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Research Report – Update

Investors should consider this report as only a single factor in making their investment decision.

Air Industries Group

Speculative Buy

John Nobile
May 21, 2020

AIRI $1.01 — (NYSE MKT)

	2018A	2019A	2020E	2021E
Revenues (millions)*	$44.5	$54.6	**$48.4**	**$63.0**
Earnings (loss) per share*	$(0.32)	$(0.09)	**$(0.03)**	**$0.06**

52-Week range	$3.36 – $0.60	Fiscal year ends:	December
Common shares out as/of 5/11/19	30.6 million	Revenue per share (TTM)	$1.76
Approximate float	23 million	Price/Sales (TTM)	0.6X
Market capitalization	$31 million	Price/Sales (FY2021)E	0.6X
Tangible book value/share	$0.43	Price/Earnings (TTM)	NMF
Price/tangible book value	2.3X	Price/Earnings (FY2021)E	16.8X

** Continuing operations.*

Air Industries Group, headquartered in Bay Shore, New York, operates primarily in the aerospace and defense industry. The company designs and manufactures structural parts and assemblies, including landing gear, arresting gear, engine mounts, flight controls, throttle quadrants, components for jet engines, and other aerospace components. (www.airindustriesgroup.com)

Key investment considerations:

Reiterating Speculative Buy rating and setting a twelve-month price target of $2.00 per share based on our sales estimates and a return to profitability in 2021.

Financial impacts related to COVID-19 were not material to the company's 1Q20 financial results. Although the company is deemed an essential business, we expect the COVID–19 pandemic to result in a reduction to AIRI's 2020 revenue and operating margins. A number of the company's suppliers and customers have suspended or otherwise reduced their operations and therefore AIRI is currently experiencing some supply chain shortages.

For 2020, we project an 11.2% reduction in revenue to $48.4 million and a loss from continuing operations of $(0.03) per share. Our forecast reflects a dramatic drop in 2Q20 revenue due to the COVID-19 pandemic with a sequential ramp in revenue starting in 3Q20 as AIRI delivers on its firm 18-month backlog (currently $111 million) and the adverse impact from COVID-19 starts to ease.

As the company continues to deliver on its backlog and the adverse conditions from the pandemic continue to improve, we project 30% revenue growth in 2021 to $63 million and EPS of $0.06. Gross margins should improve to 19% from our 14.7% forecast for 2020 reflecting greater manufacturing overhead coverage.

1Q20 revenue (10-Q released 5/15/20) decreased 3.1% to $13.4 million. AIRI reported EPS from continuing operations of $0.03 versus a loss of $(0.03) per share in 1Q19. Net income for 1Q20 included a $1.4 million or $0.04 per share tax benefit.

****Please view our disclosures on pages 12 - 15.***

Recommendation and Valuation

We are reiterating our Speculative Buy rating on Air Industries Group (AIRI) and setting a twelve-month price target of $2.00 per share based on our sales estimates and a return to profitability in 2021.

Financial impacts related to COVID-19 were not material to the company's 1Q20 financial results. Although the company is deemed an essential business, we expect the COVID–19 pandemic to result in a reduction to AIRI's 2020 revenue and operating margins. A number of the company's suppliers and customers have suspended or otherwise reduced their operations and therefore AIRI is currently experiencing some supply chain shortages.

As the company continues to deliver on its firm 18-month backlog (currently $111 million), and the adverse conditions from COVID-19 continue to improve, we project 30% revenue growth in 2021 to $63 million and net income from continuing operations of $2.3 million or $0.06 per share. Gross margins should improve to 19% from our 14.7% forecast for 2020 reflecting greater manufacturing overhead coverage.

Shares of AIRI are currently trading at a multiple of 0.6X trailing twelve-month sales while the aerospace and defense industry trades at a multiple of 1.7X trailing twelve-month sales. With the strong sales growth we project for 2021 and a return to profitability, we anticipate investors are likely to accord AIRI a price to sales multiple approaching the industry. We applied a multiple of 1.4X to our 2021 sales projection of $1.70 per share, discounted to account for execution risks, to obtain a year ahead value of approximately $2.00 per share.

Business Overview

Air Industries Group, headquartered in Bay Shore, New York, designs and manufactures structural parts and assemblies that focus on flight safety, including landing gear, arresting gear, engine mounts, flight controls, throttle quadrants, components for jet engines and other components (see picture at right).

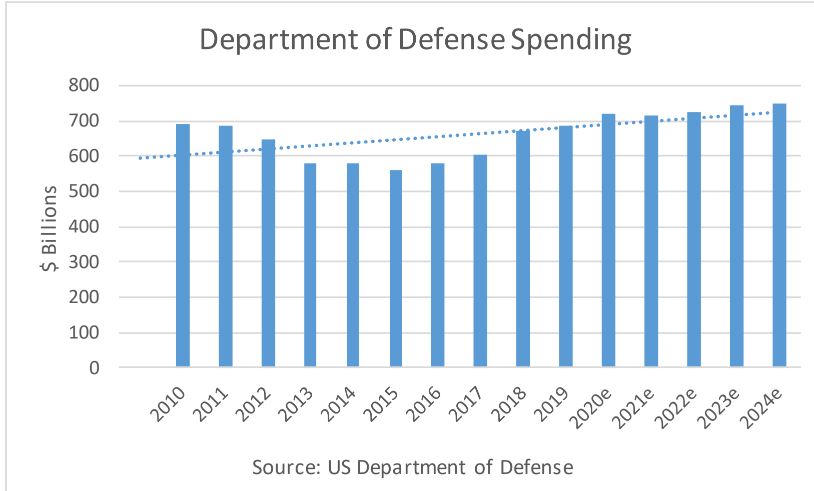
Source: Air Industries Group

The company conducts its operations through the following wholly-owned subsidiaries: Air Industries Machining (AIM); Nassau Tool Works (NTW); and The Sterling Engineering Corporation (Sterling). AIM and NTW comprise the company's Complex Machining segment and Sterling represents the Turbine Engine Components segment.

