Research Report – Update

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

Air Industries Group

Speculative Buy

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August 17, 2020

AIRI $1.33 — (NYSE MKT)

	2018A	2019A	**2020E**	**2021E**
Revenues (millions)*	$44.5	$54.6	**$48.9**	**$65.0**
Earnings (loss) per share*	$(0.32)	$(0.09)	**$(0.03)**	**$0.08**

52-Week range	$3.36 – $0.60	Fiscal year ends:	December
Common shares out as/of 7/31/20	30.6 million	Revenue per share (TTM)	$1.58
Approximate float	23.9 million	Price/Sales (TTM)	0.8X
Market capitalization	$41 million	Price/Sales (FY2021)E	0.8X
Tangible book value/share	$0.38	Price/Earnings (TTM)	NMF
Price/tangible book value	3.5X	Price/Earnings (FY2021)E	16.6X

** 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 increasing our twelve-month price target to $2.25 per share from $2.00 based on AIRI's expanded manufacturing capacity helping to satisfy its large backlog (approximately $100 million) and a return to profitability in 2021.

In August 2020, Air Industries announced it expanded its manufacturing capacity with new, state-of-the-art machines acquired at opportunistic prices in an effort to enhance productivity and sales. The equipment is expected to be delivered in late 3Q20 or early 4Q20 and be fully operational, contributing to production in 4Q20.

Although the company is deemed an essential business, we expect the COVID–19 pandemic to reduce AIRI's 2020 revenue and operating margins. For 2020, we project a 10.3% reduction in revenue to $48.9 million and a net loss from continuing operations of $(0.03) per share, unchanged. Prior was revenue of $48.4 million. Our projections reflect 1H20 results.

As the company continues to deliver on its firm 18-month backlog and as the adverse conditions from COVID-19 continue to improve, we project 32.8% revenue growth in 2021 to $65 million and EPS from continuing operations of $0.08. We previously projected revenue of $63 million and EPS from continuing operations of $0.06. Our projections reflect the positive impact from the company's purchases of machinery that should increase shipments by alleviating a good portion of AIRI's bottleneck with suppliers.

2Q20 revenue (10-Q released 8/7/20) decreased 36.5% to $8.5 million. AIRI reported a loss from continuing operations of $(0.05) per share versus a loss of $(0.03) per share in 2Q19. We projected 2Q20 revenue of $8 million and a loss from continuing operations of $(0.04) per share.

****Please view our disclosures on pages 13 - 16.***

Recommendation and Valuation

We are reiterating our Speculative Buy rating on Air Industries Group (AIRI) and increasing our twelve-month price target to $2.25 per share from $2.00 based on AIRI's expanded manufacturing capacity that should help satisfy its large backlog (approximately $100 million) and assist in a return to profitability in 2021.

In 2Q20, the COVID-19 pandemic resulted in a reduction to AIRI's revenue and operating margins. A number of the company's suppliers and customers have suspended or otherwise reduced their operations, and the company is experiencing some supply chain challenges. 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.

As the company continues to deliver on its firm 18-month backlog and the adverse conditions from COVID-19 continue to improve, we project 32.8% revenue growth in 2021 to $65 million and net income from continuing operations of $2.9 million or $(0.08) per share. Supporting our forecast is the positive impact of the company's machinery purchases in 2H20 that should help alleviate a good portion of the company's bottleneck with suppliers allowing AIRI to ship more product against its large 18-month backlog.

Gross margins should improve to 19.3% from an estimated 14.5% in 2020 reflecting greater manufacturing overhead coverage.

Shares of AIRI are currently trading at a multiple of 0.8X trailing twelve-month sales while the aerospace and defense industry trades at a multiple of 1.8X trailing twelve-month sales (1.7X previously). With strong 2021 sales growth 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 1.5X (up from 1.4X previously to account for recent capacity expansion and improved profitability) to our 2021 sales projection of $1.71 per share, discounted to account for execution risks, to obtain a year ahead value of approximately $2.25 per share.

Recent Development

Capacity Expansion – In August 2020, Air Industries announced it expanded its manufacturing capacity with new, state-of-the-art machines acquired at opportunistic prices in an effort to enhance productivity and sales. The equipment is expected to be delivered in September or early October 2020 and be fully operational, contributing to production in 4Q20.

