



# Fourth Quarter and Full Year Fiscal 2012 Earnings Call

**Executing our Strategy • Driving Sustainable Growth**

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# Safe Harbor Statement

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This presentation contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended.

Forward-looking statements are subject to risks, uncertainties and assumptions and are identified by words such as “expects,” “estimates,” “objective,” “projects,” “anticipates,” “appears,” “believes,” “outlook,” “priorities,” “could,” and other similar words. All statements addressing operating performance, events, or developments that Graham Corporation expects or anticipates will occur in the future, including but not limited to, statements relating to Graham’s acquisition of Energy Steel & Supply Co. (including but not limited to, the integration of the acquisition of Energy Steel, revenue, backlog and expected performance of Energy Steel, and expected expansion and growth opportunities within the domestic and international nuclear power generation markets), anticipated revenue, the timing of conversion of backlog to sales, profit margins, foreign sales operations, its strategy to build its global sales representative channel, the effectiveness of automation in expanding its engineering capacity, its ability to improve cost competitiveness, customer preferences, changes in market conditions in the industries in which it operates, changes in general economic conditions and customer behavior and its acquisition strategy are forward-looking statements. Because they are forward-looking, they should be evaluated in light of important risk factors and uncertainties. These risk factors and uncertainties are more fully described in Graham Corporation's most recent Annual and Quarterly Reports filed with the Securities and Exchange Commission, including under the heading entitled “Risk Factors.”

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# James R. Lines

President & Chief Executive Officer



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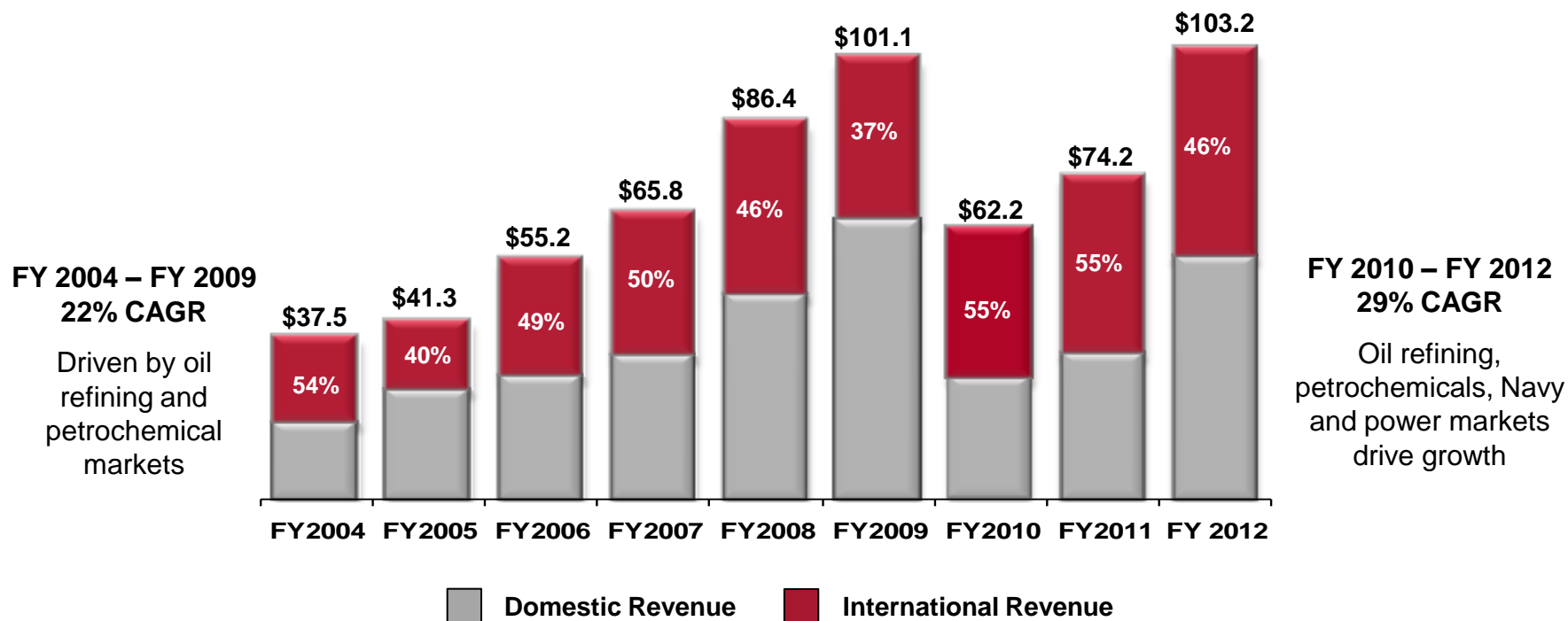


