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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

November 17, 2021

AIRI $1.04 — (NYSE MKT)

	2019A	2020A	2021E	2022E
Revenues (millions)*	$54.6	$50.1	**$59.3**	**$65.4**
Earnings (loss) per share*	$(0.09)	$0.05**	**$0.02**	**$0.07**

52-Week range	$2.46 – $0.98	Fiscal year ends:	December
Common shares out as/of 11/5/21	32.1 million	Revenue per share (TTM)	$1.67
Approximate float	24.6 million	Price/Sales (TTM)	0.6X
Market capitalization	$33 million	Price/Sales (FY2022)E	0.6X
Tangible book value/share	$0.48	Price/Earnings (TTM)	14.9X
Price/tangible book value	2.2X	Price/Earnings (FY2022)E	14.9X

** Continuing operations. ** Includes $0.07 per share from the forgiveness of PPP loans.*

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 maintaining our twelve-month price target of $2.50 per share.

In 2020, the company made capital investments totaling $2.5 million in new machinery for four state-of-the-art machines. In 2021, AIRI is continuing to make capital investments in new machinery (over $2 million projected). These investments are expected to increase the volume and efficiency of production, increase the size of product manufactured, and allow the company to offer additional services to its customers.

AIRI's current funded backlog stands at approximately $82 million and the sales outlook for the company's commercial products looks promising as it continues to book new business.

On October 14, 2021, AIRI announced that its Sterling subsidiary has been awarded a new long-term agreement to deliver Chaff Pods for the CH-53K helicopter with an expected minimum value in excess of $5.2 million.

For 2021, we project 18.4% revenue growth to $59.3 million and EPS of $0.02. We previously forecast revenue of $61.7 million and EPS of $0.04. Our revised forecast primarily reflects 3Q21 results.

For 2022, we project 10.3% revenue growth to $65.4 million and EPS of $0.07. We previously forecast revenue of $68 million and EPS of $0.10. Our revised forecast reflects a slower ramp in revenue than previously projected.

3Q21 revenue (10-Q released 11/12/21) increased 5.1% to $14.4 million. AIRI reported break-even EPS versus a loss of $(0.02) per share in 3Q20. We projected revenue of $15.5 million and EPS of $0.01.

****Please view our disclosures on pages 14 - 16.***

Recommendation and Valuation

We are reiterating our Speculative Buy rating on Air Industries Group (AIRI) and maintaining our twelve-month price target of $2.50 per share.

Although the global outbreak of COVID-19 negatively impacted AIRI's revenues, earnings, and operating cash flows in 2020, we believe the company's operations have made substantial progress in returning to normal in 2021.

In 2020, the company made capital investments totaling $2.5 million in new machinery for four state-of-the-art machines. In 2021, AIRI is continuing to make capital investments in new machinery (over $2 million projected). These investments are expected to increase the volume and efficiency of production, increase the size of product manufactured, and allow the company to offer additional services to its customers.

AIRI's current funded backlog stands at approximately $82 million and the sales outlook for the company's commercial products looks promising as it continues to book new business.

Shares of AIRI are currently trading at a multiple of 0.6X trailing twelve-month sales (0.8X previously) while the aerospace and defense industry trades at a multiple of 1.9X trailing twelve-month sales (unchanged). With strong sales growth and a forecasted return to profitability over the next two years, we anticipate investors are likely to accord AIRI a price to sales multiple approaching the industry. We applied a multiple of 1.7X (unchanged) to our 2022 sales projection of $1.70 per share, discounted for execution risks, to obtain a year ahead value of approximately $2.50 per share.

Recent Developments

New $5.2 Million Agreement for the CH-53K Heavy Lift Helicopter - On October 14, 2021, Air Industries announced that its Sterling Engineering subsidiary has been awarded a new long-term agreement (LTA) to deliver Chaff Pods for the new CH-53K heavy lift helicopter. Based on existing orders for the aircraft, the LTA should have a minimum value in excess of $5.2 million.

With the CH-53K development phase over, the full-rate production phase is just beginning. Production of the helicopter is forecast to more than double from four aircraft in 2022 to nine in 2023, and then increase to 15 in 2026.

Air Industries has been and remains a supplier for earlier versions of the CH-53 and has a current backlog of more than $7 million on this aircraft platform. This award is Air Industries' first for this latest version of the aircraft, and increases the company's backlog for all versions of the CH-53 by more than 70%, to approximately $12.5 million.

