

## Research Report – Update

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

### Air Industries Group

**Speculative Buy**

John Nobile

May 23, 2022

**AIRI \$0.71 — (NYSE MKT)**

	<u>2020A</u>	<u>2021A</u>	<u>2022E</u>	<u>2023E</u>
Revenues (millions)	\$50.1	\$58.9	<b>\$58.0</b>	<b>\$65.0</b>
Earnings (loss) per share	\$0.05*	\$0.05	<b>\$0.05</b>	<b>\$0.09</b>

52-Week range	\$1.44 – \$0.65	Fiscal year ends:	December
Common shares out as/of 5/9/22	32.2 million	Revenue per share (TTM)	\$1.65
Approximate float	24.7 million	Price/Sales (TTM)	0.4X
Market capitalization	\$23 million	Price/Sales (FY2023)E	0.4X
Tangible book value/share	\$0.54	Price/Earnings (TTM)	14.2X
Price/tangible book value	1.3X	Price/Earnings (FY2023)E	7.9X

\* 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.airindustriessgroup.com](http://www.airindustriessgroup.com))

#### Key investment considerations:

**Reiterating our Speculative Buy rating on Air Industries Group but reducing our twelve-month price target to \$1.80 per share from \$2.00 based on a lower valuation multiple applied to our 2023 sales per share forecast.**

**The company is continuing to make investments in state-of-the-art machinery. AIRI recently committed to the purchase of three major machining centers at a total cost of \$2 million. Since 2020, the company has invested approximately \$6 million in new machines. These investments will increase the volume and efficiency of production and the size of product manufactured, and allow the company to offer additional services to its customers.**

**1Q22 revenue was adversely impacted by supply chain related delays, labor shortages, and a long-term agreement (LTA) with one of AIRI's major customers that ended in December 2021. The five year LTA was renewed in 1Q22. We anticipate supply chain issues and industry-wide labor shortages are likely to keep revenue constrained in 2022. We project revenue growth to return in 2023 supported by increased production of military aircraft.**

**For 2022, we project a 1.7% decrease in revenue to \$58 million and EPS of \$0.05. We previously forecast revenue of \$59 million and EPS of \$0.03. The increase EPS on lower revenue primarily reflects higher gross margins and lower operating costs than previously anticipated.**

**For 2023, we project a 12.1% increase in revenue to \$65 million and EPS of \$0.09. We previously forecast revenue of \$66 million and EPS of \$0.07. Our revenue forecast reflects continuing supply chain delays while our revised EPS forecast reflects higher gross margins and lower interest expense than previously anticipated.**

**AIRI reported 1Q22 revenue (10-Q released 5/11/22) revenue decreased 12% to \$12.1 million and a loss of \$(0.00) per share. We projected revenue of \$12 million and a loss of \$(0.01) 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 \$1.80 per share from \$2.00 based on a lower valuation multiple applied to our 2023 sales per share forecast.**

The company is continuing to make investments in state-of-the-art machinery. AIRI recently committed to the purchase of three major machining centers at a total cost of \$2 million. Since 2020, the company has invested approximately \$6 million in new machines. These investments will increase the volume and efficiency of production and the size of product manufactured, and allow the company to offer additional services to its customers.

1Q22 revenue was adversely impacted by supply chain related delays, labor shortages, and a long-term agreement (LTA) with one of AIRI's major customers that ended in December 2021. The LTA was renewed in 1Q22 for an additional five years. We anticipate supply chain issues and industry-wide labor shortages are likely to keep revenue constrained in 2022. We project revenue growth to return in 2023 supported by increased production of military aircraft and an improving commercial aircraft market.

Shares of AIRI are trade at a trailing price-to-sale multiple of 0.4X (0.5X previously) while the aerospace and defense industry trades at a trailing multiple of 1.9X sales (unchanged). We anticipate investors are likely to accord AIRI a price-to-sales multiple approaching the industry. We applied a multiple of 1.2X (down from 1.5X to adjust for diminished valuation) to our 2023 sales projection of \$1.69 per share, discounted for execution risks, to obtain a year ahead value of approximately \$1.80 per share.