# Diversification Drives Recovery

## Markets and Geography

### 12-Month Revenue\*

(\$ in millions)



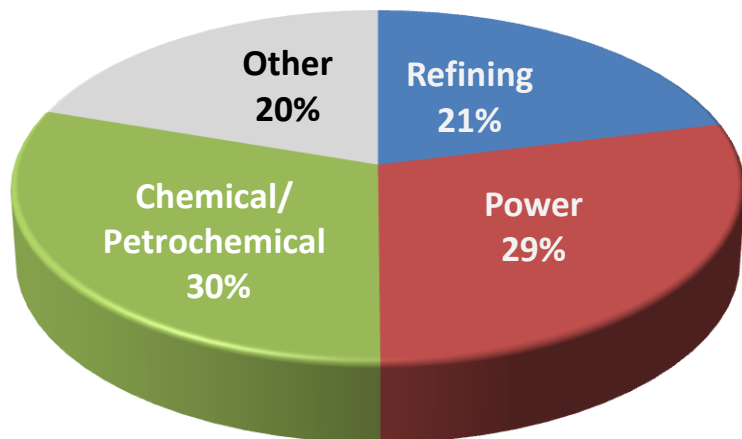
\* Graham's fiscal year ends March 31



# Fourth Quarter Review

**Q4 FY2012 Revenue of \$20.3 million**

**Sales by Industry  
Q4 FY2012**



- Soft market conditions 3 & 4 quarters back drove low order intake resulting in lighter revenue in Q4 and 1HFY13
- Extension of Navy project schedule delayed conversion to sales
- Mix weighted to U.S.: 62%/38% domestic/international
- Energy Steel down 45% due to timing of backlog conversion
- Orders in 4QFY12 were \$42.3 million

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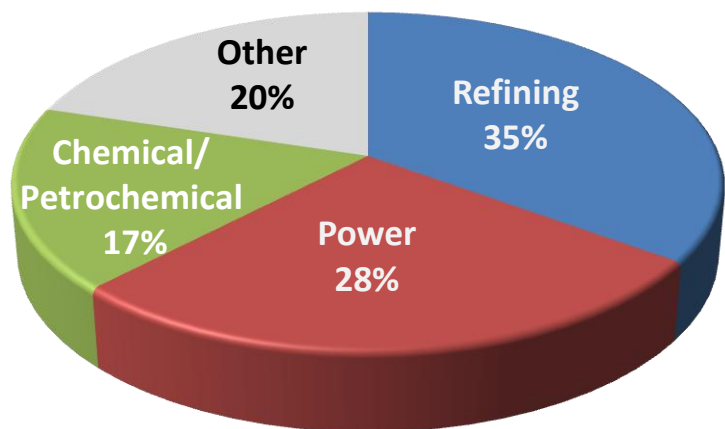
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# Fiscal Year 2012 Review

*FY2012 Full Year Revenue of \$103.2 million*

**Sales by Industry  
FY2012**



- Sales increased 39% from FY11
  - Energy Steel up ~\$12 million
  - Organic Growth of \$17 million
- International / U.S. sales mix of 46% / 54%
- Power industry expanded 73% to \$28 million
- Net income increased 80% from FY11
  - FY12 EPS of \$1.06 vs. \$0.59 in FY11

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# Jeffrey F. Glajch

Chief Financial Officer



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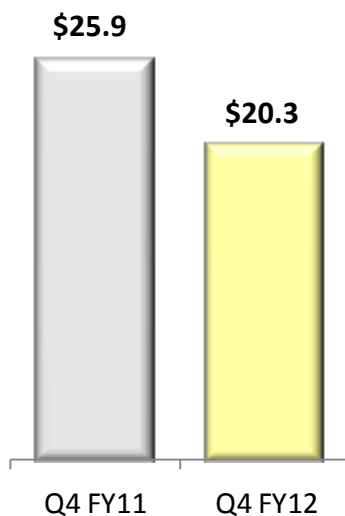
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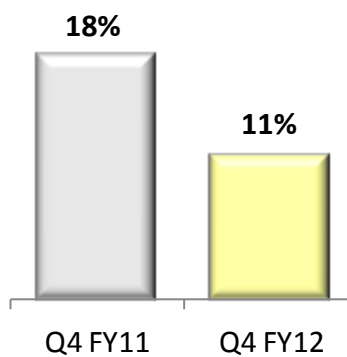