AIRI's products are deployed on a wide range of military and commercial aircraft including Sikorsky's UH-60 Black Hawk, Lockheed Martin's F-35 Joint Strike Fighter, Northrop Grumman's E2 Hawkeye, Boeing's 777, Airbus' 380 commercial airliners, the US Navy F-18 and USAF F-16 fighter aircraft. The Turbine Engine sector makes components for jet engines that are used on the USAF F-15, the Airbus A-330 and A-380, and the Boeing 777, in addition to a number of ground turbine applications.

Many of the company's products influence critical aspects of aircraft performance. Air Industries is required to have advanced certifications for these products as a condition to being a supplier. Many of these products are subject to wear and tear or fatigue and are routinely replaced on aircraft at a time of service or flight cycle basis. Replacement demand should continue so long as an aircraft remains in service.

Defense Spending Overview



Since 2001, the Department of Defense (DoD) focused on fighting terrorism and countering violent insurgencies and will continue to do so as long as these threats exist. Today, US military forces are positioned globally, conducting counter-terrorism, stability, and deterrence operations in an effort to protect US interests.

Changes in defense spending are likely to directly impact AIRI's revenues. US defense spending increased through much of the post-9/11 decade and peaked in 2010 at over $691 billion. However, budget cuts reduced defense spending by 19% to $560 billion in 2015 from the peak. Years of budget cuts have led to a depleted US military. In an effort to address the war readiness shortfalls and to help fund the fight against ISIS, defense spending started increasing in 2016 and is projected to continue growing through 2024 (see chart above).

Military Aircraft Market and Forecast

The company operates primarily in the US military aircraft market. IBISWorld estimated the US military aircraft, engine and parts manufacturing market at $50.5 billion in 2018. IBISWorld observed that the US has the largest defense budget in the world and as a result, is the biggest consumer of defense related products.

Most US defense manufacturers derive more than half of their revenue from sales to the DoD or defense-related government organizations. The US Navy is currently the largest domestic defense market as it invests in F/A-18 and F-35 fighters, maritime patrol craft, helicopters and unmanned aerial vehicles (UAVs) for both itself and the Marine Core. The US Air Force (USAF) is the second largest market for industry domestic defense sales.

The four largest components of the DoD's spending budget are in operation and maintenance (largest component), military personnel, procurement, and research, development, test & evaluation. As most of AIRI's military sales are for the repair and maintenance of existing aircraft, the category with the greatest impact on its sales is operation and maintenance spending. The latest DoD budget is for operation and maintenance (O&M) spending is expected to remain relatively flat at $288.9 billion in 2021.

Commercial Aircraft Market

Although the company's product lines primarily serve the defense market, they also serve the commercial markets. With defense budgets being under pressure since 2013, prime contractors began to shift their focus to the commercial sector. AIRI's customers (such as Boeing, United Technologies' Goodrich division, and Lockheed Martin's Sikorsky division) typically build to both military and commercial specifications.

We believe the near-term impact the COVID-19 pandemic will have on the commercial aircraft industry will be substantial and result in a dramatic decrease in passenger aircraft boarding in 2020.

Competition

The company's ability to obtain contracts requires providing quality products at competitive prices. In an effort to effectively compete, AIRI strives to continuously improve its capabilities and develop long-term relationships with its customers through establishing and maintaining advanced quality approvals, certifications and tooling investments that are difficult and expensive to duplicate. Despite these barriers to entry, many of the company's competitors are well-established subcontractors engaged in the supply of aircraft parts and components to prime military contractors and commercial aviation manufacturers.

Air Industries' competitors include Monitor Aerospace, a division of Stellex Aerospace, Hydromil, a division of Triumph Aerospace Group, Heroux Aerospace, and Ellanef Manufacturing, a division of Magellan Corporation.

Strategy

In response to recent operating losses and their impact on the company's working capital, AIRI has repositioned its business through the sale and liquidation of certain businesses acquired since becoming a public company. The company consolidated its headquarters and the operations of its subsidiaries, AIM and NTW, at its corporate campus in Bay Shore, New York, allowing it to re-focus its operations on its core competencies.

As the commercial aerospace and defense industries continue to consolidate and major contractors seek to streamline supply chains by buying more complete sub-assemblies from fewer suppliers, AIRI has sought to remain competitive by providing cost-effective service and increasing its ability to produce more complex and complete assemblies for its customers.

Economic Outlook

In April 2020, the International Monetary Fund (IMF) changed its global economic growth estimates to a decline of 3% for 2020 and growth of 5.8% for 2021, down from its January 2020 estimates calling for growth of 3.3% for 2020. The IMF previously forecasted 2021 GDP growth of 3.4%. The revisions primarily reflects the severe impact of the COVID-19 pandemic and the assumption that the pandemic will fade in 2H20 and containment efforts can be gradually unwound helping to normalize economic activity.