During July 2020, Air Industries issued purchase orders for over $2.5 million in new machinery. The most substantial investment is the purchase of a Mitsui Seiki five-axis horizontal machining center with a list price of $2.8 million. This equipment was ordered and then canceled by a large OEM, providing AIRI with the opportunity to acquire the equipment at a 33% discount.

The company also purchased a state of the art 5-axis milling cell and a new vertical honing machine from Ohio Tool Works that is much larger than AIRI's existing equipment.

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 top right on next page).

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.

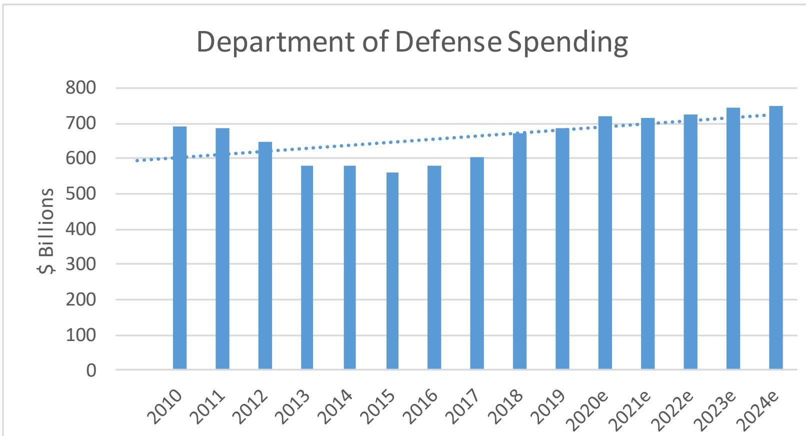

Source: Air Industries Group

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.



Source: US Department of Defense

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 Corps. 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 of COVID-19 on the commercial aircraft industry will be substantial and dramatically decrease 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 June 2020, the International Monetary Fund (IMF) updated its global economic growth estimates to a decline of 4.9% for 2020 and growth of 5.4% for 2021, down from its April 2020 estimates calling for a decline of 3% for 2020 and growth of 5.8% for 2021. The revisions primarily reflect a more negative impact of the COVID-19 pandemic in 1H20 than originally anticipated and a more gradual recovery than previously forecast.

The IMF updated its economic growth estimate for the US to a decline of 8% for 2020 and growth of 4.5% for 2021. In April 2020, the IMF projected a decline in US growth of 5.9% for 2020 and growth of 4.7% for 2021.

The advance estimate of US GDP growth (released on July 30, 2020) showed the US economy decreased at an annual rate of 32.9% in 2Q20, greater than the 5% decline reported in 1Q19. The 2Q20 US GDP estimate primarily reflects decreases in consumer spending, exports, inventory investment, business investment, and housing investment, partially offset by an increase government spending.

2Q and 1H20 Financial Results

2Q20 - Total revenue decreased 36.5% to $8.5 million. AIRI reported a net loss from continuing operations of $1.6 million or $(0.05) per share versus a loss of $735,000 or $(0.03) per share in 2Q19. We projected revenue of $8 million and a net loss from continuing operations of $1.6 million or $(0.04) per share.

The decrease in total sales was due primarily to a 37.5% decrease in complex machining sales to $7.3 million and a 28.9% decrease in turbine engine component sales to $1.2 million. These decreases were directly attributable to the impact of COVID-19.

Gross profit decreased 72% to $614,000 while gross margins decreased to 7.2% from 16.4%. Operating (SG&A) expenses decreased by 3.3% to $1.9 million. The slight decrease in operating expenses on significantly lower revenue resulted in an operating loss of $1.3 million versus operating income of $219,000. Interest expense decreased to $428,000 from $992,000 due to lower interest rates and finance costs under the company's new credit facility.

1H20 - Total revenue decreased 19.5% to $21.9 million. AIRI reported a net loss from continuing operations of $526,000 or $(0.02) per share versus a loss of $1.7 million or $(0.06) per share in 1H19. The net loss for 2020 included a $1.4 million or $(0.05) per share tax benefit.

The decrease in total sales was due primarily to a 19.7% decrease in complex machining sales to $19.4 million and a 17.8% decrease in turbine engine component sales to $2.6 million. These decreases were directly attributable to the impact of COVID-19.