# Q4 FY12 Results

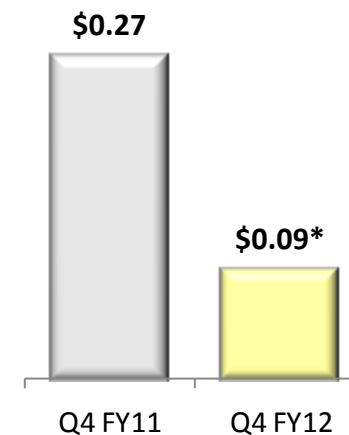
**Revenue**  
(in millions)



**EBITDA Margin<sup>1</sup>**



**EPS**



<sup>1</sup>EBITDA is not a GAAP measure. See supplemental slides for EBITDA reconciliation to net income and other important disclaimers regarding EBITDA.

\* Q4 FY12 EPS of \$0.09 excludes a charge of \$0.04/share after-tax for the partial reversal of historical R&D tax credit claims.

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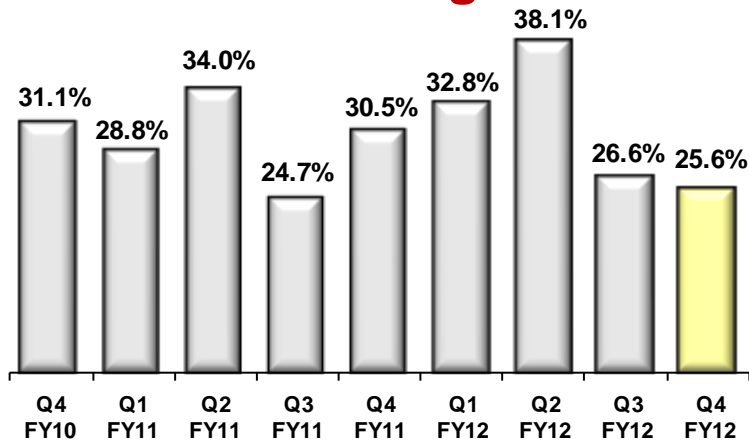
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# Operational Review: Q4 FY2012

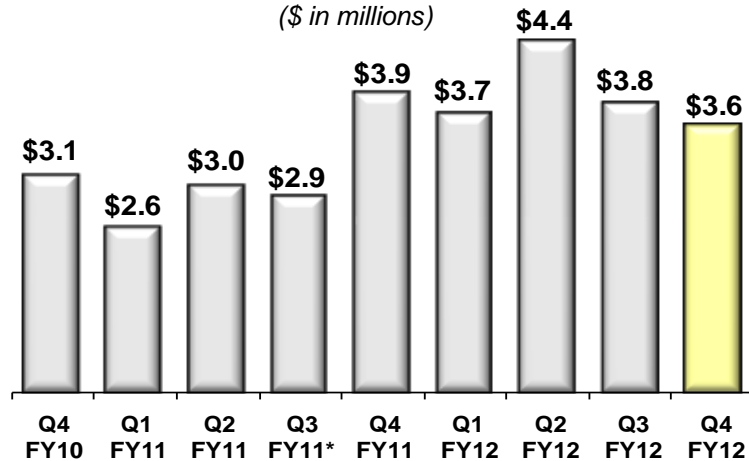


## Gross Margin

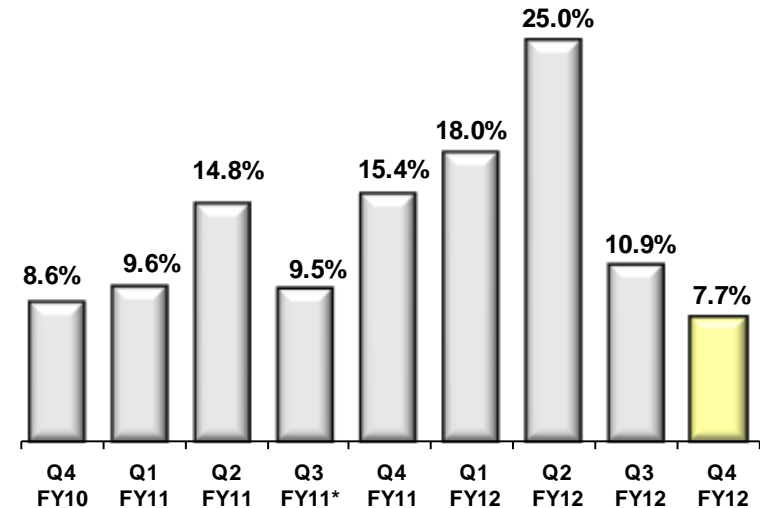


## SG&A

(\$ in millions)