The IMF changed its economic growth estimate for the US to a decline of 5.9% for 2020 and growth of 4.7% for 2021. In January 2020, the IMF projected US growth of 2% for 2020 and 1.7% for 2021.

The advance estimate of US GDP growth (released on April 29, 2020) showed the US economy decreased at an annual rate of 4.8% in 1Q20, down from the 2.1% growth reported in 4Q19. The 1Q20 US GDP estimate primarily reflects decreases in consumer spending, business investment, exports, and inventory investment, partially offset by increases in housing investment and government spending.

1Q20 and FY 2019 Financial Results

1Q20 - Total revenue decreased 3.1% to $513.4 million. AIRI reported net income from continuing operations of $1.1 million or $0.03 per share versus a loss of $995,000 or $(0.03) per share in 1Q19. Net income for 1Q20 included a $1.4 million or $0.04 per share tax benefit.

The decrease in total sales was due primarily to a 2.9% decrease in complex machining sales to $12.1 million and a 5.3% decrease in turbine engine component sales to $1.4 million.

Gross profit decreased 4% to $2.2 million while gross margins decreased to 16.2% from 16.4%. Operating (SG&A) expenses increased by 9.7% to $2.3 million. The increase in operating expenses on lower revenue resulted in an operating loss of $81,000 versus an operating loss of $63,000. Interest expense decreased to $380,000 from $963,000 due to lower interest rates and finance costs under the company's new credit facility

FY 2019 - Total revenue increased 22.6% to $54.6 million. AIRI reported a net loss from continuing operations of $2.6 million or $(0.09) per share versus a loss of $8.6 million or $(0.32) per share in 2018.

The increase in total sales was due primarily to a 21.3% increase in complex machining sales to $44.2 million and a 32.6% increase in turbine engine component sales to $6.3 million.

Gross profit increased 67.9% to $9.1 million while gross margins improved to 16.8% from 12.2% due primarily to the implementation of cost reduction measures coupled with the consolidation of operations on Long Island, NY. Operating (SG&A) expenses increased by 2.7% to $8.5 million. The increase in operating expenses on higher revenue resulted in operating income of $328,000 versus an operating loss of $4.9 million. Interest expense decreased to $3.6 million from $3.9 million.

Liquidity - As of March 31, 2020, the company had $1.5 million cash and a current ratio of 2.1X. Total debt was approximately $24.9 million (of which $8.2 million is classified as current) for a debt/equity ratio of 1.9X.

In 1Q20, cash used in operations was $314,000 consisting of $2.3 million of cash earnings and a $2.7 million increase in working capital. The increase in working capital was due primarily to an increase in receivables. Cash used in investing was $78,000 consisting solely of capital expenditures. Cash provided by financing of $592,000 consisted primarily of increased debt and proceeds from the issuance of common stock. Cash increased by $200,000 to $1.5 million at March 31, 2020.

On December 31, 2019 AIRI entered into a new loan facility with Sterling National Bank, (SNB) and paid its outstanding loan facility with PNC. The SNB facility provides for a $16 million revolving loan and a term loan of $3.8 million. As of March 31, 2020, total debt outstanding to SNB was $17.2 million consisting of a $13.6 million revolving credit loan and a term loan in the amount of $3.6 million.

The terms of the loan facility require the company to maintain a specified fixed charge coverage ratio of 1.25 to 1 at the end of each fiscal quarter beginning with 1Q20 and limits the amount of capital expenditures and restricts dividend payments. The term loan requires monthly principal installments in the amount of approximately $45,000 beginning February 1, 2020. Both the revolving credit line and the term loan will bear an interest rate equal to 30-day LIBOR, plus 2.5% (with a floor of 3.5%).

As of March 31, 2020, finance lease obligations totaled $15,000, a loan payable related to a financed asset totaled $313,000, 8% convertible notes payable totaled $1.4 million, and related party notes payable (to Michael Taglich, President of Taglich Brothers, Inc. and Chairman of Air Industries Group, and Robert Taglich, Managing Director of Taglich Brothers, Inc. and a Director of Air Industries Group) totaled $5.9 million (payable at rates ranging from 7% to 12% annually).

Projections

Financial impacts related to COVID-19 were not material to the company's 1Q20 financial results. Although the company is deemed an essential business, we expect the COVID–19 pandemic to result in a reduction to AIRI's 2020 revenue and operating margins. A number of the company's suppliers and customers have suspended or otherwise reduced their operations and therefore AIRI is currently experiencing some supply chain shortages.

2020 – We project an 11.2% reduction in revenue to $48.4 million and a net loss from continuing operations of $955,000 million or $(0.03) per share. Our forecast reflects a dramatic drop in 2Q20 revenue from the COVID-19 pandemic with a sequential ramp in revenue starting in 3Q20 as the company delivers on its firm 18-month backlog and the adverse impact from COVID-19 starts to ease. Gross margins should decline to 14.7% from 16.8% in 2019 reflecting reduced manufacturing overhead coverage and the additional costs related to enhanced cleaning measures and adjusted work schedules to support physical distancing.

We forecast a $127,000 decrease in SG&A expenses to $8.4 million from $8.5 million and an operating loss of $1.3 million compared to operating income of $328,000 in 2019. We project a negative operating margin of (2.7)% compared to a positive operating margin of 0.6% in 2019. Interest and financing costs are projected to decrease to $1.5 million from $3.6 million due primarily to lower interest rates and financing costs under the company's new credit Facility with SNB. We project the company reporting a tax benefit of $1.4 million.