Gross profit decreased 37.4% to $2.8 million while gross margins decreased to 12.7% from 16.4%. Operating (SG&A) expenses increased by 3.3% to $4.2 million. The increase in operating expenses on lower revenue resulted in an operating loss of $1.4 million versus operating income of $156,000. Interest expense decreased to $808,000 from $2 million due to lower interest rates and finance costs under the company's new credit facility.

Liquidity - As of June 30, 2020, the company had $2.1 million cash and a current ratio of 1.3X. Total debt was approximately $26.6 million (of which $22.1 million is classified as current) for a debt/equity ratio of 2.3X.

Income Statement
(in thousands $)

	6M20A	6M19A
Complex Machining	19,372	24,119
Turbine Engine Components	2,569	3,127
Total sales	21,941	27,246
Cost of sales	19,146	22,781
Gross profit	2,795	4,465
Loss on lease abandonment	-	275
Operating expenses	4,168	4,034
Operating income	(1,373)	156
Interest and financing costs	(808)	(1,955)
Other (expense) income	241	69
Income before taxes	(1,940)	(1,730)
Income tax (benefit)	(1,414)	-
Net income / (loss)	(526)	(1,730)
EPS*	(0.02)	(0.06)
Shares Outstanding	30,476	28,736
Margin Analysis		
Gross margin	12.7%	16.4%
Operating margin	(6.3)%	0.6%
Year / Year Growth		
Total Revenues	(19.5)%	
Net Income	NMF	
EPS	NMF	

*Continuing operations.
Source: Company filings

In 1H20, cash used in operations was $1 million consisting of $1.8 million of cash earnings and a $2.8 million increase in working capital. The increase in working capital was due primarily to an increase in inventory offset in part by a decrease in receivables. Cash used in investing was $309,000 consisting solely of capital expenditures. Cash provided by financing of $2.1 million consisted primarily of increased debt. Cash increased by $774,000 to $2.1 million at June 30, 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 June 30, 2020, total debt outstanding to SNB was $16.5 million consisting of a $13 million revolving credit loan and a term loan in the amount of $3.5 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 bear interest equal to 30-day LIBOR, plus 2.5% (with a floor of 3.5%).

As of June 30, 2020, finance lease obligations totaled $13,000, a loan payable related to a financed asset totaled $242,000, 8% convertible notes payable totaled $1.4 million, an SBA loan totaled $2.4 million (with a fixed rate of 1% with the first six months of interest deferred), 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 $6 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. However, in April 2020, the COVID-19 pandemic resulted in a reduction to revenue and operating margins in portions of the company's business. This negative effect continued in May 2020 and to a lesser extent in June 2020. A number of the company's suppliers and customers suspended or otherwise reduced their operations, and the company is experiencing some supply chain challenges. 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.

2020 – We project a 10.3% reduction in revenue to $48.9 million (prior was 48.4 million) and a net loss from continuing operations of $906,000 million or $(0.03) per share, unchanged. Our projections reflect 1H20 results and include a dramatic drop in 2Q20 revenue from the COVID-19 pandemic. We project 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 14.5% 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 $221,000 decrease in SG&A expenses to $8.3 million from $8.5 million and an operating loss of $1.2 million compared to operating income of $328,000 in 2019. We project a negative operating margin of (2.5)% 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 $2.8 million cash from operations on $3.9 million of cash earnings offset in part by a $1 million increase in working capital. The increase in working capital should be primarily due to an increase in inventory. Cash from operations, SBA loan proceeds and proceeds from the issuance of common stock should cover capital expenditures and repayments of debt, increasing cash by $597,000 to $1.9 million by the end of 2020.

2021 – We project 32.8% revenue growth to $65 million and net income from continuing operations of $2.9 million or $0.08 per share. We previously projected revenue of $63 million and net income from continuing operations of $2.3 million or $0.06 per share. Our projections reflect the positive impact of machinery purchases in 2H20 that is expected to increase AIRI's production efficiency and increase the number of parts it can make in house. The new equipment should help alleviate a good portion of the company's bottleneck with suppliers allowing AIRI to ship more product against its large 18-month backlog (which currently stands at approximately $100 million).