## Operating Margin



\* Excludes \$0.7 million in transaction costs related to the acquisition of Energy Steel on December 14, 2010.

% of Sales:





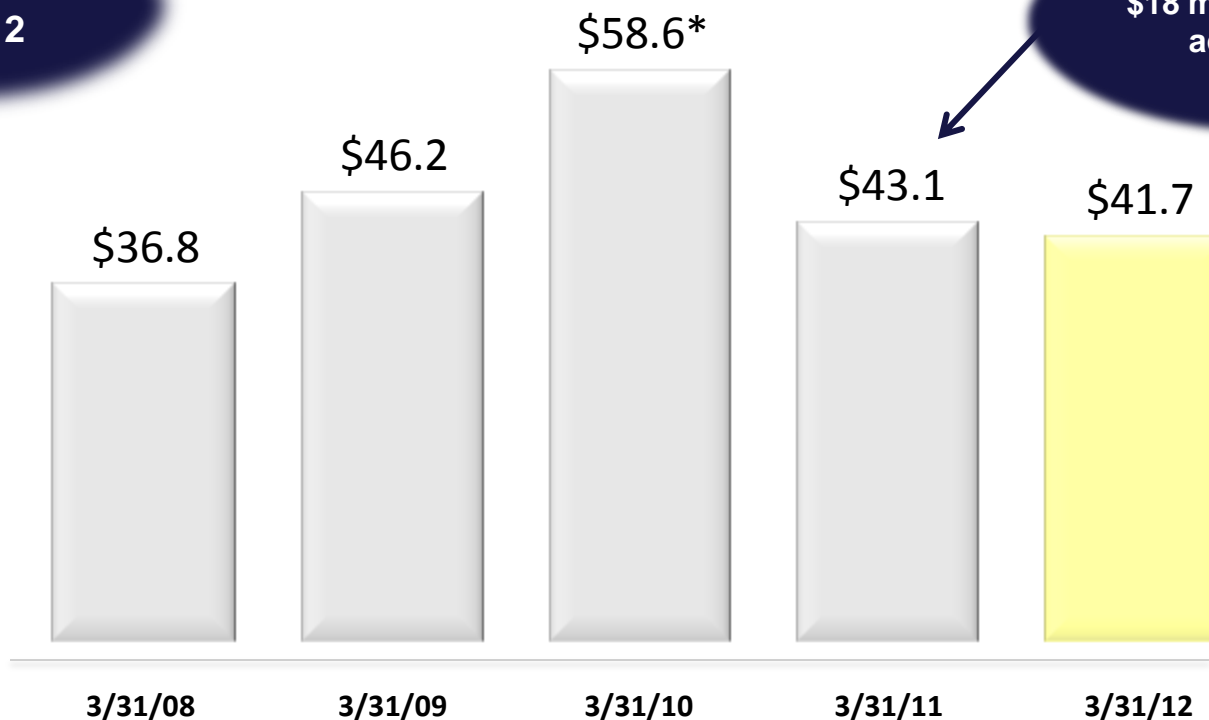
# Strong Cash Position

## Cash, Cash Equivalents, and Investments

(\$ in millions)