We project $143,000 cash from operations on $3.3 million of cash earnings offset in part by a $3.1 million increase in working capital. The increase in working capital should be primarily due to an increase in income tax receivable and a decrease in payables. Cash from operations and proceeds from the issuance of stock is unlikely to cover capital expenditures and repayments of debt, decreasing cash by $89,000 to $1.2 million by the end of 2020.

2021 – We project 30% revenue growth to $63 million and net income from continuing operations of $2.3 million or $0.06 per share. Our forecast reflects a sequential ramp in revenue as the company continues to deliver on its firm 18-month backlog (currently $111 million) and the adverse conditions from COVID-19 continue to improve. Gross margins should improve to 19% from our 14.7% forecast for 2020 reflecting greater manufacturing overhead coverage.

We forecast a $388,000 increase in SG&A expenses to $8.8 million from $8.4 million and operating income of $3.2 million compared to our projected operating loss of $1.3 million in 2020. We project operating margin of 5.1% compared to our projected negative operating margin of (2.7)% in 2020. Interest and financing costs are projected to decrease to $1.2 million from $1.5 million on lower debt levels. We project the company paying minimal taxes due to its large amount of net operating loss carry forwards, which were $33.1 million at December 31, 2019.

We project $3.4 million cash from operations on $6.1 million of cash earnings offset in part by a $2.7 million increase in working capital. The increase in working capital should be due primarily to an increase in receivables and a decrease in operating lease liabilities. Cash from operations is unlikely to cover capital expenditures and repayments of debt, decreasing cash by $96,000 to $1.1 million by the end of 2021.

Risks

In our view, these are the principal risks underlying the stock.

Pandemic concerns - The likely overall economic impact of the COVID-19 pandemic will be highly negative to the general economy. While Air Industries continues to operate in the normal course (as it has been deemed an essential business), it may be forced to close or reduce operations for reasons such as the health of its employees or because of disruptions in the continued operation of its supply chain and sources of supply.

Reliance on government spending - AIRI's sales are primarily derived from products for US military aviation. Reductions in US Government spending on defense or future changes in the mix of defense products required by US Government agencies could limit demand for the company's products, and could adversely impact AIRI's financial results.

Reliance on a small number of customers – Air Industries derives most of its revenues from a small number of customers. In 2019, three customers accounted for 76% of net sales. The loss of one or more of the company's largest customers will likely have a materially adverse impact on AIRI's financial results.

Reliance on a few aircraft platforms – The company derives most of its revenues from components for a few aircraft platforms, specifically the Sikorsky BlackHawk helicopter, the Northrop Grumman E-2 Hawkeye naval aircraft, the F-16 Falcon and the F-18 Hornet. A reduction in the production of new aircraft or a reduction in the use of existing aircraft in the fleet (reducing after-market demand) would have a material adverse effect on AIRI's financial results.

Competition - The defense and aerospace component manufacturing market is highly competitive. Many of the company's competitors are well-established subcontractors engaged in the supply of aircraft parts and components to prime military contractors and commercial aviation manufacturers. Air Industries' prime competitors include Monitor Aerospace, a division of Stellex Aerospace, Hydromil, a division of Triumph Aerospace Group, Heroux Aerospace, and Ellanef Manufacturing, a division of Magellan Corporation.

Competitive bidding – The company obtains many contracts through a competitive bidding process. There can be no assurance that the prices bid will be sufficient to allow Air Industries to generate a profit.

Regulations – Air Industries may be subject to US government inquiries and investigations because of its participation in government procurement. Any inquiry or investigation can result in fines or limitations on the company's ability to continue to bid for government contracts and fulfill existing contracts.

Legal proceedings – In December 2018, pursuant to a stock purchase agreement (SPA), Air Industries completed the sale of its subsidiary, Welding Metallurgy (WMI), to CPI Aerostructures, Inc. for a purchase price of $9 million reduced by an estimated working capital adjustment as determined by Air prior to closing of $1.1 million. The SPA required that AIRI deposit $2 million into escrow as security for any amounts that might be due as a final working capital adjustment.

In March 2019, Air received a notice from CPI claiming that the working capital deficit used to compute the purchase price was understated. The issue of the amount of the working capital deficit was submitted to BDO USA, LLP, acting as an expert where it determined that the amount of the working capital deficit was approximately $4.1 million. The company advised CPI that the determination by BDO was void because, among other things, it believes BDO exceeded the scope of its authority as set forth in the SPA.

In September 2019, CPI filed a notice of motion in the Supreme Court of the State of New York against Air seeking, among other things, an order of specific performance requiring the company to deliver the funds deposited in escrow, together with the balance of the working capital deficit which it claimed, and a judgment against Air in the amount of approximately $4.2 million, of which $2 million would be satisfied by delivery of the funds in escrow. In October 2019, AIRI agreed to release $619,000 of the funds held in escrow in respect of claims related to the working capital deficit not related to the value of WMI's inventory. As of March 31, 2020, there have been no new developments.

Liquidity risk - Shares of Air Industries Group have risks common to those of the microcap segment of the market. Often these risks cause microcap stocks to trade at discounts to their peers. The most common of these risks is liquidity risk, which is typically caused by small trading floats and very low trading volume and can lead to large spreads and high volatility in stock price. There are 21.7 million shares in the float and the average daily volume is approximately 23,000 shares.

Miscellaneous risk - The company's financial results and equity values are subject to other risks and uncertainties including competition, operations, financial markets, regulatory risk, and/or other events. These risks may cause actual results to differ from expected results.