Source: Air Industries Group

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).

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.

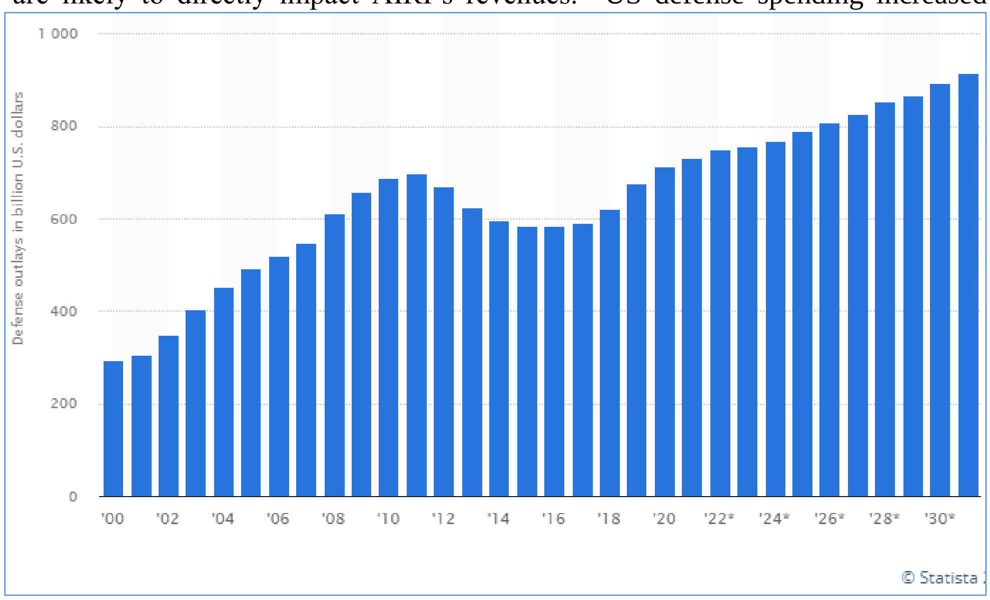
AIRI's products are deployed on a wide range of military and commercial aircraft including Sikorsky's UH-60 Black Hawk, Lockheed Martin's F-35 Joint Strike Fighter, Northrop Grumman's E2 Hawkeye, Boeing's 777, Airbus' 380 commercial airliners, the US Navy F-18 and USAF F-16 fighter aircraft. The Turbine 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 2031 (see chart at right).



Military Aircraft Market and Forecast

The company operates primarily in the US military aircraft market. IBISWorld estimates the US military aircraft, engine and parts manufacturing market at $78.2 billion in 2021. 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 Department of Defense (DoD) or defense-related government organizations. The US Navy is 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 and 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 calls for operation and maintenance spending to increase to $290.4 billion in 2022 from $283.4 billion in 2021.

Commercial Aircraft Market

Although the company's product lines primarily serve the defense market, they also serve the commercial markets. AIRI's customers (such as Boeing, United Technologies' Goodrich division, and Lockheed Martin's Sikorsky division) typically build to both military and commercial specifications.

According to a report by Reportlinker, the global commercial aircraft market was valued at over $99 billion in 2020 and is expected to grow at a CAGR of approximately 8.9% over the next five years. The report states that the COVID-19 pandemic had adversely impacted the commercial aircraft market and had resulted in either cancelled or postponed commercial aircraft orders. However, Reportlinker observed that the 2021 commercial aircraft market was showing positive signs and that passenger air travel was estimated to recover over the next three years.

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 operating losses and their impact on the company's working capital, AIRI repositioned its business through the sale and liquidation of certain businesses acquired since becoming a public company. In 2018 and 2019, the company consolidated its headquarters and the operations of its subsidiaries, AIM and NTW, at its corporate campus in Bay Shore, New York. This consolidation allowed AIRI to re-focus its operations on its core competencies. In 2020, the company made significant capital investments in new equipment and expanded its operations and manufacturing cells in its Connecticut facility where its Turbine Engine segment is located. In 2021, AIRI is continuing to make capital investments in new equipment. These actions should enable increased volume and efficiency of production, an increase in the size of product manufactured, and allow the company to offer additional services to its customers.

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 October 2021, the International Monetary Fund (IMF) revised its global economic growth estimates to an increase of 5.9% for 2021 and 4.9% for 2022. While the IMF's growth projection for 2022 is unchanged from its earlier projection (July 2021), the 2021 projection is down from 6%. The 2021 downward revision primarily reflects supply disruptions and worsening pandemic dynamics.