### ***Recent Developments***

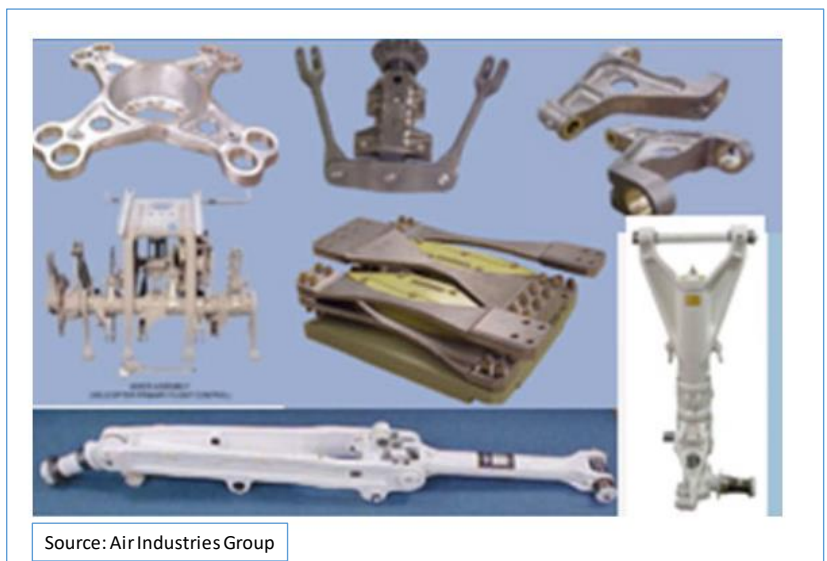
*Air Industries Wins Two Long-Term Agreements for Flight Critical Components for Blackhawk Helicopters with a Combined Value of \$8.3 Million* - On April 28, 2022, Air Industries announced that it was awarded two separate long-term agreements (LTAs) to manufacture flight-critical assemblies for the Blackhawk helicopter. The estimated value of the two LTAs is approximately \$8.3 million over their five-year terms.

These two LTAs along with orders that were previously announced in January 2022 and February 2022 total an estimated \$28.9 million in components for Blackhawk helicopters over the life of the agreements.

### ***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.



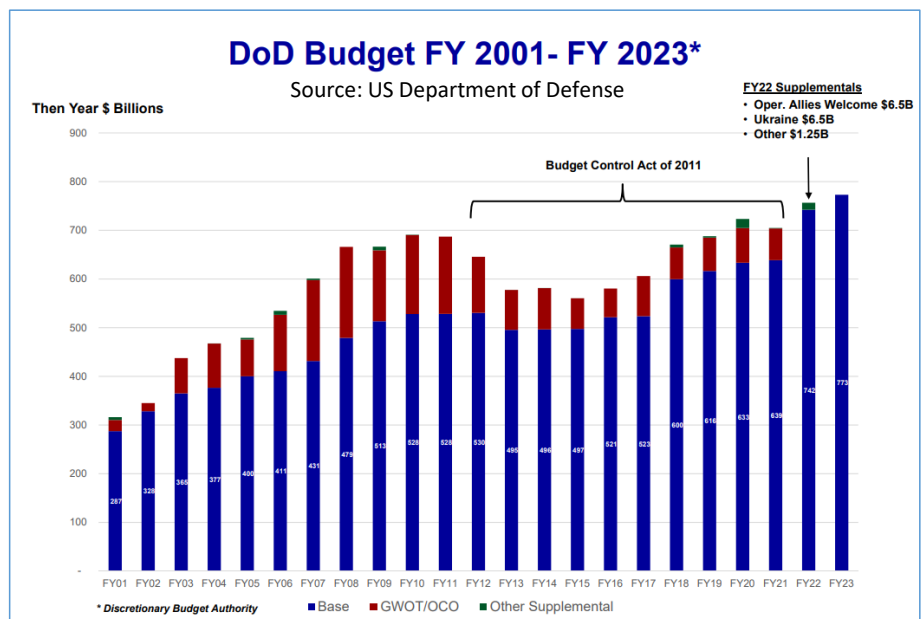
AIRI’s products are deployed on a wide range of military and commercial aircraft including Sikorsky’s UH-60 Black Hawk, Lockheed Martin’s F-35 Joint Strike Fighter, Northrop Grumman’s E2 Hawkeye, Boeing’s 777, Airbus’ 380 commercial airliners, the US Navy F-18 and USAF F-16 fighter aircraft. The Turbine 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 2023 (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 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 April 2022, the International Monetary Fund (IMF) revised its global economic growth estimates to an increase of 3.6% for 2022 and 2023, down from its January 2022 projection calling for 4.6% growth in 2022 and 3.8% growth in 2023. The downward revisions primarily reflect the economic damage from the war in Ukraine resulting in elevated inflation and rising interest rates.

