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
April 1, 2022

AIRI $0.83 — (NYSE MKT)

	2020A	2021A	**2022E**	**2023E**
Revenues (millions)	$50.1	$58.9	**$59.0**	**$66.0**
Earnings (loss) per share	$0.05*	$0.05	**$0.03**	**$0.07**

52-Week range	$1.96 – $0.76	Fiscal year ends:	December
Common shares out as/of 3/21/22	32.2 million	Revenue per share (TTM)	$1.62
Approximate float	24.6 million	Price/Sales (TTM)	0.5X
Market capitalization	$27 million	Price/Sales (FY2023)E	0.5X
Tangible book value/share	$0.54	Price/Earnings (TTM)	16.6X
Price/tangible book value	1.5X	Price/Earnings (FY2023)E	11.9X

** Includes $0.07 per share gain 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 on Air Industries Group but reducing our twelve-month price target to $2.00 per share from $2.50 based on a lower valuation multiple applied to our 2023 sales per share forecast.

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 progress in returning to normal. However, we anticipate supply chain issues and industry-wide labor shortages are likely to keep revenue flat in 2022.

The company has made significant investments in new machinery and equipment totaling over $5 million over the past two years. We anticipate AIRI spending approximately $2 million in 2022. These investments increase the volume and efficiency of production and the size of product manufactured.

AIRI's funded backlog stood at approximately $75 million as of December 31, 2021, down from $81 million in 2020. The decrease in backlog was primarily due to the expiration of a long-term agreement (LTA) with a major customer in 2021. In 2022, we expect the backlog to grow as the company continues to book new business and announced a new LTA from that customer. A growing backlog combined with investments to expand its in-house manufacturing capabilities should enable revenue growth in 2023.

For 2022, we project relatively flat revenue growth to $59 million and EPS of $0.03. We previously forecast revenue of $65.4 million and EPS of $0.07.

For 2023, we project an 11.9% increase in revenue to $66 million and EPS of $0.07. Our projections reflect increased production of military aircraft and an improving commercial aircraft market.

AIRI reported 4Q21 revenue (10-K released 3/25/22) increased 6.4% to $15.4 million and EPS of $0.04, flat with 4Q20. We projected revenue of $15.8 million and EPS of $0.01. The results for 4Q20 included a gain of $0.07 per share. Excluding the gain in 4Q20, the loss was $(0.03) 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) but reducing our twelve-month price target to $2.00 per share from $2.50 based on a lower valuation multiple applied to our 2023 sales per share forecast.

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 progress in returning to normal. However, we anticipate supply chain issues and industry-wide labor shortages are likely to keep revenue relatively flat in 2022.

The company has made significant investments in new machinery and equipment totaling over $5 million over the past two years. We anticipate AIRI spending approximately $2 million in 2022. These investments increase the volume and efficiency of production and the size of product manufactured, and allow the company to offer additional services to its customers.

AIRI's funded backlog stood at approximately $75 million as of December 31, 2021, down from $81 million in 2020. The decrease in backlog was primarily due to the expiration of a long-term agreement (LTA) with a major customer in 2021. In 2022, we expect the backlog to grow as the company continues to book new business and announced a new LTA from that customer (see recent developments below). A growing backlog combined with investments to expand its in-house manufacturing capabilities should enable revenue growth in 2023.

Shares of AIRI are currently trading at a multiple of 0.5X ttm sales (0.6X previously) while the aerospace and defense industry trades at a multiple of 1.9X ttm sales (unchanged). With the sales growth we anticipate in 2H22 and FY23, along with a 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 1.5X (down from 1.7X to adjust for diminished valuation) to our 2023 sales projection of $1.71 per share, discounted for execution risks, to obtain a year ahead value of approximately $2.00 per share.

Recent Developments

$12.4 Million Order for Complete Landing Gear for the US Navy, E-2D Advanced Hawkeye, Airborne Early Warning Aircraft - On February 7, 2022, Air Industries announced it was awarded a contract to produce complete Main and Nose landing gear and ancillary components for the US Navy's E-2D Advanced Hawkeye, airborne early warning aircraft. The contract was valued at approximately $12.4 million with deliveries beginning next year and expected to be completed in 2024.

