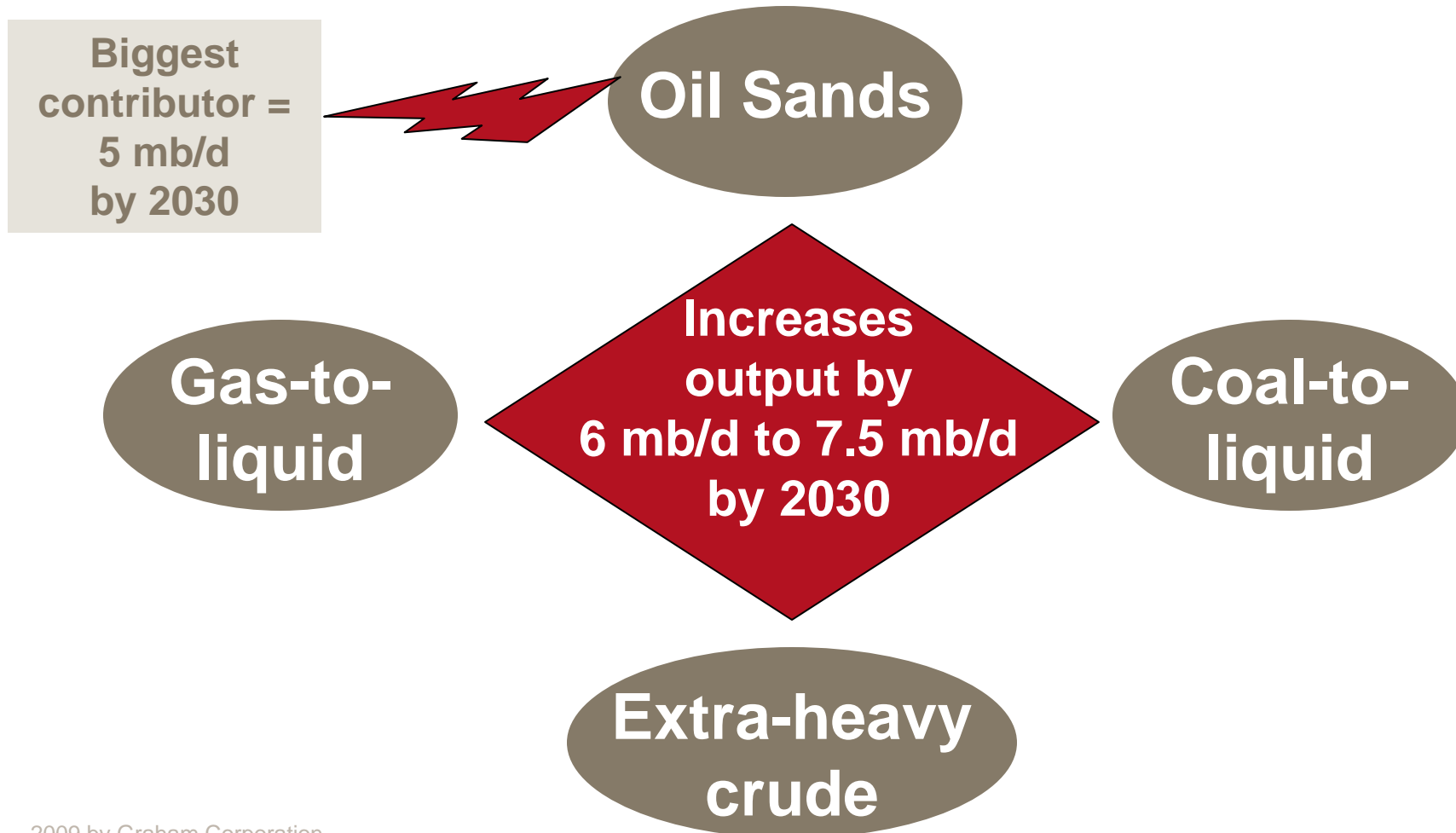
# Long-term Rise in Demand (2006 – 2030)