The IMF revised its economic growth estimate for the US to an increase of 3.7% for 2022 and 2.3% for 2023. In January 2022, the IMF projected US economic growth of 4% and 2.6% for 2022 and 2023, respectively.

The advance estimate of US GDP growth (released on April 28, 2022) showed the US economy decreased at an annual rate of 1.4% in 1Q22, down from the 6.9% increase reported in 4Q21. The 1Q22 US GDP estimate primarily reflects decreases in inventory investment, exports, federal government spending, 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 constrained in 2022.

2022 – We project a 1.7% decrease in revenue to \$58 million and net income of \$2 million or \$0.05 per share. We previously forecast revenue of \$59 million and net income of \$1.1 million or \$0.03 per share. The increase in net income on lower revenue primarily reflects higher gross margins and lower operating costs than previously anticipated.

Year-over-year gross margins should increase to 19% from 17.4% in 2021.

We forecast a \$405,000 increase in SG&A expenses to \$8.2 million from \$7.8 million in 2021 with operating income improving to \$2.8 million from \$2.5 million in 2021. We project operating margin of 4.9% 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 \$5.6 million cash from operations on \$5.4 million of cash earnings and a \$109,000 decrease in working capital. Cash from operations should be partially offset by capital expenditures and repayments of debt, increasing cash by \$923,000 to \$1.6 million by the end of 2022.

2023 – We project a 12.1% increase in revenue to \$65 million and net income of \$3.5 million or \$0.09 per share. We previously forecast revenue of \$66 million and net income of \$2.8 million or \$0.07 per share. Our revised revenue forecast reflects continuing supply chain delays. Our revised EPS forecast reflects higher gross margins and lower interest expense than previously anticipated. Revenue growth should be supported by 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 19.9% from 19% projected for 2022 reflecting greater manufacturing overhead coverage.

We forecast a \$629,000 increase in SG&A expenses to \$8.8 million from \$8.2 million projected for 2022. We anticipate operating income increasing 47.1% to \$4.1 million from an estimated \$2.8 million in 2022. We project operating margin improving to 6.4% compared to an estimated 4.9% in 2022. Interest and financing costs are projected to decrease to \$1.1 million from \$1.2 million projected for 2022 due to a lower average debt level. We project the company paying no taxes.

We project \$4.3 million cash from operations on \$6.8 million of cash earnings offset in part by a \$2.5 million increase in working capital. Cash from operations should be partially offset by capital expenditures and repayments of debt, increasing cash by \$1.9 million to \$3.4 million by the end of 2023.

### ***1Q22 Financial Results***

1Q22 - Total revenue decreased 12% to \$12.1 million. AIRI reported a net loss of \$28,000 or \$(0.00) per share versus a loss of \$152,000 or \$(0.00) per share in 1Q21. We projected revenue of \$12 million and a loss of \$535,000 or \$(0.01) per share.