Long-Term Agreement for Flight Critical Components for Blackhawk Helicopters - On February 2, 2022, Air Industries announced that it has been awarded a long-term agreement (LTA) to manufacture flight-critical products for the Blackhawk helicopter. The estimated value of the LTA is $2.4 million.

Landing Gear Components Order for the US Air Force B1-B Bomber - On January 31, 2022, Air Industries announced it has been awarded a contract to produce components for the landing gear of the US Air Force's B1-B Bomber. The contract is valued at approximately $1.9 million with deliveries expected in 2023.

Two Long-Term Agreements for Flight Critical Components for Blackhawk Helicopters - On January 19, 2022, AIRI announced that it has been awarded two separate LTAs to manufacture flight-critical assemblies for the Blackhawk helicopter. The estimated value of the two LTAs will total approximately $18.2 million over their five-year terms.

The agreements include a five-year LTA to manufacture the primary flight control assembly for the Blackhawk helicopter, with an estimated life-of-the-contract value of $9.9 million. The second five-year LTA, to produce a flight critical component for the same aircraft, has an estimated life-of-the-contract value of $8.3 million.

<u>*New $6+ Million, Life of the Program, Long-Term Agreement for PW-4000 Jet Turbine Exhaust Cases*</u> - On January 6, 2022, Air Industries announced that its Sterling Engineering subsidiary has been awarded a life-of-the-program extension of a long-term agreement to deliver Turbine Exhaust Case components for the PW-4000 jet engine used on many Airbus and Boeing commercial aircraft, including the A-330 and Boeing 777. It is anticipated that this contract extension will generate revenue in excess of $6 million over its remaining term.

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.

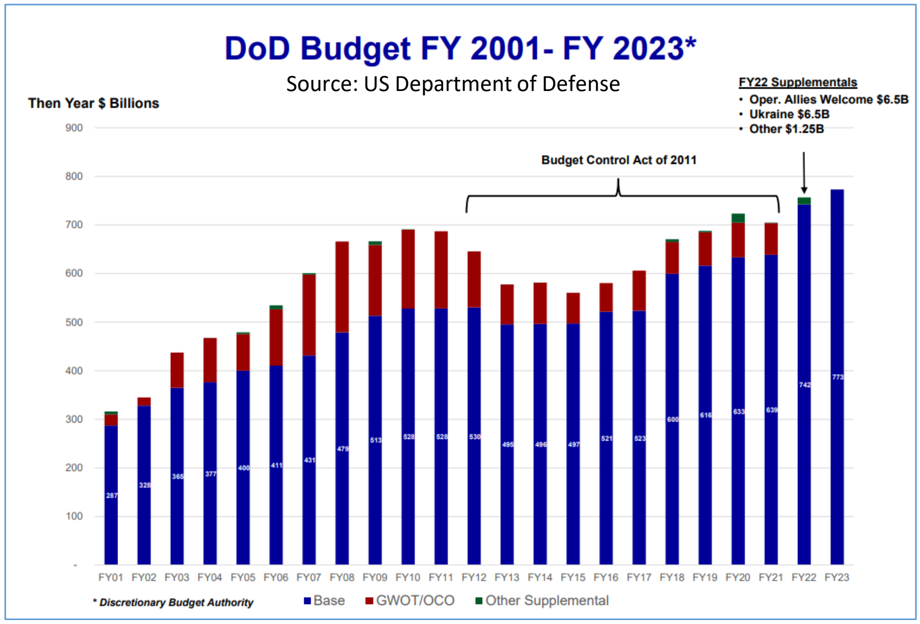
Many of the company's products influence critical aspects of aircraft performance. Air Industries is required to have advanced certifications for these products as a condition to being a supplier. Many of these products are subject to wear and tear or fatigue and are routinely replaced on aircraft at 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 2023 (see chart at top right on next page).