The IMF revised its economic growth estimate for the US to an increase of 6% for 2021 and 5.2% for 2022. In July 2021, the IMF projected US economic growth of 7% and 4.9% for 2021 and 2022, respectively.

The advance estimate of US GDP growth (released on October 28, 2021) showed the US economy increased at an annual rate of 2% in 3Q21, down from the 6.7% increase reported in 2Q21. The 3Q21 US GDP estimate primarily reflects increases in inventory investment, consumer spending, state and local government spending, and business investment, partially offset by decreases in housing investment, federal government spending, and exports.

Projections

Although the global outbreak of COVID-19 negatively impacted AIRI's revenues, earnings, and operating cash flows in 2020, we believe the company's operations have made substantial progress in returning to normal in 2021.

AIRI's current funded backlog stands at approximately $82 million and the sales outlook for the company's commercial products looks promising as it continues to book new business.

Our projections reflect increased production of military aircraft responsible for a majority of the company's backlog, and an improving commercial aircraft market.

2021 – We project 18.4% revenue growth to $59.3 million and net income of $553,000 or $0.02 per share. We previously forecast revenue of $61.7 million and net income of $1.4 million or $0.04 per share. Our revised forecast primarily reflects 3Q21 results.

Gross margins should improve to 15.2% from 13% in 2020 reflecting greater manufacturing overhead coverage.

We forecast a $281,000 decrease in SG&A expenses to $7.7 million from $8 million and operating income of $1.4 million compared to an operating loss of $1.4 million in 2020. We project operating margin of 2.3% compared to (2.9)% in 2020. Interest and financing costs are projected to decrease to $1.3 million from $1.5 million on lower debt levels. We project the company paying no taxes due to its large amount of net operating loss carry forwards, which were $37 million at December 31, 2020.

We project $3.2 million cash from operations on cash earnings of $4.6 million and a $1.3 million increase in working capital. The increase in working capital should be due primarily to a decrease in inventory being more than offset by an increase in receivables and a decrease in payables. Cash from operations should be more than offset by $2.3 million of capital expenditures and repayments of debt, decreasing cash by $2.1 million to $443,000 by the end of 2021.

2022 – We project 10.3% revenue growth to $65.4 million and net income of $2.6 million or $0.07 per share. We previously forecast revenue of $68 million and net income of $3.7 million or $0.10 per share. Our revised forecast reflects a slower ramp in revenue than previously projected.

Year-over-year gross margins should improve to 17% from 15.2%.

We forecast a $130,000 increase in SG&A expenses to $7.8 million from $7.7 million projected for 2021 and operating income of $3.3 million compared to an estimated $1.4 million in 2021. We project operating margin of 5.1% compared to 2.3% projected for 2021. Interest and financing costs are projected to decrease to $1.2 million from an estimated $1.3 million in 2021 on lower average debt levels. We project the company paying no taxes.

We project $2.4 million cash from operations on $6.3 million of cash earnings offset in part by a $3.9 million increase in working capital. The increase in working capital should be due primarily to an increase in inventory and receivables and a decrease in operating lease liabilities. Cash from operations should be partly offset by capital expenditures and repayments of debt, increasing cash by $164,000 to $607,000 by the end of 2022.

3Q and Nine-Months 2021 Financial Results

<u>*3Q21*</u> - Total revenue increased 5.1% to $14.4 million. AIRI reported a net loss of $66,000 or $(0.00) per share versus a net loss of $477,000 or $(0.02) per share in 3Q20. We projected revenue of $15.5 million and net income of $415,000 or $0.01 per share.

Sales in the company's Complex Machining segment increased 5% to $13 million while sales in the Turbine Engine Components segment increased 5.8% to $1.3 million. Gross profit increased 21.6% to $2 million on gross margins improving to 14% from 12.1%. Operating (SG&A) expenses decreased by 3.1% to $1.8 million from $1.9 million in 3Q20. The decrease in operating expenses on higher revenue resulted in operating income of $177,000 versus an operating loss of $240,000. Interest expense decreased to $331,000 from $359,000 on a lower average debt balance.

<u>*Nine-months 2021*</u> - Total revenue increased 22.2% to $43.5 million. AIRI reported net income of $21,000 or break-even per share versus a net loss of $1 million or $(0.03) per share in the same period in 2020 that included a $1.4 million or $0.05 per share tax benefit.