## Air Industries Group

The decrease in revenue resulted principally from the decline of approximately \$1.5 million in sales from two products whose contracts expired or were cancelled by the customer in 2021. Gross profit increased 15.6% to \$2.1 million on gross margins improving to 17.2% from 13.1%. The increase in gross margins was primarily due to a more favorable product mix.

Operating (SG&A) expenses increased by 5.7% to \$1.9 million from \$1.8 million in 1Q21. The increase in operating expenses was due to increases in employment costs, including employee health benefits, increases in investor relations and increased travel costs, partially offset by reductions in stock compensation expense, information technology, and bad debt expense. Operating income increased to \$207,000 from \$27,000 in 1Q21. Interest expense increased to \$323,000 from \$297,000 in the year ago period.

*Liquidity* - As of March 31, 2022, the company had \$364,000 cash and a current ratio of 1.8X. Total debt was approximately \$22.3 million (of which \$13.3 million is classified as current) for a debt/equity ratio of 1.3X.

In 1Q22, cash provided by operations was \$1.3 million consisting of \$686,000 cash earnings and a \$599,000 decrease in working capital. Cash used in investing was \$430,000 consisting solely of capital expenditures. Cash used in financing of \$1.1 million consisted primarily of repaying debt. Cash decreased by \$263,000 to \$364,000 at March 31, 2022.

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 March 31, 2022, the company was in compliance with all loan covenants.

As of March 31, 2022, total debt outstanding to Webster was \$15.6 million consisting of a \$11.6 million revolving credit loan and a term loan in the amount of \$4 million. The average interest rate charged during the period ended March 31, 2022 was 3.5%.

As of March 31, 2022, finance lease obligations totaled \$251,000, a loan payable related to financed assets totaled \$38,000, 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 1Q22 on all related party notes payable was \$125,000.

On May 18, 2022, AIRI announced that Webster Bank agreed to expand the size of its existing term loan and establish a capital expenditure line of credit to finance future purchases of machinery and equipment. The new Webster Bank Term Loan has an initial principal amount of \$5 million which will be used to retire the existing term loan of approximately \$3.1 million, retire a capital lease of approximately \$250,000, and purchase two CNC milling centers for an aggregate of \$870,000. In addition to the term loan, Webster Bank has extended a new \$2 million capital expenditure line of credit to be used to purchase new machinery and equipment.

All advances under the term loan and the capital expenditure line of credit are amortizable over seven years, mature on December 31, 2026, and bear interest at the greater of 3.5% per annum, or 30-day LIBOR plus 250 basis points, or Prime Rate less 65 basis points. The current interest rate is 3.5%.

## ***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

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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 24.7 million shares in the float and the average daily volume is approximately 116,000 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.



Air Industries Group

Consolidated Balance Sheets  
(in thousands \$)

	2019A	2020A	2021A	3/22A	2022E	2023E
Cash and cash equivalents	1,294	2,505	627	364	1,550	3,426
Accounts receivable	7,858	8,798	10,473	7,558	10,465	11,556
Inventory	28,646	32,120	29,532	31,999	29,357	30,619
Prepaid expenses and other current assets	447	173	226	258	258	258
Prepaid taxes	-	15	22	22	22	22
Total current assets	38,245	43,611	40,880	40,201	41,653	45,881
Property and equipment, net	7,578	9,581	8,404	8,169	7,816	7,014
Operating lease right-of-use-asset	3,623	3,510	3,018	2,887	2,193	1,337
Deferred financing costs	1,481	912	960	1,026	1,026	1,026
Goodwill	163	163	163	163	163	163
Total assets	51,090	57,777	53,425	52,446	52,851	55,421
Notes payable and finance lease obligations	22,544	16,475	14,112	13,278	13,227	13,167
Operating lease liabilities	697	701	686	708	708	708
Accounts payable and accrued expenses	8,105	8,682	6,723	7,042	7,176	7,519
Deferred gain on sale	38	38	38	38	38	38
Deferred revenue	1,011	917	1,470	1,415	1,415	1,415
Liabilities associated with assets held for sale	200	200	59	5	5	5
Deferred payroll tax liability (CARES Act)	-	314	314	314	314	314
Income taxes payable	27	-	-	-	-	-
Total current liabilities	32,622	27,327	23,402	22,800	22,883	23,166
Long-term debt	3,406	10,798	9,250	8,977	7,514	6,702
Deferred gain on sale	219	181	143	133	133	133
Operating lease liabilities	4,235	3,927	3,241	3,055	2,297	1,259
Disposition of subsidiary	402	122	-	-	-	-
Deferred payroll tax liability (CARES Act)	-	313	-	-	-	-
Total liabilities	40,884	42,668	36,036	34,965	32,827	31,260
Total stockholders' equity	10,206	15,109	17,389	17,481	20,023	24,161
Total liabilities & stockholders' equity	51,090	57,777	53,425	52,446	52,851	55,421