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 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 $309.5 billion in 2023 from $285 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 the market research firm Mordor Intelligence, the global commercial aircraft market was valued at over $85 billion in 2020 and is expected to reach over $173 billion by 2026 for a CAGR of approximately 12.3%. The report states that the COVID-19 pandemic had adversely impacted the commercial aircraft market and resulted in either cancelled or postponed commercial aircraft orders. The adverse effects from the pandemic are expected to continue with passenger traffic taking 3-4 years to fully recover. However, Mordor Intelligence observed that the large-scale backlog with aircraft OEMs is expected to drive the market during the forecast period.

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 continued 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 January 2022, the International Monetary Fund (IMF) revised its global economic growth estimates to an increase of 4.4% for 2022 and 3.8% for 2023. While the IMF's growth projection for 2022 is down from its earlier projection calling for 4.9% growth (October 2021), the 2023 projection is up from 3.6%. The 2022 downward revision primarily reflects lower growth assumptions for the US and China. The upward revision for 2023 largely reflects a pickup in economic activity after the impediments to growth dissipate in 2H22.

The IMF revised its economic growth estimate for the US to an increase of 4% for 2022 and 2.6% for 2023. In October 2021, the IMF projected US economic growth of 5.2% and 2.2% for 2022 and 2023, respectively.

The second estimate of US GDP growth (released on February 24, 2022) showed the US economy increased at an annual rate of 7% in 4Q21, up from the 2.3% increase reported in 3Q21. The 4Q21 US GDP estimate primarily reflects increases in inventory investment, exports, consumer spending, and business investment, partially offset by decreases in both federal and state and local government spending.

Projections

Although the global outbreak of COVID-19 negatively impacted AIRI's revenues, earnings, and operating cash flows in 2020, the company's operations made substantial progress in returning to normal by the end of 2021. However, we anticipate supply chain issues and industry-wide labor shortages will keep revenue relatively flat in 2022.

2022 – We project relatively flat revenue growth to $59 million and net income of $1.1 million or $0.03 per share. We previously forecast revenue of $65.4 million and net income of $2.6 million or $0.07 per share.
Year-over-year gross margins should remain at 17.4%.

We forecast a $634,000 increase in SG&A expenses to $8.4 million from $7.8 million in 2021 and operating income of $1.8 million compared to $2.5 million in 2021. We project operating margin of 3.1% compared to 4.2% in 2021. Interest and financing costs are projected to decrease to $1.2 million from $1.3 million in 2021 on lower average debt levels. We project the company paying no taxes.

We project $5.3 million cash from operations on $4.8 million of cash earnings and a $488,000 decrease in working capital. Cash from operations should be mostly offset by capital expenditures and repayments of debt, increasing cash by $104,000 to $731,000 by the end of 2022.

2023 – We project an 11.9% increase in revenue to $66 million and net income of $2.8 million or $0.07 per share. Our projections reflect increased production of military aircraft responsible for a majority of the company's backlog, and an improving commercial aircraft market.

We project gross margins improving to 18.6% from 17.4% projected for 2021 reflecting greater manufacturing overhead coverage.

We forecast a $400,000 increase in SG&A expenses to $8.8 million from $8.4 million in 2021 and operating income of $3.5 million compared to an estimated $1.8 million in 2022. We project operating margin improving to 5.3% compared to an estimated 3.1% in 2022. Interest and financing costs are projected to remain flat at $1.2 million. We project the company paying no taxes.

We project $2.2 million cash from operations on $6.1 million of cash earnings offset in part by a $3.9 million increase in working capital. Cash from operations should be more than offset by capital expenditures and repayments of debt, decreasing cash by $131,000 to $600,000 by the end of 2023.

4Q and FY2021 Financial Results

4Q21 - Total revenue increased 6.4% to $15.4 million. AIRI reported net income of $1.6 million or $0.04 per share versus income of $1.3 million or $0.04 per share in 4Q20. The results for 4Q20 included a gain of $2.4 million or $0.07 per share. Excluding the gain in 4Q20, the loss was $1.1 million or $(0.03) per share. We projected revenue of $15.8 million and net income of $532,000 or $0.01 per share.