Consolidated Balance Sheets
(in thousands $)*

	2018A	2019A	3/20A	2020E	2021E
Cash and cash equivalents	2,012	1,294	1,494	1,205	1,109
Accounts receivable	6,522	7,858	8,623	7,267	8,750
Inventory	29,051	28,646	29,808	29,105	30,010
Prepaid expenses and other current assets	414	447	453	453	453
Income tax receivable	-	-	1,416	1,416	-
Prepaid taxes	49	-	-	-	-
Total current assets	38,048	38,245	41,794	39,446	40,322
Property and equipment, net	8,777	7,578	7,130	7,187	6,766
Capitalized engineering costs	-	-	-	-	-
Operating lease right-of-use-asset	-	3,623	3,501	3,501	3,501
Deferred financing costs	768	1,481	1,463	1,463	1,463
Goodwill	163	163	163	163	163
Total assets	**47,756**	**51,090**	**54,051**	**51,760**	**52,215**
Notes payable and capitalized lease obligations	19,345	10,001	8,178	7,178	7,178
Operating lease liabilities	-	697	722	722	722
Accounts payable and accrued expenses	8,723	8,105	9,389	7,347	9,070
Deferred gain on sale	38	38	38	38	38
Deferred revenue	881	1,011	1,004	1,004	1,004
Liabilities associated with assets held for sale	-	200	200	200	200
Income taxes payable	20	27	15	15	15
Total current liabilities	29,007	20,079	19,546	16,504	18,227
Long-term debt	5,721	15,949	16,732	16,813	13,721
Deferred gain on sale	257	219	209	209	209
Operating lease liabilites	-	4,235	4,043	3,189	2,071
Liabilities associated with assets held for sale	-	402	338	338	338
Deferred rent	1,165	-	-	-	-
Total liabilities	**36,150**	**40,884**	**40,868**	**37,053**	**34,566**
Total stockholders' equity**	**11,606**	**10,206**	**13,183**	**14,706**	**17,649**
Total liabilities & stockholders' equity	**47,756**	**51,090**	**54,051**	**51,760**	**52,215**

* Continuing operations.
** 2020 includes $3.5 million additional paid-in-capital for stock issued for conv. debt
Source: Company filings and Taglich Brothers estimates

Income Statements for the Fiscal Years Ended
(in thousands $)*

	2018A	2019A	2020E	2021E
Net sales	44,530	54,573	48,447	63,000
Cost of sales	39,085	45,431	41,329	51,018
Gross profit	5,445	9,142	7,119	11,983
Impairment of goodwill, asset abandonment	-	275	-	-
Capitalized engineering writeoff	2,043	-	-	-
Operating expenses	8,315	8,539	8,412	8,800
Operating income (loss)	(4,913)	328	(1,294)	3,183
Interest and financing costs	(3,916)	(3,561)	(1,480)	(1,240)
Other (expense) income	278	672	405	400
Income (loss) before taxes	(8,551)	(2,561)	(2,369)	2,343
Income tax (benefit)	-	37	(1,414)	-
Net income / (loss)	(8,551)	(2,598)	(955)	2,343
EPS*	(0.32)	(0.09)	(0.03)	0.06
Shares Outstanding	26,898	28,852	36,880	37,000
EBITDA	(548)	4,002	1,622	5,904
Adjusted EBITDA	1,898	5,207	2,222	6,504
Margin Analysis				
Gross margin	12.2%	16.8%	14.7%	19.0%
Operating margin	(11.0)%	0.6%	(2.7)%	5.1%
Net margin	(19.2)%	(4.8)%	(2.0)%	3.7%
Tax rate	0.0%	(1.4)%	59.7%	0.0%
Year / Year Growth				
Total Revenues		22.6%	(11.2)%	30.0%

*Continuing operations.