Sales in the company's Complex Machining segment increased 22.6% to $39 million while sales in the Turbine Engine Components segment increased 18.9% to $4.5 million. Gross profit increased 44.1% to $6.4 million on gross margins improving to 14.7% from 12.5%. Operating (SG&A) expenses decreased by 4.8% to $5.8 million from $6.1 million in the same period in 2020. The decrease in operating expenses on higher revenue resulted in operating income of $644,000 versus an operating loss of $1.6 million. Interest expense decreased to $338,000 from $363,000.

<u>*Liquidity*</u> - As of September 30, 2021, the company had $692,000 cash and a current ratio of 1.7X. Total debt was approximately $24.3 million (of which $14.3 million is classified as current) for a debt/equity ratio of 1.6X.

Income Statement
(in thousands $)

	9M21A	9M20A
Complex Machining	38,992	31,795
Turbine Engine Components	4,527	3,808
Total sales	43,519	35,603
Cost of sales	37,105	31,152
Gross profit	6,414	4,451
Operating expenses	5,770	6,064
Operating income	644	(1,613)
Interest and financing costs	(961)	(1,167)
Other (expense) income	338	363
Income before taxes	21	(2,417)
Income tax (benefit)	-	(1,414)
Net income / (loss)	21	(1,003)
EPS	0.00	(0.03)
Shares Outstanding	38,744	30,525
<u>Margin Analysis</u>		
Gross margin	14.7%	12.5%
Operating margin	1.5%	(4.5)%
<u>Year / Year Growth</u>		
Total Revenues	22.2%	
Net Income	NMF	
EPS	NMF	

Source: Company filings

In the first nine months of 2021, cash provided by operations was $2.5 million consisting primarily of cash earnings. Cash used in investing was $983,000 consisting solely of capital expenditures. Cash used in financing of $3.3 million consisted primarily of debt reductions. Cash decreased by $1.8 million to $692,000 at September 30, 2021.

In 2020, AIRI was able to utilize US government programs in order to improve its liquidity to offset the negative impact to its business from COVID-19. The company also was able to defer certain tax payments in accordance with the CARES Act. These deferred amounts must be repaid 50% on December 31, 2021 with the remaining 50% on December 31, 2022. As of September 30, 2021, the company has deferred $627,000, which is included in deferred payroll tax liability – CARES Act on its balance sheet.

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 currently provides for a $16 million revolving loan and a term loan of $5.7 million. As of September 30, 2021, total debt outstanding to SNB was $17.9 million consisting of a $13.5 million revolving credit loan and a term loan in the amount of $4.4 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 the company can make. The SNB facility also restricts the amount of dividends the company may pay to its stockholders.

Both the revolving credit line and the term loan bear interest equal to 30-day LIBOR % (with a floor of 1%), plus 2.5%. The average interest rate charged during the period ended September 30, 2021 was 3.5%. As of September 30, 2021, AIRI was in compliance with all loan covenants.

As of September 30, 2021, finance lease obligations totaled $2,000, a loan payable related to a financed asset totaled $41,000, 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 $6.4 million.

The related party notes payable remain subordinate to the SNB Facility and are due on July 1, 2023 with no principal payments due until such time. Approximately $2.7 million of the related party subordinated notes can be converted at the option of the holder into common stock of the company at $0.93 per share, while $2.1 million of the related party subordinated notes can be converted at the option of the holder into common stock of the company at $1.50 per share. Interest expense for the three and nine months ended September 30, 2021 on all related party notes payable was $126,000 and $376,000, respectively.

Risks

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

Pandemic concerns – The COVID-19 pandemic and the resulting economic disruptions have adversely affected how AIRI's customers and suppliers operate their businesses and disrupted supply chains in various industries. The duration and extent to which this will impact the company's future results of operations and overall financial performance remains uncertain. While AIRI's operations have substantially returned to normal, any future disruption from COVID-19 or any other event which depresses macroeconomic results or disrupts supply chains, may materially impact the company's business.