Gross profit increased 86.3% to $3.8 million on gross margins improving to 24.9% from 14.2%. Gross profit in 4Q21 included a $1.2 million year-end update to adjust for the prior three quarter percentages which were estimated based on more conservative inventory valuations. Operating (SG&A) expenses increased by 7.5% to $2 million from $1.9 million in 4Q20. Operating income increased to $1.8 million from $173,000 in 4Q20. Interest expense decreased to $304,000 from $323,000.

FY2021 - Total revenue increased 17.6% to $58.9 million. AIRI reported net income of $1.6 million or $0.05 per share versus income of $1.3 million or $0.05 per share in 2020 that included a $2.4 million or $0.07 per share gain from the forgiveness of PPP loans and a $1.4 million or $0.04 per share tax benefit. Excluding these items, the net loss in 2020 was $2.5 million or $(0.07) per share.

Sales in the company's Complex Machining segment increased 18.5% to $52.9 million while sales in the Turbine Engine Components segment increased 10.7% to $6 million. The increase in sales was directly attributable to shipping product that had remained as work-in-process at the end of 2020 due to certain subcontractors who were severely impacted by COVID-19 and AIRI's ability to increase production and return to a pre-COVID-19 business environment.

Gross profit increased 57.4% to $10.3 million on gross margins improving to 17.4% from 13%. The increase in gross margins was primarily due to a better mix of products that were shipped during 2021 and the end of a long term agreement where the company's costs equaled the sales price. Operating (SG&A) expenses decreased by 2.3% to $7.8 million from $8 million in 2020 due primarily to a bad debt expense in 2020 that was partially recovered in 2021. The decrease in operating expenses on higher revenue resulted in operating income of $2.5 million versus an operating loss of $1.4 million. Interest expense decreased to $1.3 million from $1.5 million due primarily to a lower debt balance.

Liquidity - As of December 31, 2021, the company had $627,000 cash and a current ratio of 1.7X. Total debt was approximately $23.4 million (of which $14.1 million is classified as current) for a debt/equity ratio of 1.3X.

In 2021, cash provided by operations was $4.1 million consisting of $5.4 million cash earnings and a $1.3 million increase in working capital. Cash used in investing was $1.4 million consisting solely of capital expenditures. Cash used in financing of $4.6 million consisted primarily of repaying debt. Cash decreased by $1.9 million to $627,000 at December 31, 2021.

On December 31, 2019, AIRI entered into a new loan facility with Webster Bank and paid its outstanding loan facility with PNC. The Webster facility currently provides for a $16 million revolving loan and a term loan of $5.7 million.

On December 7, 2021, AIRI entered in the third amendment to the Webster loan agreement which extended the maturity date of both the Webster revolving line of credit and term loan by three years, from December 30, 2022 to December 30, 2025 and increased the revolver to $20 million from $16 million. As of December 31, 2021, the company was in compliance with all loan covenants.

As of December 31, 2021, total debt outstanding to Webster was $16.6 million consisting of a $12.5 million revolving credit loan and a term loan in the amount of $4.2 million. The average interest rate charged during the period ended December 31, 2021 was 3.5%.

AIRI is currently in discussions with Webster Bank to further expand its term loan to support the acquisition of additional equipment. The company anticipates this additional financing will occur in 2Q22.

As of December 31, 2021, finance lease obligations totaled $263,000, a loan payable related to a financed asset totaled $39,000, 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 Webster facility and are due on July 1, 2026. Approximately $2.7 million of the related party notes can be converted at the option of the holder into common stock of the company at $1.50 per share, while the remaining $2.1 million can be converted at the option of the holder into common stock of the company at $0.93 per share. There are no principal payments due on these notes. Interest expense for 2021 on all related party notes payable was $460,000.

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.