Source: Company filings and Taglich Brothers estimates

Air Industries Group

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

	<u>2019A</u>	<u>2020A</u>	<u>2021A</u>	<b><u>2022E</u></b>	<b><u>2023E</u></b>
Net sales	54,573	50,097	58,939	<b>57,962</b>	<b>65,000</b>
Cost of sales	<u>45,431</u>	<u>43,585</u>	<u>48,686</u>	<b><u>46,972</u></b>	<b><u>52,053</u></b>
Gross profit	9,142	6,512	10,253	<b>10,990</b>	<b>12,948</b>
Operating expenses	<u>8,539</u>	<u>7,951</u>	<u>7,766</u>	<b><u>8,171</u></b>	<b><u>8,800</u></b>
Operating income (loss)	328	(1,439)	2,487	<b>2,819</b>	<b>4,148</b>
Interest and financing costs	(3,561)	(1,491)	(1,265)	<b>(1,223)</b>	<b>(1,060)</b>
Other (expense) income	<u>672</u>	<u>2,844</u>	<u>405</u>	<b><u>388</u></b>	<b><u>400</u></b>
Income (loss) before taxes	(2,561)	(86)	1,627	<b>1,984</b>	<b>3,488</b>
Income tax (benefit)	<u>37</u>	<u>(1,412)</u>	<u>-</u>	<b><u>-</u></b>	<b><u>-</u></b>
Net income / (loss)	<u>(2,598)</u>	<u>1,326</u>	<u>1,627</u>	<b><u>1,984</u></b>	<b><u>3,488</u></b>
EPS	<u>(0.09)</u>	<u>0.05</u>	<u>0.05</u>	<b><u>0.05</u></b>	<b><u>0.09</u></b>
Shares Outstanding	28,852	36,747	36,424	<b>36,921</b>	<b>38,500</b>
EBITDA	4,002	3,975	5,845	<b>5,855</b>	<b>6,910</b>
Adjusted EBITDA	5,207	4,494	6,287	<b>6,505</b>	<b>7,560</b>
<u>Margin Analysis</u>					
Gross margin	16.8%	13.0%	17.4%	<b>19.0%</b>	<b>19.9%</b>
Operating margin	0.6%	(2.9)%	4.2%	<b>4.9%</b>	<b>6.4%</b>
Net margin	(4.8)%	2.6%	2.8%	<b>3.4%</b>	<b>5.4%</b>
Tax rate	(1.4)%	NMF	0.0%	<b>0.0%</b>	<b>0.0%</b>
<u>Year / Year Growth</u>					
Total Revenues	22.6%	(8.2)%	17.6%	<b>(1.7)%</b>	<b>12.1%</b>