# Global Distillation Capacity Growth *(through 2015)*



# Non-Conventional Oil Supply Growth

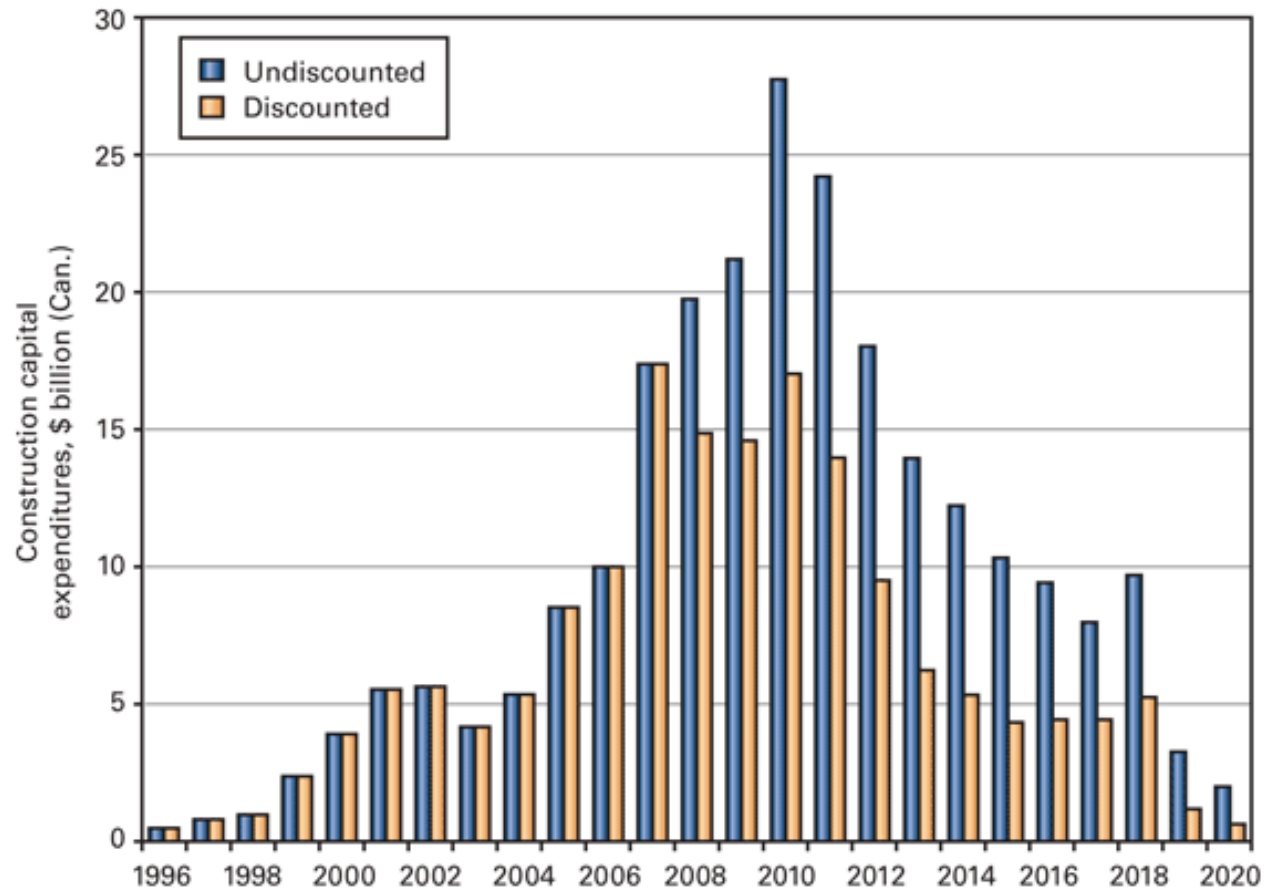


# Canadian Oil Sands Spending

## OIL SANDS EXPENDITURE FORECAST

Fig. 3

**\$100 to \$150 million potential demand for Graham products from 2010 to 2016**



Source: Oil & Gas Journal and Energy Resources Conservation Board of Alberta

# North American Competition

## NORTH AMERICA

Market	GHM Market share	Competitors
Refining vacuum distillation	~ 75%	Gardner Denver
Chemicals/Petrochemicals	~ 25%	Croll Reynolds; Schutte Koerting; Gardner Denver
Turbomachinery OEM – refining, petrochemical	~ 50%	Ambassador; Yuba; Kreuger
Turbomachinery OEM – power and power producer	~ 15%	Holtec; Babcock; Thermal Engineering; Yuba; Krueger
HVAC	~ 10%	Alfa Laval; APV; ITT; Ambassador

# International Competition

## International

Market	GHM Market share	Competitors
Refining vacuum distillation	~ 35 to 50%	Gardner Denver; GEA Jet Pump; Korting Hannover; Edwards
Chemicals/Petrochemicals	~ 25%	Croll Reynolds; Schutte Koerting; Gardner Denver; GEA Jet Pump; Korting Hannover; Edwards
Turbomachinery OEM – refining, petrochemical	~ 50%	Donghwa-Entec; Bumwoo; Oiltechnik; Kreuger; various local fabricators
Turbomachinery OEM – power and power producer	~ 15%	Holtec; Babcock; Thermal Engineering; Yuba; Krueger