No bank debt at  
3/31/12

Energy Steel:  
\$18 million all-cash  
acquisition  
FY2011



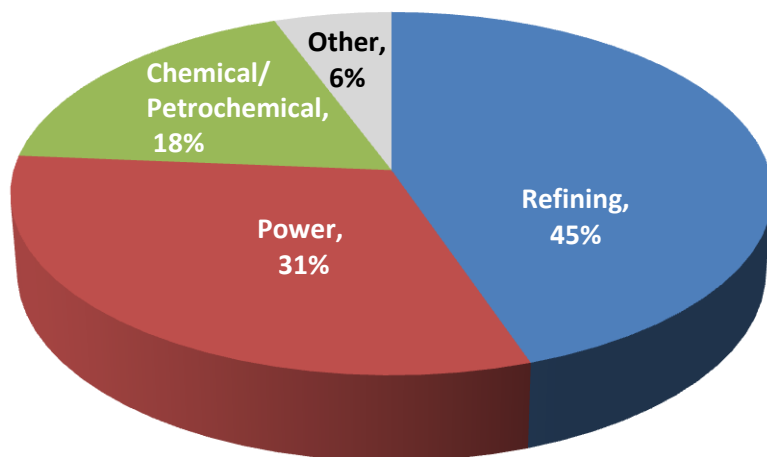
Cash available for acquisitions and organic growth

\* Excludes \$16 million in unusually high upfront and near-term customer advances utilized to lock in raw material costs

# Solid Pipeline of Quality Opportunities



Q4 FY2012 Orders by Industry



- Management believes orders of \$42.3 million reflect success of diversification strategy
- Organic business orders increased \$8 million, or 37%, to \$29.6 million
- Power market: \$13.3 million in orders, including nuclear energy
  - Orders for ejector systems in 1QFY13 for nuclear reactors in China
- Petrochemical activity appears to be picking up in U.S.
- Near-term order levels expected to vary, however, pipeline is building

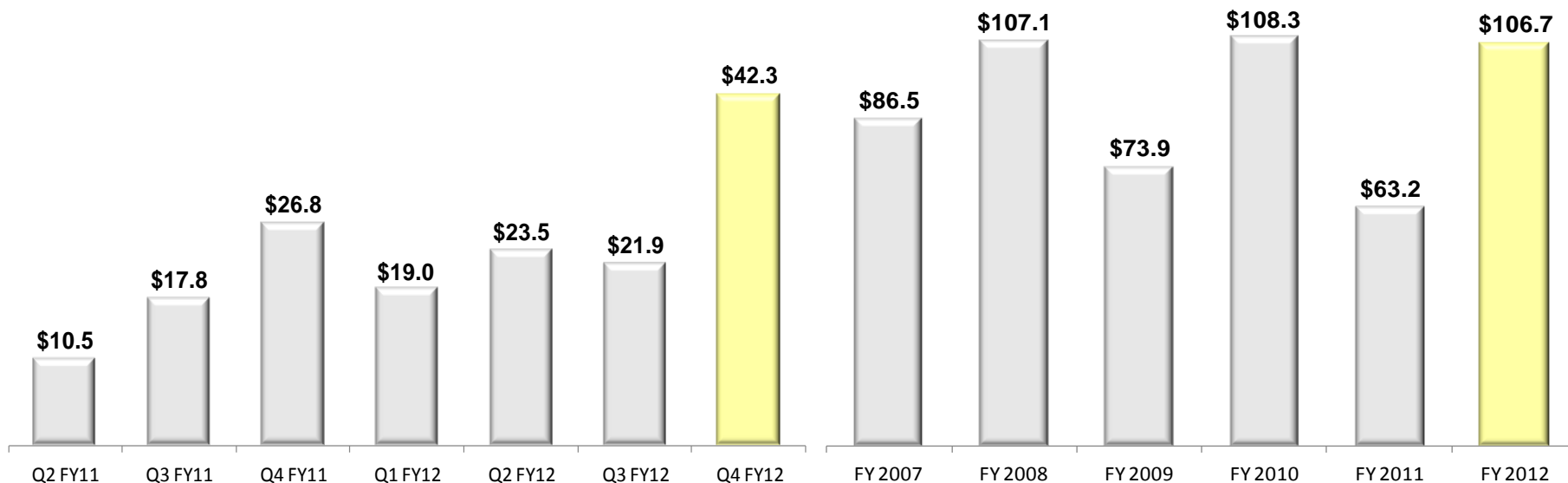


# Bookings Trends

(\$ in millions)