Russian invasion of Ukraine concerns **-** The invasion of Ukraine by the Russian Federation had an immediate impact on the global economy resulting in higher prices for oil and other commodities. The US, United Kingdom, European Union and other countries responded to Russia's invasion of Ukraine by imposing various economic sanctions and bans. Russia has responded with its own retaliatory measures which has impacted the availability and price of certain raw materials. The invasion and retaliatory measures also disrupted economic markets. There can be no assurance that Russia's invasion of Ukraine and responses thereto will not further disrupt the global economy and supply chain.

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 2021, three customers accounted for 75% 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-18 Hornet and the Pratt & Whitney Geared TurboFan Jet engine.. 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. Contract Pharmacal filed a motion to reargue which the court denied on November 30, 2021. On March 10, 2022, Contract Pharmacal filed an appeal to the court's decision of which AIRI will oppose. The company disputes the validity of the claims asserted by Contract Pharmacal and continues to believe it has a meritorious defense to those claims.

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 268,000 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 $)

	2019A	2020A	2021A	**2022E**	**2023E**
Cash and cash equivalents	1,294	2,505	627	**731**	**600**
Accounts receivable	7,858	8,798	10,473	**10,489**	**11,733**
Inventory	28,646	32,120	29,532	**28,682**	**31,608**
Prepaid expenses and other current assets	447	173	226	**226**	**226**
Prepaid taxes	-	15	22	**22**	**22**
Total current assets	38,245	43,611	40,880	**40,150**	**44,189**
Property and equipment, net	7,578	9,581	8,404	**7,816**	**7,014**
Operating lease right-of-use-asset	3,623	3,510	3,018	**2,193**	**1,337**
Deferred financing costs	1,481	912	960	**960**	**960**
Goodwill	163	163	163	**163**	**163**
Total assets	51,090	57,777	53,425	**51,282**	**53,663**
Notes payable and finance lease obligations	22,544	16,475	14,112	**12,554**	**12,496**
Operating lease liabilities	697	701	686	**686**	**686**
Accounts payable and accrued expenses	8,105	8,682	6,723	**6,772**	**7,463**
Deferred gain on sale	38	38	38	**38**	**38**
Deferred revenue	1,011	917	1,470	**1,470**	**1,470**
Liabilities associated with assets held for sale	200	200	59	**59**	**59**
Deferred payroll tax liability (CARES Act)	-	314	314	**314**	**314**
Income taxes payable	27	-	-	**-**	**-**
Total current liabilities	32,622	27,327	23,402	**21,893**	**22,526**
Long-term debt	3,406	10,798	9,250	**7,651**	**6,839**
Deferred gain on sale	219	181	143	**143**	**143**
Operating lease liabilites	4,235	3,927	3,241	**2,416**	**1,560**
Disposition of subsidiary	402	122	-	**-**	**-**
Deferred payroll tax liability (CARES Act)	-	313	-	-	-
Total liabilities	40,884	42,668	36,036	**32,103**	**31,068**
Total stockholders' equity	10,206	15,109	17,389	**19,179**	**22,595**
Total liabilities & stockholders' equity	51,090	57,777	53,425	**51,282**	**53,663**

Source: Company filings and Taglich Brothers estimates

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

	2019A	2020A	2021A	**2022E**	**2023E**
Net sales	54,573	50,097	58,939	**59,000**	**66,000**
Cost of sales	45,431	43,585	48,686	**48,760**	**53,734**
Gross profit	9,142	6,512	10,253	**10,240**	**12,266**
Operating expenses	8,539	7,951	7,766	**8,400**	**8,800**
Operating income (loss)	328	(1,439)	2,487	**1,840**	**3,466**
Interest and financing costs	(3,561)	(1,491)	(1,265)	**(1,200)**	**(1,200)**
Other (expense) income	672	2,844	405	**500**	**500**
Income (loss) before taxes	(2,561)	(86)	1,627	**1,140**	**2,766**
Income tax (benefit)	37	(1,412)	-	**-**	**-**
Net income / (loss)	(2,598)	1,326	1,627	**1,140**	**2,766**
EPS	(0.09)	0.05	0.05	**0.03**	**0.07**
Shares Outstanding	28,852	36,747	36,424	**38,500**	**38,500**
EBITDA	4,002	3,975	5,845	**5,078**	**6,418**
Adjusted EBITDA	5,207	4,494	6,287	**5,728**	**7,068**
Margin Analysis					
Gross margin	16.8%	13.0%	17.4%	**17.4%**	**18.6%**
Operating margin	0.6%	(2.9)%	4.2%	**3.1%**	**5.3%**
Net margin	(4.8)%	2.6%	2.8%	**1.9%**	**4.2%**
Tax rate	(1.4)%	NMF	0.0%	**0.0%**	**0.0%**
Year / Year Growth					
Total Revenues	22.6%	(8.2)%	17.6%	**0.1%**	**11.9%**