Our forecast reflects a sequential ramp in revenue as the company continues to deliver on its firm 18-month backlog and the adverse conditions from COVID-19 continue to improve. Gross margins should improve to 19.3% from 14.5% forecast in 2020 reflecting greater manufacturing overhead coverage.

We forecast a $482,000 increase in SG&A expenses to $8.8 million from $8.3 million and operating income of $3.7 million compared to an estimated operating loss of $1.2 million in 2020. We project operating margin of 5.7% compared to an estimated negative (2.5)% 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 $3.2 million cash from operations on $6.6 million of cash earnings offset in part by a $3.4 million increase in working capital. The increase in working capital should be due primarily to an increase in receivables. Cash from operations is unlikely to cover capital expenditures and repayments of debt, decreasing cash by $462,000 to $1.4 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 June 30, 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 23.9 million shares in the float and the average daily volume is approximately 84,000 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	6/20A	2020E	2021E
Cash and cash equivalents	2,012	1,294	2,068	1,891	1,429
Accounts receivable	6,522	7,858	6,156	7,069	9,389
Inventory	29,051	28,646	33,859	29,892	30,868
Prepaid expenses and other current assets	414	447	373	373	373
Prepaid taxes	49	-	-	-	-
Total current assets	38,048	38,245	42,456	39,226	42,059
Property and equipment, net	8,777	7,578	6,753	7,754	6,557
Capitalized engineering costs	-	-	-	-	-
Operating lease right-of-use-asset	-	3,623	3,738	3,738	3,738
Deferred financing costs	768	1,481	1,618	1,618	1,618
Goodwill	163	163	163	163	163
Total assets	**47,756**	**51,090**	**54,728**	**52,499**	**54,135**
Notes payable and finance lease obligations	19,345	22,544	22,133	20,588	17,496
Operating lease liabilities	-	697	672	672	672
Accounts payable and accrued expenses	8,723	8,105	9,559	8,951	10,203
Deferred gain on sale	38	38	38	38	38
Deferred revenue	881	1,011	1,014	1,014	1,014
Liabilities associated with assets held for sale	-	200	200	200	200
Income taxes payable	20	27	2	2	2
Total current liabilities	29,007	32,622	33,618	31,465	29,625
Long-term debt	5,721	3,406	4,456	4,456	4,456
Deferred gain on sale	257	219	200	209	209
Operating lease liabilites	-	4,235	4,280	4,280	4,280
Disposition of subsidiary	-	402	256	266	256
Other liabilities	1,165	-	199	199	199
Total liabilities	**36,150**	**40,884**	**43,009**	**40,875**	**39,025**
Total stockholders' equity**	**11,606**	**10,206**	**11,719**	**11,624**	**15,109**
Total liabilities & stockholders' equity	**47,756**	**51,090**	**54,728**	**52,499**	**54,135**

* Continuing operations.
** 2020 includes $885,000 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	48,941	65,000
Cost of sales	39,085	45,431	41,849	52,475
Gross profit	5,445	9,142	7,093	12,525
Impairment of goodwill, asset abandonment	-	275	-	-
Capitalized engineering writeoff	2,043	-	-	-
Operating expenses	8,315	8,539	8,318	8,800
Operating income (loss)	(4,913)	328	(1,226)	3,725
Interest and financing costs	(3,916)	(3,561)	(1,535)	(1,240)
Other (expense) income	278	672	441	400
Income (loss) before taxes	(8,551)	(2,561)	(2,320)	2,885
Income tax (benefit)	-	37	(1,414)	-
Net income / (loss)	(8,551)	(2,598)	(906)	2,885
EPS*	(0.32)	(0.09)	(0.03)	0.08
Shares Outstanding	26,898	28,852	33,924	38,000
EBITDA	(548)	4,002	2,340	6,422
Adjusted EBITDA	1,898	5,207	2,940	7,022
Margin Analysis				
Gross margin	12.2%	16.8%	14.5%	19.3%
Operating margin	(11.0)%	0.6%	(2.5)%	5.7%
Net margin	(19.2)%	(4.8)%	(1.9)%	4.4%
Tax rate	0.0%	(1.4)%	61.0%	0.0%
Year / Year Growth				
Total Revenues		22.6%	(10.3)%	32.8%