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 2020, three customers accounted for 74% 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 October 2018, Contract Pharmacal Corp. commenced an action relating to a sublease entered into between AIRI and Contract Pharmacal in May 2018 with respect to the property in Hauppauge, New York. In the action, Contract Pharmacal originally sought damages in excess of $1 million for AIRI's failure to make the entire premises available by the sublease commencement date. In July 2021, the court denied Contract Pharmacal's motion for Summary Judgement and ordered Contract Pharmacal to drop its claim for specific performance and to reduce its claim for damages to $700,000. AIRI continues to dispute the validity of the claims asserted by Contract Pharmacal and believes it has meritorious defenses to those claims. As of September 30, 2021, it is not possible to estimate if a loss will be incurred, as such there has been no accrual.

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 24.6 million shares in the float and the average daily volume is approximately 578,000 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	2020A	9/21A	**2021E**	**2022E**
Cash and cash equivalents	2,012	1,294	2,505	692	**443**	**607**
Accounts receivable	6,522	7,858	8,798	10,546	**10,710**	**11,808**
Inventory	29,051	28,646	32,120	29,359	**29,762**	**31,558**
Prepaid expenses and other current assets	414	447	173	328	**328**	**328**
Prepaid taxes	49	-	15	19	**19**	**19**
Total current assets	38,048	38,245	43,611	40,944	**41,263**	**44,320**
Property and equipment, net	8,777	7,578	9,581	8,459	**9,024**	**8,059**
Operating lease right-of-use-asset	-	3,623	3,510	3,146	**3,146**	**3,146**
Deferred financing costs	768	1,481	912	809	**809**	**809**
Goodwill	163	163	163	163	**163**	**163**
Total assets	**47,756**	**51,090**	**57,777**	**53,521**	**54,405**	**56,497**
Notes payable and finance lease obligations	19,345	22,544	16,475	14,285	**14,582**	**14,582**
Operating lease liabilities	-	697	701	664	**664**	**664**
Accounts payable and accrued expenses	8,723	8,105	8,682	7,023	**7,265**	**7,840**
Deferred gain on sale	38	38	38	38	**38**	**38**
Deferred revenue	881	1,011	917	1,488	**1,488**	**1,488**
Liabilities associated with assets held for sale	-	200	200	130	**130**	**130**
Deferred payroll tax liability (CARES Act)	-	-	314	314	**314**	**314**
Income taxes payable	20	27	-	-	**-**	**-**
Total current liabilities	29,007	32,622	27,327	23,942	**24,481**	**25,056**
Long-term debt	5,721	3,406	10,798	10,044	**10,044**	**9,297**
Deferred gain on sale	257	219	181	152	**152**	**152**
Operating lease liabilites	-	4,235	3,927	3,423	**3,103**	**2,096**
Disposition of subsidiary	-	402	122	-	**-**	**-**
Deferred payroll tax liability (CARES Act)	-	-	313	313	**313**	**313**
Other liabilities	1,165	-	-	-	**-**	**-**
Total liabilities	**36,150**	**40,884**	**42,668**	**37,874**	**38,093**	**36,914**
Total stockholders' equity	**11,606**	**10,206**	**15,109**	**15,647**	**16,312**	**19,583**
Total liabilities & stockholders' equity	**47,756**	**51,090**	**57,777**	**53,521**	**54,405**	**56,497**

Source: Company filings and Taglich Brothers estimates

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

	2018A	2019A	2020A	**2021E**	**2022E**
Net sales	44,530	54,573	50,097	**59,319**	**65,400**
Cost of sales	39,085	45,431	43,585	**50,298**	**54,279**
Gross profit	5,445	9,142	6,512	**9,021**	**11,121**
Operating expenses	8,315	8,539	7,951	**7,670**	**7,800**
Operating income (loss)	(4,913)	328	(1,439)	**1,351**	**3,321**
Interest and financing costs	(3,916)	(3,561)	(1,491)	**(1,261)**	**(1,200)**
Other (expense) income	278	672	2,844	**463**	**500**
Income (loss) before taxes	(8,551)	(2,561)	(86)	**553**	**2,621**
Income tax (benefit)	-	37	(1,412)	**-**	**-**
Net income / (loss)	(8,551)	(2,598)	1,326	**553**	**2,621**
EPS	(0.32)	(0.09)	0.05	**0.02**	**0.07**
Shares Outstanding	26,898	28,852	36,747	**35,135**	**38,500**
EBITDA	(548)	4,002	3,975	**4,621**	**6,286**
Adjusted EBITDA	1,898	5,207	4,494	**5,271**	**6,936**
Margin Analysis					
Gross margin	12.2%	16.8%	13.0%	**15.2%**	**17.0%**
Operating margin	(11.0)%	0.6%	(2.9)%	**2.3%**	**5.1%**
Net margin	(19.2)%	(4.8)%	2.6%	**0.9%**	**4.0%**
Tax rate	0.0%	(1.4)%	NMF	**0.0%**	**0.0%**
Year / Year Growth					
Total Revenues		22.6%	(8.2)%	**18.4%**	**10.3%**