Source: Company filings and Taglich Brothers estimates

Quarterly Income Statements
(in thousands $)

	3/21A	6/21A	9/21A	12/21A	2021A	3/22E	6/22E	9/22E	12/22E	**2022E**	3/23E	6/23E	9/23E	12/23E	**2023E**
Net sales	13,712	15,453	14,354	15,420	58,939	12,000	14,800	16,000	16,200	**59,000**	15,750	16,250	16,750	17,250	**66,000**
Cost of sales	11,915	12,850	12,340	11,581	48,686	10,260	12,225	13,056	13,219	**48,760**	12,884	13,260	13,618	13,973	**53,734**
Gross profit	1,797	2,603	2,014	3,839	10,253	1,740	2,575	2,944	2,981	**10,240**	2,867	2,990	3,132	3,278	**12,266**
Operating expenses	1,770	2,163	1,837	1,996	7,766	2,100	2,100	2,100	2,100	**8,400**	2,200	2,200	2,200	2,200	**8,800**
Operating income (loss)	27	440	177	1,843	2,487	(360)	475	844	881	**1,840**	666	790	932	1,078	**3,466**
Interest and financing costs	(297)	(333)	(331)	(304)	(1,265)	(300)	(300)	(300)	(300)	**(1,200)**	(300)	(300)	(300)	(300)	**(1,200)**
Other (expense) income	118	132	88	67	405	125	125	125	125	**500**	125	125	125	125	**500**
Income (loss) before taxes	(152)	239	(66)	1,606	1,627	(535)	300	669	706	**1,140**	491	615	757	902	**2,766**
Income tax (benefit)	-	-	-	-	-	-	-	-	-	**-**	-	-	-	-	**-**
Net income / (loss)	(152)	239	(66)	1,606	1,627	(535)	300	669	706	**1,140**	491	615	757	902	**2,766**
EPS	(0.00)	0.01	(0.00)	0.04	0.05	(0.01)	0.01	0.02	0.02	**0.03**	0.01	0.02	0.02	0.02	**0.07**
Shares Outstanding	31,972	37,992	32,074	36,424	36,424	38,500	38,500	38,500	38,500	**38,500**	38,500	38,500	38,500	38,500	**38,500**
EBITDA					5,845					**5,078**					**6,418**
Adjusted EBITDA					6,287					**5,728**					**7,068**
Margin Analysis															
Gross margin	13.1%	16.8%	14.0%	24.9%	17.4%	14.5%	17.4%	18.4%	18.4%	**17.4%**	18.2%	18.4%	18.7%	19.0%	**18.6%**
Operating margin	0.2%	2.8%	1.2%	12.0%	4.2%	(3.0)%	3.2%	5.3%	5.4%	**3.1%**	4.2%	4.9%	5.6%	6.2%	**5.3%**
Net margin	(1.1)%	1.5%	(0.5)%	10.4%	2.8%	(4.5)%	2.0%	4.2%	4.4%	**1.9%**	3.1%	3.8%	4.5%	5.2%	**4.2%**
Tax rate	0.0%	0.0%	0.0%	0.0%	0.0%	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	2.0%	81.9%	5.1%	6.4%	17.6%	(12.5)%	(4.2)%	11.5%	5.1%	**0.1%**	31.3%	9.8%	4.7%	6.5%	**11.9%**