Source: Company filings and Taglich Brothers estimates

## Air Industries Group

### Quarterly Income Statements (in thousands \$)

	<u>3/21A</u>	<u>6/21A</u>	<u>9/21A</u>	<u>12/21A</u>	<u>2021A</u>	<u>3/22A</u>	<u>6/22E</u>	<u>9/22E</u>	<u>12/22E</u>	<u>2022E</u>	<u>3/23E</u>	<u>6/23E</u>	<u>9/23E</u>	<u>12/23E</u>	<u>2023E</u>
Net sales	13,712	15,453	14,354	15,420	58,939	12,062	13,700	16,000	16,200	<b>57,962</b>	15,500	16,000	16,500	17,000	<b>65,000</b>
Cost of sales	<u>11,915</u>	<u>12,850</u>	<u>12,340</u>	<u>11,581</u>	<u>48,686</u>	<u>9,984</u>	<u>11,160</u>	<u>12,842</u>	<u>12,986</u>	<b>46,972</b>	<u>12,532</u>	<u>12,856</u>	<u>13,175</u>	<u>13,490</u>	<b>52,053</b>
Gross profit	1,797	2,603	2,014	3,839	10,253	2,078	2,540	3,158	3,214	<b>10,990</b>	2,968	3,144	3,325	3,511	<b>12,948</b>
Operating expenses	<u>1,770</u>	<u>2,163</u>	<u>1,837</u>	<u>1,996</u>	<u>7,766</u>	<u>1,871</u>	<u>2,100</u>	<u>2,100</u>	<u>2,100</u>	<b>8,171</b>	<u>2,200</u>	<u>2,200</u>	<u>2,200</u>	<u>2,200</u>	<b>8,800</b>
Operating income (loss)	27	440	177	1,843	2,487	207	440	1,058	1,114	<b>2,819</b>	768	944	1,125	1,311	<b>4,148</b>
Interest and financing costs	(297)	(333)	(331)	(304)	(1,265)	(323)	(310)	(300)	(290)	<b>(1,223)</b>	(280)	(270)	(260)	(250)	<b>(1,060)</b>
Other (expense) income	<u>118</u>	<u>132</u>	<u>88</u>	<u>67</u>	<u>405</u>	<u>88</u>	<u>100</u>	<u>100</u>	<u>100</u>	<b>388</b>	<u>100</u>	<u>100</u>	<u>100</u>	<u>100</u>	<b>400</b>
Income (loss) before taxes	(152)	239	(66)	1,606	1,627	(28)	230	858	924	<b>1,984</b>	588	774	965	1,161	<b>3,488</b>
Income tax (benefit)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Net income / (loss)	<u>(152)</u>	<u>239</u>	<u>(66)</u>	<u>1,606</u>	<u>1,627</u>	<u>(28)</u>	<u>230</u>	<u>858</u>	<u>924</u>	<b>1,984</b>	<u>588</u>	<u>774</u>	<u>965</u>	<u>1,161</u>	<b>3,488</b>
EPS	<u>(0.00)</u>	<u>0.01</u>	<u>(0.00)</u>	<u>0.04</u>	<u>0.05</u>	<u>(0.00)</u>	<u>0.01</u>	<u>0.02</u>	<u>0.02</u>	<b>0.05</b>	<u>0.02</u>	<u>0.02</u>	<u>0.03</u>	<u>0.03</u>	<b>0.09</b>
Shares Outstanding	31,972	37,992	32,074	36,424	36,424	32,183	38,500	38,500	38,500	<b>36,921</b>	38,500	38,500	38,500	38,500	<b>38,500</b>
EBITDA					5,845					<b>5,855</b>					<b>6,910</b>
Adjusted EBITDA					6,287					<b>6,505</b>					<b>7,560</b>
<u>Margin Analysis</u>															
Gross margin	13.1%	16.8%	14.0%	24.9%	17.4%	17.2%	18.5%	19.7%	19.8%	<b>19.0%</b>	19.2%	19.7%	20.2%	20.7%	<b>19.9%</b>
Operating margin	0.2%	2.8%	1.2%	12.0%	4.2%	1.7%	3.2%	6.6%	6.9%	<b>4.9%</b>	5.0%	5.9%	6.8%	7.7%	<b>6.4%</b>
Net margin	(1.1)%	1.5%	(0.5)%	10.4%	2.8%	(0.2)%	1.7%	5.4%	5.7%	<b>3.4%</b>	3.8%	4.8%	5.8%	6.8%	<b>5.4%</b>
Tax rate	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	<b>0.0%</b>	0.0%	0.0%	0.0%	0.0%	<b>0.0%</b>
<u>Year / Year Growth</u>															
Total Revenues	2.0%	81.9%	5.1%	6.4%	17.6%	(12.0)%	(11.3)%	11.5%	5.1%	<b>(1.7)%</b>	28.5%	16.8%	3.1%	4.9%	<b>12.1%</b>