Source: Company filings and Taglich Brothers estimates

Quarterly Income Statements
(in thousands $)

	3/20A	6/20A	9/20A	12/20A	2020A	3/21A	6/21A	9/21A	12/21E	**2021E**	3/22E	6/22E	9/22E	12/22E	**2022E**
Net sales	13,447	8,494	13,662	14,494	50,097	13,712	15,453	14,354	15,800	**59,319**	15,900	16,200	16,500	16,800	**65,400**
Cost of sales	11,266	7,880	12,006	12,433	43,585	11,915	12,850	12,340	13,193	**50,298**	13,245	13,462	13,679	13,894	**54,279**
Gross profit	2,181	614	1,656	2,061	6,512	1,797	2,603	2,014	2,607	**9,021**	2,655	2,738	2,822	2,906	**11,121**
Operating expenses	2,262	1,906	1,896	1,887	7,951	1,770	2,163	1,837	1,900	**7,670**	1,950	1,950	1,950	1,950	**7,800**
Operating income (loss)	(81)	(1,292)	(240)	174	(1,439)	27	440	177	707	**1,351**	705	788	872	956	**3,321**
Interest and financing costs	(380)	(428)	(359)	(324)	(1,491)	(297)	(333)	(331)	(300)	**(1,261)**	(300)	(300)	(300)	(300)	**(1,200)**
Other (expense) income	105	136	122	2,481	2,844	118	132	88	125	**463**	125	125	125	125	**500**
Income (loss) before taxes	(356)	(1,584)	(477)	2,331	(86)	(152)	239	(66)	532	**553**	530	613	697	781	**2,621**
Income tax (benefit)	(1,414)	-	-	2	(1,412)	-	-	-	-	**-**	-	-	-	-	**-**
Net income / (loss)	1,058	(1,584)	(477)	2,329	1,326	(152)	239	(66)	532	**553**	530	613	697	781	**2,621**
EPS	0.03	(0.05)	(0.02)	0.06	0.05	(0.00)	0.01	(0.00)	0.01	**0.02**	0.01	0.02	0.02	0.02	**0.07**
Shares Outstanding	36,521	30,552	30,621	36,747	36,747	31,972	37,992	32,074	38,500	**35,135**	38,500	38,500	38,500	38,500	**38,500**
EBITDA					3,975					**4,621**					**6,286**
Adjusted EBITDA					4,494					**5,271**					**6,936**
Margin Analysis															
Gross margin	16.2%	7.2%	12.1%	14.2%	13.0%	13.1%	16.8%	14.0%	16.5%	**15.2%**	16.7%	16.9%	17.1%	17.3%	**17.0%**
Operating margin	(0.6)%	(15.2)%	(1.8)%	1.2%	(2.9)%	0.2%	2.8%	1.2%	4.5%	**2.3%**	4.4%	4.9%	5.3%	5.7%	**5.1%**
Net margin	7.9%	(18.6)%	(3.5)%	16.1%	2.6%	(1.1)%	1.5%	(0.5)%	3.4%	**0.9%**	3.3%	3.8%	4.2%	4.7%	**4.0%**
Tax rate	397.2%	0.0%	0.0%	0.1%	NMF	0.0%	0.0%	0.0%	0.0%	**0.0%**	0.0%	0.0%	0.0%	0.0%	**0.0%**
Year / Year Growth															
Total Revenues	(3.1)%	(36.5)%	(2.4)%	8.7%	(8.2)%	2.0%	81.9%	5.1%	9.0%	**18.4%**	16.0%	4.8%	15.0%	6.3%	**10.3%**