Source: Company filings and Taglich Brothers estimates

Quarterly Income Statements
(in thousands $)*

	3/19A	6/19A	9/19A	12/19A	2019A	3/20A	6/20E	9/20E	12/20E	2020E	3/21E	6/21E	9/21E	12/21E	2021E
Net sales	13,878	13,368	13,997	13,330	54,573	13,447	8,000	12,500	14,500	48,447	15,000	15,500	16,000	16,500	63,000
Cost of sales	11,604	11,177	11,034	11,616	45,431	11,266	7,360	10,813	11,890	41,329	12,263	12,594	12,920	13,241	51,018
Gross profit	2,274	2,191	2,963	1,714	9,142	2,181	640	1,688	2,610	7,119	2,738	2,906	3,080	3,259	11,983
Impairment of goodwill, asset abandonment	275	-	-	-	275	-	-	-	-	-	-	-	-	-	-
Capitalized engineering writeoff	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Operating expenses	2,062	1,972	1,808	2,697	8,539	2,262	2,000	2,050	2,100	8,412	2,125	2,175	2,225	2,275	8,800
Operating income (loss)	(63)	219	1,155	(983)	328	(81)	(1,360)	(363)	510	(1,294)	613	731	855	984	3,183
Interest and financing costs	(963)	(992)	(835)	(771)	(3,561)	(380)	(373)	(367)	(360)	(1,480)	(350)	(330)	(290)	(270)	(1,240)
Other (expense) income	31	38	100	503	672	105	100	100	100	405	100	100	100	100	400
Income (loss) before taxes	(995)	(735)	420	(1,251)	(2,561)	(356)	(1,633)	(630)	250	(2,369)	363	501	665	814	2,343
Income tax (benefit)	-	-	22	15	37	(1,414)	-	-	-	(1,414)	-	-	-	-	-
Net income / (loss)	(995)	(735)	398	(1,266)	(2,598)	1,058	(1,633)	(630)	250	(955)	363	501	665	814	2,343
EPS*	(0.03)	(0.03)	0.01	(0.04)	(0.09)	0.03	(0.04)	(0.02)	0.01	(0.03)	0.01	0.01	0.02	0.02	0.06
Shares Outstanding	28,601	28,771	29,041	28,995	28,852	36,521	37,000	37,000	37,000	36,880	37,000	37,000	37,000	37,000	37,000
EBITDA					4,002					1,622					5,904
Adjusted EBITDA					5,207					2,222					6,504
Margin Analysis															
Gross margin	16.4%	16.4%	21.2%	21.0%	16.8%	16.2%	8.0%	13.5%	18.0%	14.7%	18.3%	18.8%	19.3%	19.8%	19.0%
Operating margin	(0.5)%	1.6%	8.3%	(7.4)%	0.6%	(0.6)%	(17.0)%	(2.9)%	3.5%	(2.7)%	4.1%	4.7%	5.3%	6.0%	5.1%
Net margin	(7.2)%	(5.5)%	2.8%	(9.5)%	(4.8)%	7.9%	(20.4)%	(5.0)%	1.7%	(2.0)%	2.4%	3.2%	4.2%	4.9%	3.7%
Tax rate	0.0%	0.0%	5.2%	(1.2)%	(1.4)%	397.2%	0.0%	0.0%	0.0%	59.7%	0.0%	0.0%	0.0%	0.0%	0.0%
Year / Year Growth															
Total Revenues					22.6%	(3.1)%	(40.2)%	(10.7)%	8.8%	(11.2)%	11.5%	93.8%	28.0%	13.8%	30.0%

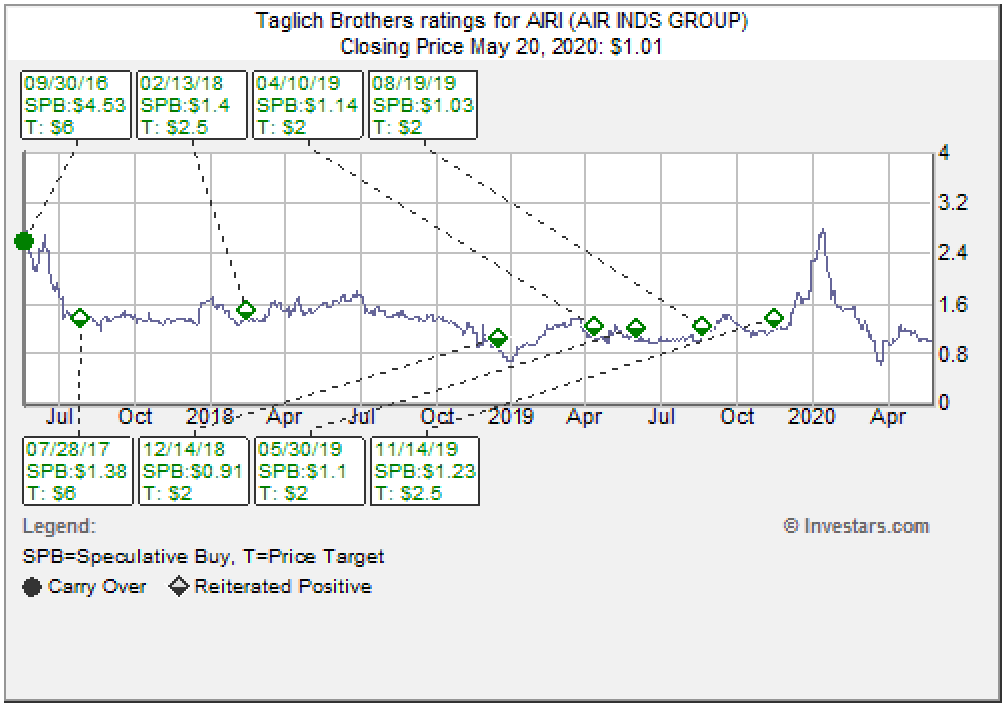
*Continuing operations.
Source: Company filings and Taglich Brothers estimates