*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	6/20A	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	8,494	12,500	14,500	48,941	15,500	16,000	16,500	17,000	65,000
Cost of sales	11,604	11,177	11,034	11,616	45,431	11,266	7,880	10,813	11,890	41,849	12,633	12,960	13,283	13,600	52,475
Gross profit	2,274	2,191	2,963	1,714	9,142	2,181	614	1,688	2,610	7,093	2,868	3,040	3,218	3,400	12,525
Impairment of goodwill, asset abandonment	275	-	-	-	275	-	-	-	-	-	-	-	-	-	-
Operating expenses	2,062	1,972	1,808	2,697	8,539	2,262	1,906	2,050	2,100	8,318	2,125	2,175	2,225	2,275	8,800
Operating income (loss)	(63)	219	1,155	(983)	328	(81)	(1,292)	(363)	510	(1,226)	743	865	993	1,125	3,725
Interest and financing costs	(963)	(992)	(835)	(771)	(3,561)	(380)	(428)	(367)	(360)	(1,535)	(350)	(330)	(290)	(270)	(1,240)
Other (expense) income	31	38	100	503	672	105	136	100	100	441	100	100	100	100	400
Income (loss) before taxes	(995)	(735)	420	(1,251)	(2,561)	(356)	(1,584)	(630)	250	(2,320)	493	635	803	955	2,885
Income tax (benefit)	-	-	22	15	37	(1,414)	-	-	-	(1,414)	-	-	-	-	-
Net income / (loss)	(995)	(735)	398	(1,266)	(2,598)	1,058	(1,584)	(630)	250	(906)	493	635	803	955	2,885
EPS*	(0.03)	(0.03)	0.01	(0.04)	(0.09)	0.03	(0.05)	(0.02)	0.01	(0.03)	0.01	0.02	0.02	0.03	0.08
Shares Outstanding	28,601	28,771	29,041	28,995	28,852	36,521	30,552	30,621	38,000	33,924	38,000	38,000	38,000	38,000	38,000
EBITDA					4,002					2,340					6,422
Adjusted EBITDA					5,207					2,940					7,022
Margin Analysis															
Gross margin	16.4%	16.4%	21.2%	21.0%	16.8%	16.2%	7.2%	13.5%	18.0%	14.5%	18.5%	19.0%	19.5%	20.0%	19.3%
Operating margin	(0.5)%	1.6%	8.3%	(7.4)%	0.6%	(0.6)%	(15.2)%	(2.9)%	3.5%	(2.5)%	4.8%	5.4%	6.0%	6.6%	5.7%
Net margin	(7.2)%	(5.5)%	2.8%	(9.5)%	(4.8)%	7.9%	(18.6)%	(5.0)%	1.7%	(1.9)%	3.2%	4.0%	4.9%	5.6%	4.4%
Tax rate	0.0%	0.0%	5.2%	(1.2)%	(1.4)%	397.2%	0.0%	0.0%	0.0%	61.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Year / Year Growth															
Total Revenues					22.6%	(3.1)%	(36.5)%	(10.7)%	8.8%	(10.3)%	15.3%	88.4%	32.0%	17.2%	32.8%

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

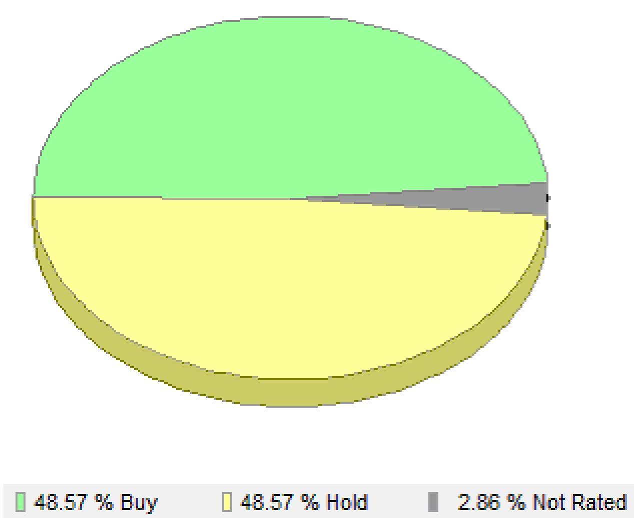
Statement of Cash Flows for the Periods Ended
(in thousands $)*