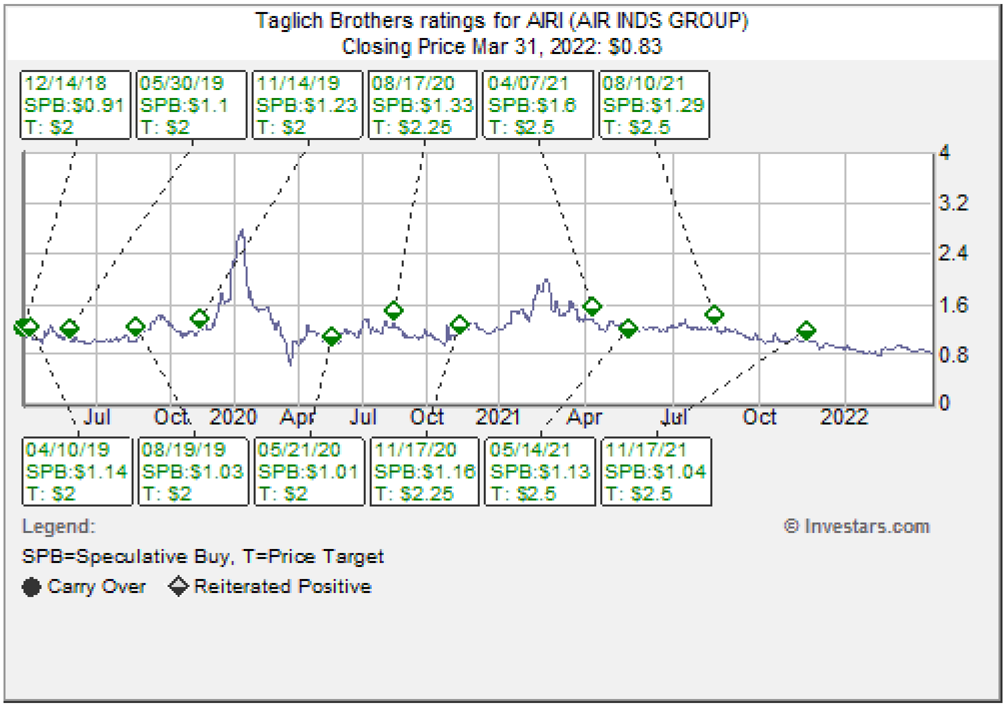
Source: Company filings and Taglich Brothers estimates