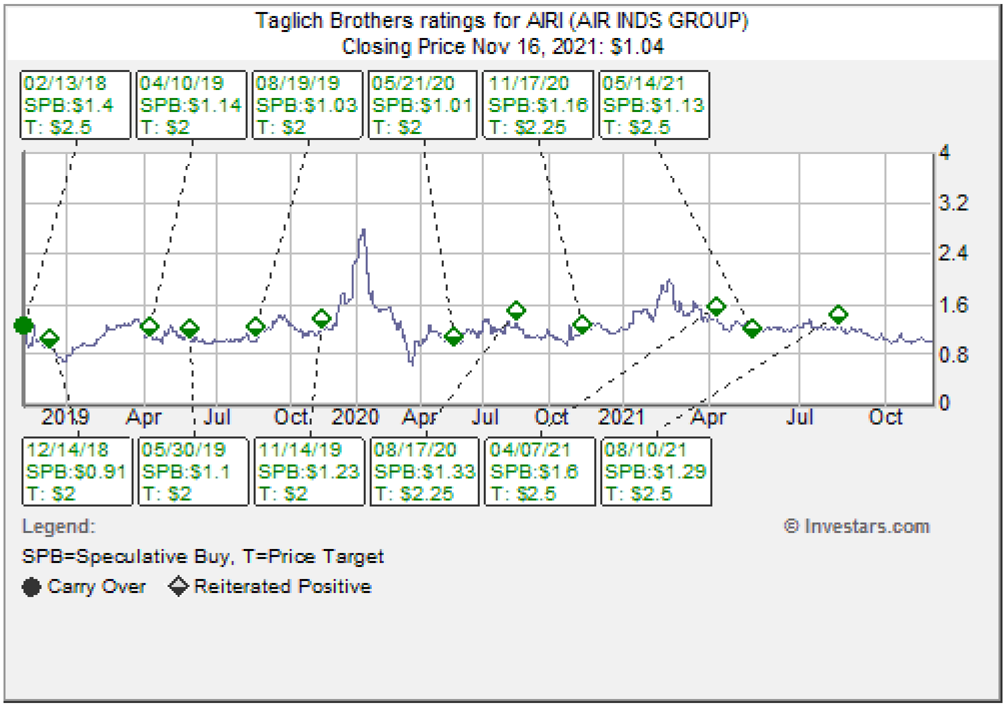
Source: Company filings and Taglich Brothers estimates