## Quarterly Trends

## Annual Trends



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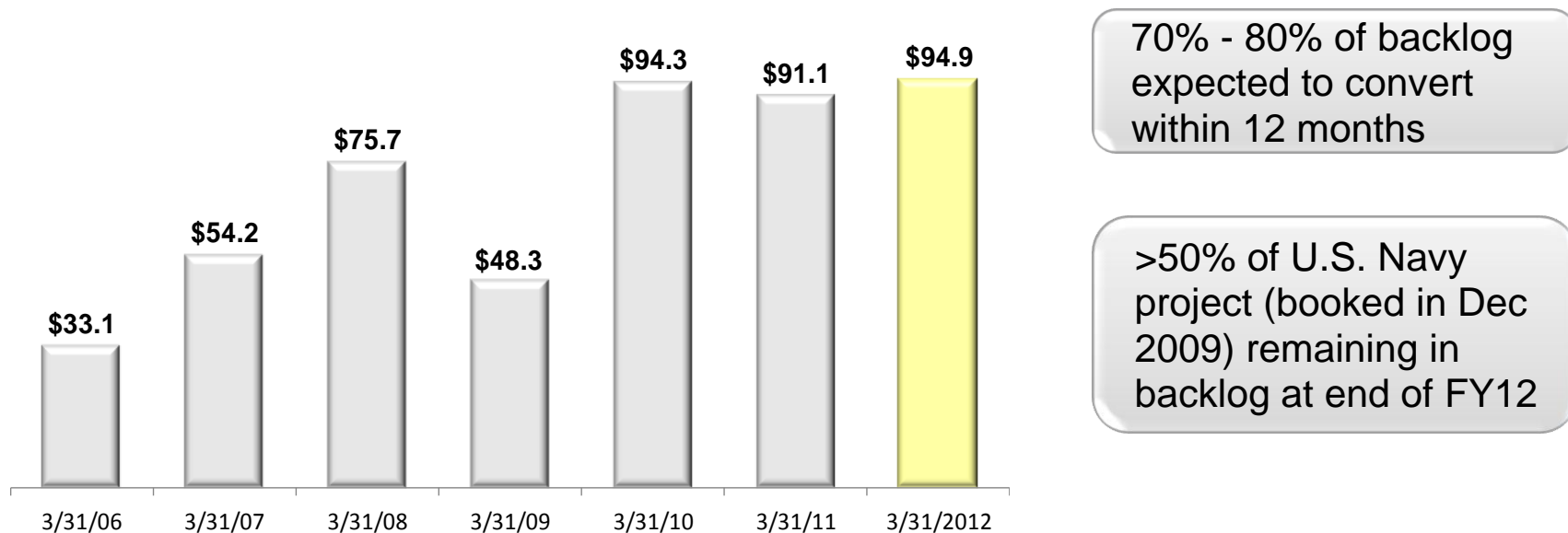
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# Backlog Level Reflects Solid 4Q Order Activity

(\$ in millions)



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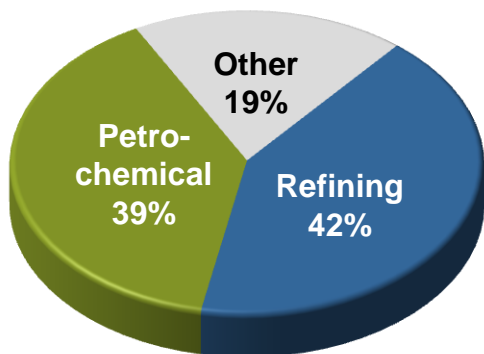
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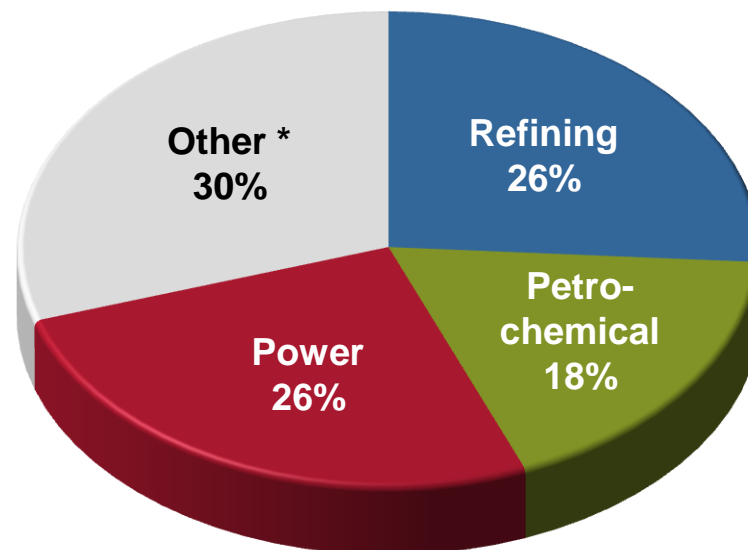
# Diversification Drives Recovery