Statement of Cash Flows for the Periods Ended
(in thousands $)*

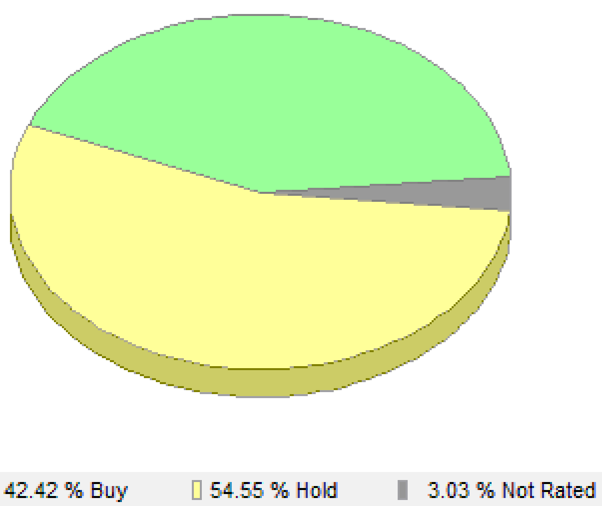
	2018A	2019A	3M20A	2020E	2021E
Net income (loss)	(10,992)	(2,732)	1,058	(955)	2,343
Depreciation	2,877	3,002	656	2,510	2,321
Stock compensation expense	598	622	195	600	600
Legal expenses paid by issuance of stock	200	126	-	-	-
Non-cash other income	-	(282)	(92)	(92)	-
Non-cash interest expense	-	85	28	28	-
Abandonment of lease	-	275	-	-	-
Amortization of right-to-use asset	-	470	122	488	488
Amortization of gain on sale of real estate	(38)	(38)	(10)	(40)	(40)
(Gain) loss on sale of equipment	-	136	16	16	-
Amortization of debt discount	941	510	78	312	312
Amortization of capitalized engineering costs	668	-	-	-	-
Bad debt expense (recovery)	49	311	268	268	-
Loss on impairment of goodwill	109	-	-	-	-
Amortization of deferred financing costs	212	-	30	120	120
Change in useful life of capitalized engineering costs	2,043	-	-		
(Gain) loss on sale of subsidiary	340	-	-	-	-
Loss on assetss held for sale	386	-	-	-	-
Cash earnings (loss)	(2,607)	2,485	2,349	3,256	6,144
Changes in assets and liabilities					
Accounts receivable	(561)	(1,647)	(1,033)	591	(1,483)
Inventory	1,395	405	(1,162)	(459)	(906)
Prepaid expenses and other current assets	39	(33)	(6)	(6)	-
Prepaid taxes	-	49	-	-	-
Income tax receivable	-	-	(1,416)	(1,416)	1,416
Deposits and other assets	(1,112)	(713)	(76)	18	-
Accounts payable and accrued expenses	(1,569)	(970)	1,216	(1,093)	(629)
Operating lease liabilities	-	(601)	(167)	(729)	(1,118)
Deferred rent	3	-	-	-	-
Deferred revenue	2,076	130	(7)	(7)	-
Income taxes payable	-	7	(12)	(12)	-
(Increase) decrease in working capital	271	(3,373)	(2,663)	(3,113)	(2,720)
Net cash provided by (used in) operations	**(2,336)**	**(888)**	**(314)**	**143**	**3,424**
Capitalized engineering costs	(523)	-	-	-	-
Purchase of property and equipment	(1,264)	(764)	(78)	(400)	(400)
Proceeds from sale of subsidiary	5,472	-	-	-	-
Net cash provided by (used in) investing	**3,685**	**(764)**	**(78)**	**(400)**	**(400)**
Note payable-revolver-Sterling National Bank	-	12,543	1,033	1,533	2,000
Note payable-revolver-PNC	(2,415)	(14,043)	-	-	-
Proceeds from notes payable-term loan-Sterling	-	3,800	-	2,400	-
Payments of notes payable-term loan-Sterling	-	-	(90)	(360)	(360)
Payments of notes payable-term loan-PNC	(1,899)	(1,572)	-	-	-
Proceeds from sale of future proceeds from subsidiary	-	800	-	-	-
Transaction costs	-	(3)	-	-	-
Payment of finance lease obligations	(1,286)	(1,764)	(7)	(28)	(28)
Share issuance costs	-	(113)	(145)	(145)	-
Proceeds from notes payable - related party	2,803	1,500	-	-	-
Payments of notes payable - related party	-	(28)	(1,012)	(4,048)	(4,048)
Payments of loan payable - financed assets	-	(186)	(71)	(284)	(284)
Proceeds from notes payable-third party	70	-	-	-	-
Payments of notes payable - third party	-	-	(100)	(400)	(400)
Deferred financing costs	(125)	-	-	-	-
Proceeds from issuance of stock	2,885	-	984	1,500	-
Net cash provided by (used in) financing	**33**	**934**	**592**	**168**	**(3,120)**
Net change in cash	**1,382**	**(718)**	**200**	**(89)**	**(96)**
Cash - beginning of period	**630**	**2,012**	**1,294**	**1,294**	**1,205**
Cash - end of period	**2,012**	**1,294**	**1,494**	**1,205**	**1,109**