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

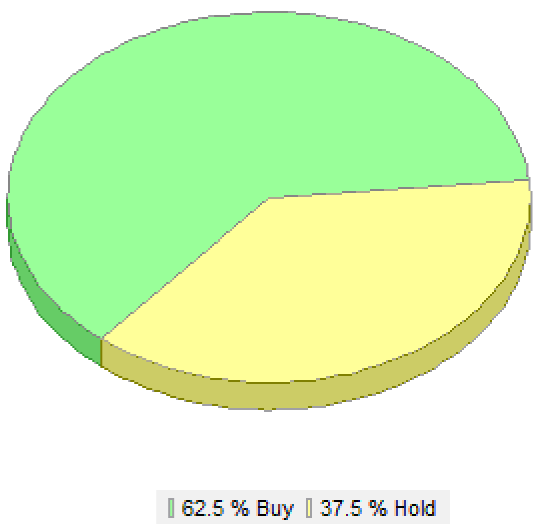
	2018A	2019A	2020A	9M21A	**2021E**	**2022E**
Net income (loss)	(10,992)	(2,732)	1,096	21	**553**	**2,621**
Depreciation	2,877	3,002	2,570	2,105	**2,807**	**2,465**
Stock compensation expense	598	622	519	517	**650**	**650**
Legal expenses paid by issuance of stock	200	126	-	-	**-**	**-**
Non-cash other income	-	(282)	(402)	(274)	**(195)**	**-**
Non-cash interest expense	-	85	122	82	**116**	**-**
Abandonment of lease	-	275	-	-	**-**	**-**
Non-cash deferred payroll expense-CARES Act	-	-	627	-	**-**	**-**
Amortization of right-to-use asset	-	470	482	364	**480**	**480**
Amortization of gain on sale of real estate	(38)	(38)	(38)	(29)	**(40)**	**(40)**
(Gain) loss on sale of equipment	-	136	60	-	**-**	**-**
Amortization of debt discount	941	510	233	-	**-**	**-**
Amortization of capitalized engineering costs	668	-	-	-	**-**	**-**
Bad debt expense (recovery)	49	311	105	(54)	**23**	**-**
Loss on impairment of goodwill	109	-	-	-	**-**	**-**
Amortization of deferred financing costs	212	-	126	118	**156**	**156**
Change in useful life of capitalized engineering costs	2,043	-	-	-	**-**	**-**
(Gain) loss on sale of subsidiary	340	-	-	-	**-**	**-**
Foregiveness of notes payable - SBA loan	-	-	(2,414)	-	**-**	**-**
Loss on assetss held for sale	386	-	-	-	**-**	**-**
Cash earnings (loss)	(2,607)	2,485	3,086	2,850	**4,550**	**6,332**
Changes in assets and liabilities						
Accounts receivable	(561)	(1,647)	(1,045)	(1,692)	**(1,912)**	**(1,098)**
Inventory	1,395	405	(3,474)	2,761	**2,358**	**(1,795)**
Prepaid expenses and other current assets	39	(33)	274	(159)	**(155)**	**-**
Prepaid taxes	-	49	(15)	-	**(4)**	**-**
Deposits and other assets	(1,112)	(713)	168	(15)	**(15)**	**367**
Accounts payable and accrued expenses	(1,569)	(970)	275	(1,261)	**(1,364)**	**(375)**
Operating lease liabilities	-	(601)	(673)	(541)	**(790)**	**(1,007)**
Deferred rent	3	-	-	-	**-**	**-**
Deferred revenue	2,076	130	(94)	571	**571**	**-**
Income taxes payable	-	7	(27)	-	**-**	**-**
(Increase) decrease in working capital	271	(3,373)	(4,611)	(336)	**(1,312)**	**(3,908)**
Net cash provided by (used in) operations	**(2,336)**	**(888)**	**(1,525)**	**2,514**	**3,238**	**2,424**
Capitalized engineering costs	(523)	-	-	-	**-**	**-**
Purchase of property and equipment	(1,264)	(764)	(3,797)	(983)	**(2,250)**	**(1,500)**
Proceeds from sale of subsidiary	5,472	-	-	-	**-**	**-**
Net cash provided by (used in) investing	**3,685**	**(764)**	**(3,797)**	**(983)**	**(2,250)**	**(1,500)**
Note payable-revolver-Sterling National Bank	-	12,543	3,106	(2,187)	**(1,687)**	**3,500**
Note payable-revolver-PNC	(2,415)	(14,043)	-	-	**-**	**-**
Proceeds from notes payable-term loan-Sterling	-	3,800	2,337	-	**-**	**-**
Payments of notes payable-term loan-Sterling	-	-	(579)	(1,147)	**(1,350)**	**(4,247)**
Payments of notes payable-term loan-PNC	(1,899)	(1,572)	-	-	**-**	**-**
SBA loan proceeds	-	-	2,414	-	**-**	**-**
Proceeds from sale of future proceeds from subsidiary	-	800	-	-	**-**	**-**
Transaction costs	-	(3)	-	-	**-**	**-**
Payment of finance lease obligations	(1,286)	(1,764)	(18)	(3)	**(4)**	**(4)**
Share issuance costs	-	(113)	(145)	-	**-**	**-**
Proceeds from notes payable - related party	2,803	1,500	-	-	**-**	**-**
Payments of notes payable - related party	-	(28)	(1,000)	-	**-**	**-**
Payments of loan payable - financed assets	-	(186)	(385)	(7)	**(9)**	**(9)**
Proceeds from notes payable-third party	70	-	-	-	**-**	**-**
Payments of notes payable - third party	-	-	(100)	-	**-**	**-**
Deferred financing costs	(125)	-	(81)	-	**-**	**-**
Proceeds from issuance of stock, net	2,885	-	984	-	**-**	**-**
Net cash provided by (used in) financing	**33**	**934**	**6,533**	**(3,344)**	**(3,050)**	**(760)**
Net change in cash	**1,382**	**(718)**	**1,211**	**(1,813)**	**(2,062)**	**164**
Cash - beginning of period	**630**	**2,012**	**1,294**	**2,505**	**2,505**	**443**
Cash - end of period	**2,012**	**1,294**	**2,505**	**692**	**443**	**607**

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	**4**	**19**
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 4,224,837 shares of AIRI common stock, 2,369,043 shares that may be acquired upon the conversion of convertible notes, 330,232 shares that may be acquired upon the conversion of warrants, and 46,000 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 2,596,188 shares of AIRI common stock, 1,861,324 shares that may be acquired upon the conversion of convertible notes, 243,248 shares that may be acquired upon the conversion of warrants, and 46,000 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. 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 1,000 shares of common stock and 28,736 shares that may be acquired upon the conversion of warrants. Taglich Brothers, Inc. owns 302,553 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.