## Backlog

March 31, 2009  
\$48.3 million



March 31, 2012  
\$94.9 million



*\* includes Navy*

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President & Chief Executive Officer



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# Oil Refining & PetroChem Markets

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## *Early stages of next wave of investment to expand capacity*

- Asia: power, refining, petrochemicals, fertilizers
  - Anticipating strong multi-year investment programs throughout region
- Middle East: refining, petrochemicals, fertilizers
  - Major refining projects slated for Saudi Arabia, Kuwait, Iraq, UAE
- North America: petrochemicals, fertilizers, oil sands
  - New extraction and upgrading capacity for Canadian oil sands
  - Investments to improve conversion and diversify feedstock
  - Favorable natural gas prices expected to drive investments in petrochem and fertilizer plants
- South America: refining, petrochemicals

*Chemical & Equipment News 1/9/12:  
"U.S petrochemicals long-term outlook is better than it has been in a generation"*

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# Perspectives on Power Industries Served

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## ➤ Nuclear energy facilities

- Strong pipeline for replacing and upgrading equipment at existing plants
  - *Expanding addressable opportunities for replacement equipment via Energy Steel & Graham synergies*
- Secured first orders for US-based Westinghouse AP1000 new facilities
  - *Additional potential within current US-based projects*
- *Secured orders with AP1000 new facilities in China*
  - *Project well advanced in process*

## ➤ Renewable energy

- Many active biomass to energy projects in North America
- Geothermal power projects in pipeline for North America, Southeast Asia and Latin America

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# Outlook on Naval Nuclear Propulsion Program

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## ➤ Aircraft carrier program

- Current order progressing well; Additional opportunities on same carrier
- Defense Department has confirmed plans to maintain 11 carrier fleet

## ➤ Submarine program

- Virginia-class attack submarines
- Ohio-class submarine replacement program
- Secured initial work for studies related to program

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# FY 2013 Outlook

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➤ Full Year Expectations:

Revenue	\$105 - \$115 million
Energy Steel	~20% of total revenue
Gross margin	28%-31%
SG&A	15%-16% of sales
Effective Tax Rate	34%-35%

➤ Long-Term Objective: > \$200 million in revenue at top of next cycle

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# Priorities and Challenges

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- FY2013: expect growth in orders for FY2014 and beyond
  - Making investments ahead of expected strong demand to develop internal capacity
    - *Expecting strong wave of new work once recovery is well underway*
    - *Be “at the ready” to capture greater share and expand more rapidly than last cycle*
- Timing of current backlog conversion to revenue
- Advance market share in oil refining and petrochemical markets
  - Gain share in Asia and South America
  - Maintain strong position in Middle East
  - Continue to dominate North American market
- Broaden reach in global nuclear power market
- Continue to develop Naval Nuclear Propulsion Program sales channel
- Continue to evaluate acquisitions
- Building backlog: patience with timing on order wins

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# Supplementary Slides 4Q and Full Year Fiscal 2012 Earnings Call

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# EBITDA Reconciliation

(\$ in thousands)

	Fourth Quarter Ended		Fiscal Year	
	<u>3/31/12</u>	<u>3/31/11</u>	<u>2012</u>	<u>2011</u>
<b>Net income</b>	<b>\$ 429</b>	<b>\$2,680</b>	<b>\$10,553</b>	<b>\$ 5,874</b>
+ Net interest expense	206	32	418	15
+ Income taxes	918	1,295	6,124	2,886
+ Depreciation & amortization	564	640	2,024	1,648
+ Acquisition related expenses	-	-	-	676
<b>EBITDA</b>	<b>\$2,117</b>	<b>\$4,647</b>	<b>\$19,119</b>	<b>\$11,099</b>
EBITDA margin	10.5%	17.9%	18.5%	15.0%

\*Adjusted EBITDA is defined as consolidated net income before acquisition related expenses, interest expense, income taxes, and depreciation and amortization. Adjusted EBITDA is not a measure determined in accordance with generally accepted accounting principles in the United States, commonly known as GAAP. Nevertheless, Graham believes that providing non-GAAP information such as Adjusted EBITDA is important for investors and other readers of Graham's financial statements, as it is used as an analytical indicator by Graham's management. Because Adjusted EBITDA is a non-GAAP measure and is thus susceptible to varying calculations, Adjusted EBITDA, as presented, may not be directly comparable to other similarly titled measures used by other companies.