* Continuing operations.
Source: Company filings and Taglich Brothers estimates

Price Chart



Taglich Brothers' Current Ratings Distribution



Investment Banking Services for Companies Covered in the Past 12 Months

Rating	#	%
Buy	**1**	**5**
Hold		
Sell		
Not Rated	**1**	**50**

Important Disclosures

As of the date of this report, Taglich Brothers, Inc. and/or its affiliates, own more than 1% of AIRI common stock. Michael Taglich, President of Taglich Brothers, Inc. and Chairman of Air Industries Group, owns or has a controlling interest in 4,072,612 shares of AIRI common stock, 2,282,621 shares that may be acquired upon the conversion of convertible notes, 416,149 shares that may be acquired upon the conversion of warrants, and 39,000 shares that may be acquired upon the conversion of stock options. In September 2015, April, May, and August 2016, March and May 2017, June and October 2019, Michael Taglich loaned the company monies. Robert Taglich, Managing Director of Taglich Brothers, Inc. and a Director of Air Industries Group, owns or has a controlling interest in 2,427,094 shares of AIRI common stock, 1,849,288 shares that may be acquired upon the conversion of convertible notes, 283,416 shares that may be acquired upon the conversion of warrants, and 39,000 shares that may be acquired upon the conversion of stock options. In April and May 2016, February, March, and May 2017, and in June 2019, Robert Taglich loaned the company monies. Doug Hailey, Director of Investment Banking at Taglich Brothers, Inc., owns or has a controlling interest in 19,508 shares of AIRI common stock that may be acquired upon the conversion of warrants. Robert Schroeder, Vice President of Investment Banking at Taglich Brothers, Inc. and a Director of Air Industries Group, owns or has a controlling interest in 102,481 shares of AIRI common stock, 42,000 shares that may be acquired upon the conversion of stock options, and 47,698 shares that may be acquired upon the conversion of warrants. Richard Oh, Managing Director of Taglich Brothers, Inc., owns or has a controlling interest in 10,513 shares of AIRI common stock that may be acquired upon the conversion of warrants. Other employees at Taglich Brothers, Inc. also own or have controlling interests in 20,427 shares of common stock upon the conversion of warrants. Taglich Brothers, Inc. owns 233,023 shares of AIRI common stock. Taglich Brothers, Inc. had an investment banking relationship with the company mentioned in this report. In April and May of 2007, Taglich Brothers Inc. served as the placement agent in the sale of convertible preferred stock for the company. In June 2008, Taglich Brothers, Inc. served as the placement agent in the sale of junior subordinated notes for the company. In September and October of 2008, Taglich Brothers, Inc. served as the placement agent in the sale of junior subordinated notes and convertible preferred stock for the company. In October 2013 and May 2014, Taglich Brothers, Inc. served as the placement agent in the sale of common stock for the company. In May and June 2016, Taglich Brothers, Inc. served as the placement agent in the sale of convertible preferred stock for the company. In August, November and December 2016, and in February and March 2017, Taglich Brothers, Inc. served as the placement agent in the sale of convertible notes for the company. In May 2017, Taglich Brothers, Inc. served as a placement agent in the sale of convertible notes and warrants for the company. In January 2018, Taglich Brothers, Inc. served as a placement agent in the sale of common stock and warrants for the company.

All research issued by Taglich Brothers, Inc. is based on public information. The company paid a monetary fee of $1,500 (USD) in October 2013 for the creation and dissemination of research reports. After the initial publication, the company pays a monthly monetary fee of $1,500 (USD) to Taglich Brothers, Inc., for a minimum of six months for the creation and dissemination of research reports.

General Disclosures

The information and statistical data contained herein have been obtained from sources, which we believe to be reliable but in no way are warranted by us as to accuracy or completeness. We do not undertake to advise you as to changes in figures or our views. This is not a solicitation of any order to buy or sell. Taglich Brothers, Inc. is fully disclosed with its clearing firm, Pershing, LLC, is not a market maker and does not sell to or buy from customers on a principal basis. The above statement is the opinion of Taglich Brothers, Inc. and is not a guarantee that the target price for the stock will be met or that predicted business results for the company will occur. There may be instances when fundamental, technical and quantitative opinions contained in this report are not in concert. We, our affiliates, any officer, director or stockholder or any member of their families may from time to time purchase or sell any of the above-mentioned or related securities. Analysts and members of the Research Department are prohibited from buying or selling securities issued by the companies that Taglich Brothers, Inc. has a research relationship with, except if ownership of such securities was prior to the start of such relationship, then an Analyst or member of the Research Department may sell such securities after obtaining expressed written permission from Compliance.

Analyst Certification

I, John Nobile, the research analyst of this report, hereby certify that the views expressed in this report accurately reflect my personal views about the subject securities and issuers; and that no part of my compensation was, is, or will be, directly, or indirectly, related to the specific recommendations or views contained in this report.

Public companies mentioned in this report:

Boeing (NYSE: BA)
CPI Aerostructures Inc. (NYSE MKT: CVU)
Heroux-Devtek, Inc. (OTC: HERXF)
Lockheed Martin (NYSE: LMT)
Northrop Grumman (NYSE: NOC)
Triumph Group, Inc. (NYSE: TGI)

Meaning of Ratings

Buy – The growth prospects, degree of investment risk, and valuation make the stock attractive relative to the general market or comparable stocks.

Speculative Buy – Long term prospects of the company are promising but investment risk is significantly higher than it is in our BUY-rated stocks. Risk-reward considerations justify purchase mainly by high risk-tolerant accounts. In the short run, the stock may be subject to high volatility and could continue to trade at a discount to its market.

Neutral – Based on our outlook the stock is adequately valued. If investment risks are within acceptable parameters, this equity could remain a holding if already owned.

Sell – Based on our outlook the stock is significantly overvalued. A weak company or sector outlook and a high degree of investment risk make it likely that the stock will underperform relative to the general market.

Dropping Coverage – Research coverage discontinued due to the acquisition of the company, termination of research services, non-payment for such services, diminished investor interest, or departure of the analyst.

Some notable Risks within the Microcap Market

Stocks in the Microcap segment of the market have many risks that are not as prevalent in Large-cap, Blue Chips or even Small-cap stocks. Often it is these risks that cause Microcap stocks to trade at discounts to their peers. The most common of these risks is liquidity risk, which is typically caused by small trading floats and very low trading volume which can lead to large spreads and high volatility in stock price. In addition, Microcaps tend to have significant company specific risks that contribute to lower valuations. Investors need to be aware of the higher probability of financial default and higher degree of financial distress inherent in the microcap segment of the market.

From time to time our analysts may choose to withhold or suspend a rating on a company. We continue to publish informational reports on such companies; however, they have no ratings or price targets. In general, we will not rate any company that has too much business or financial uncertainty for our analysts to form an investment conclusion, or that is currently in the process of being acquired.