	2018A	2019A	6M20A	2020E	2021E
Net income (loss)	(10,992)	(2,732)	(526)	(906)	2,885
Depreciation	2,877	3,002	1,344	3,124	2,297
Stock compensation expense	598	622	315	600	600
Legal expenses paid by issuance of stock	200	126	-	-	-
Non-cash other income	-	(282)	(211)	(211)	-
Non-cash interest expense	-	85	64	64	-
Abandonment of lease	-	275	-	-	-
Amortization of right-to-use asset	-	470	261	488	488
Amortization of gain on sale of real estate	(38)	(38)	(19)	(40)	(40)
(Gain) loss on sale of equipment	-	136	16	16	-
Amortization of debt discount	941	510	158	312	312
Amortization of capitalized engineering costs	668	-	-	-	-
Bad debt expense (recovery)	49	311	322	322	-
Loss on impairment of goodwill	109	-	-	-	-
Amortization of deferred financing costs	212	-	48	96	96
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	1,772	3,866	6,638
Changes in assets and liabilities					
Accounts receivable	(561)	(1,647)	1,380	789	(2,320)
Inventory	1,395	405	(5,213)	(1,246)	(976)
Prepaid expenses and other current assets	39	(33)	74	74	-
Prepaid taxes	-	49	-	-	-
Deposits and other assets	(1,112)	(713)	(185)	(137)	-
Accounts payable and accrued expenses	(1,569)	(970)	1,301	246	1,252
Operating lease liabilities	-	(601)	(349)	(943)	(1,347)
Deferred rent	3	-	-	-	-
Deferred revenue	2,076	130	3	3	-
Other liability	-	-	199	199	-
Income taxes payable	-	7	(25)	(25)	-
(Increase) decrease in working capital	271	(3,373)	(2,815)	(1,040)	(3,390)
Net cash provided by (used in) operations	**(2,336)**	**(888)**	**(1,043)**	**2,825**	**3,248**
Capitalized engineering costs	(523)	-	-	-	-
Purchase of property and equipment	(1,264)	(764)	(309)	(2,800)	(600)
Proceeds from sale of subsidiary	5,472	-	-	-	-
Net cash provided by (used in) investing	**3,685**	**(764)**	**(309)**	**(2,800)**	**(600)**
Note payable-revolver-Sterling National Bank	-	12,543	429	429	-
Note payable-revolver-PNC	(2,415)	(14,043)	-	-	-
Proceeds from notes payable-term loan-Sterling	-	3,800	-	-	-
Payments of notes payable-term loan-Sterling	-	-	(284)	(568)	(568)
Payments of notes payable-term loan-PNC	(1,899)	(1,572)	-	-	-
SBA loan proceeds	-	-	2,414	2,414	-
Proceeds from sale of future proceeds from subsidiary	-	800	-	-	-
Transaction costs	-	(3)	-	-	-
Payment of finance lease obligations	(1,286)	(1,764)	(9)	(18)	(18)
Share issuance costs	-	(113)	(145)	(145)	-
Proceeds from notes payable - related party	2,803	1,500	-	-	-
Payments of notes payable - related party	-	(28)	(1,020)	(2,040)	(2,040)
Payments of loan payable - financed assets	-	(186)	(143)	(284)	(284)
Proceeds from notes payable-third party	70	-	-	-	-
Payments of notes payable - third party	-	-	(100)	(200)	(200)
Deferred financing costs	(125)	-	-	-	-
Proceeds from issuance of stock	2,885	-	984	984	-
Net cash provided by (used in) financing	**33**	**934**	**2,126**	**572**	**(3,110)**
Net change in cash	**1,382**	**(718)**	**774**	**597**	**(462)**
Cash - beginning of period	**630**	**2,012**	**1,294**	**1,294**	**1,891**
Cash - end of period	**2,012**	**1,294**	**2,068**	**1,891**	**1,429**

* 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	**2**	**11**
Hold		
Sell		
Not Rated		

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 56,042 shares of AIRI common stock and 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 7,807 shares of common stock and 29,236 shares that may be acquired 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.

Discontinued – Research coverage discontinued due to the acquisition of the company, termination of research services (includes 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.