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

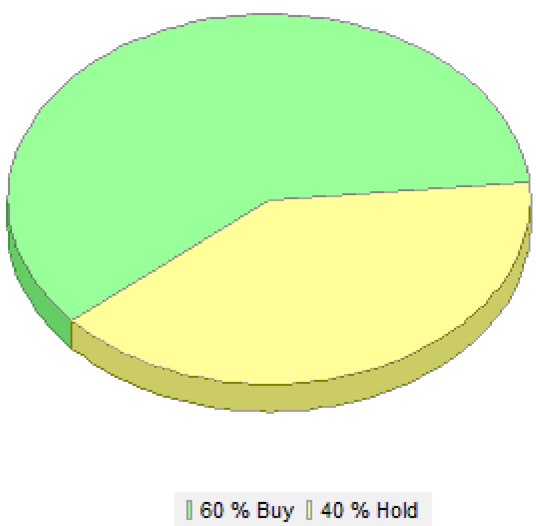
	2019A	2020A	2021A	**2022E**	**2023E**
Net income (loss)	(2,732)	1,096	1,627	**1,140**	**2,766**
Depreciation	3,002	2,570	2,803	**2,588**	**2,302**
Stock compensation expense	622	519	653	**650**	**650**
Legal expenses paid by issuance of stock	126	-	-	**-**	**-**
Non-cash other income	(282)	(402)	(326)	**(300)**	**(300)**
Non-cash interest expense	85	122	98	**100**	**100**
Abandonment of lease	275	-	-	**-**	**-**
Non-cash deferred payroll expense-CARES Act	-	627	-	**-**	**-**
Amortization of right-to-use asset	470	482	492	**492**	**492**
Deferred gain on sale of real estate	(38)	(38)	(38)	**(38)**	**(38)**
(Gain) loss on sale of equipment	136	60	-	**-**	**-**
Amortization of debt discount	510	233	-	**-**	**-**
Bad debt expense (recovery)	311	105	(86)	**-**	**-**
Amortization of deferred financing costs	-	126	150	**150**	**150**
Foregiveness of notes payable - SBA loan	-	(2,414)	-	**-**	**-**
Loss on assetss held for sale	-	-	-	**-**	**-**
Cash earnings (loss)	2,485	3,086	5,373	**4,782**	**6,122**
Changes in assets and liabilities					
Accounts receivable	(1,647)	(1,045)	(1,589)	**(16)**	**(1,244)**
Inventory	405	(3,474)	2,588	**850**	**(2,926)**
Prepaid expenses and other current assets	(33)	274	(53)	**-**	**-**
Prepaid taxes	49	(15)	(7)	**-**	**-**
Deposits and other assets	(713)	168	(193)	**430**	**461**
Accounts payable and accrued expenses	(970)	275	(1,594)	**49**	**691**
Operating lease liabilities	(601)	(673)	(701)	**(825)**	**(856)**
Deferred revenue	130	(94)	553	**-**	**-**
Other liability	-	-	(313)	**-**	**-**
Income taxes payable	7	(27)	-	**-**	**-**
(Increase) decrease in working capital	(3,373)	(4,611)	(1,309)	**488**	**(3,874)**
Net cash provided by (used in) operations	**(888)**	**(1,525)**	**4,064**	**5,270**	**2,248**
Purchase of property and equipment	(764)	(3,797)	(1,364)	**(2,000)**	**(1,500)**
Proceeds from sale of subsidiary	-	-	-	**-**	**-**
Net cash provided by (used in) investing	**(764)**	**(3,797)**	**(1,364)**	**(2,000)**	**(1,500)**
Note payable-revolver-Webster Bank	12,543	3,106	(3,193)	**(1,500)**	**-**
Note payable-revolver-PNC	(14,043)	-	-	**-**	**-**
Proceeds from notes payable-term loan-Webster	3,800	2,337	-	**-**	**-**
Payments of notes payable-term loan-Webster	-	(579)	(1,371)	**(1,599)**	**(812)**
Payments of notes payable-term loan-PNC	(1,572)	-	-	**-**	**-**
SBA loan proceeds	-	2,414	-	**-**	**-**
Proceeds from sale of future proceeds from subsidiary	800	-	-	**-**	**-**
Transaction costs	(3)	-	-	**-**	**-**
Payment of finance lease obligations	(1,764)	(18)	(5)	**(58)**	**(58)**
Share issuance costs	(113)	(145)	-	**-**	**-**
Proceeds from notes payable - related party	1,500	-	-	**-**	**-**
Payments of notes payable - related party	(28)	(1,000)	-	**-**	**-**
Payments of loan payable - financed assets	(186)	(385)	(9)	**(9)**	**(9)**
Payments of notes payable - third party	-	(100)	-	**-**	**-**
Deferred financing costs	-	(81)	-	**-**	**-**
Proceeds from issuance of stock, net	-	984	-	**-**	**-**
Net cash provided by (used in) financing	**934**	**6,533**	**(4,578)**	**(3,166)**	**(879)**
Net change in cash	**(718)**	**1,211**	**(1,878)**	**104**	**(131)**
Cash - beginning of period	**2,012**	**1,294**	**2,505**	**627**	**731**
Cash - end of period	**1,294**	**2,505**	**627**	**731**	**600**

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	**5**	**25**
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 4,249,864 shares of AIRI common stock, 2,369,043 shares that may be acquired upon the conversion of convertible notes, 186,529 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 2,613,566 shares of AIRI common stock, 1,861,324 shares that may be acquired upon the conversion of convertible notes, 191,446 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 14,008 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 21,000 shares of common stock and 22,427 shares that may be acquired upon the conversion of warrants. Taglich Brothers, Inc. owns 239,946 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)
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.