Source: Company filings and Taglich Brothers estimates

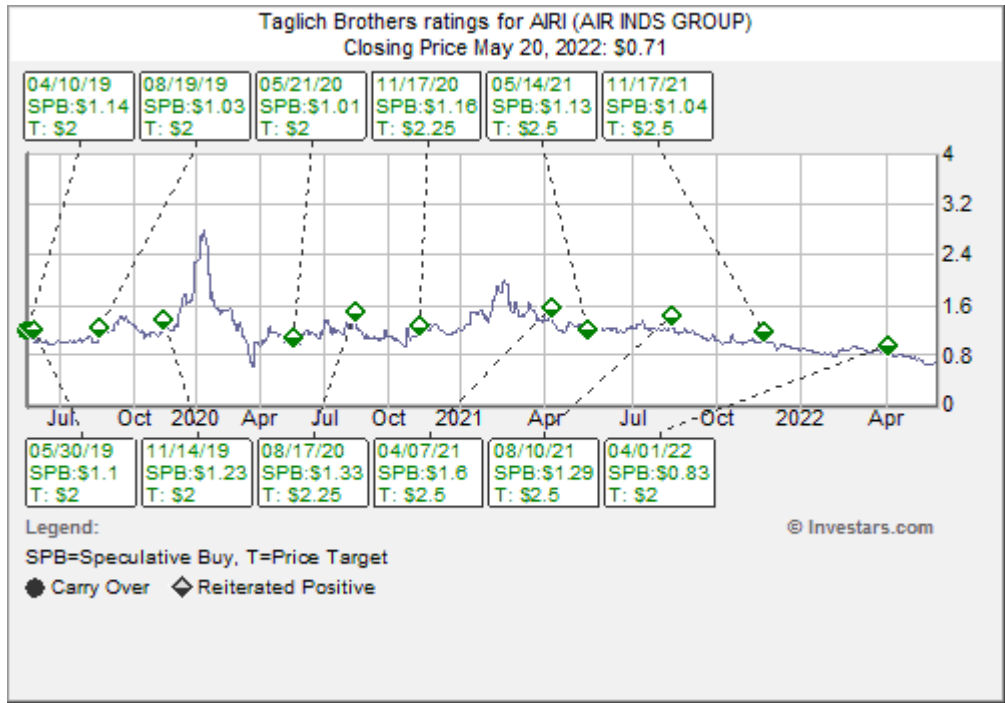
Air Industries Group

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

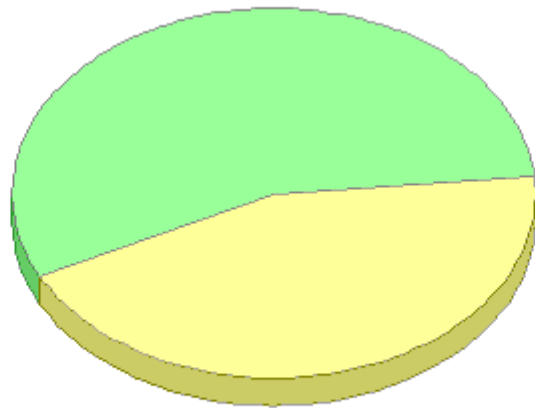
	<u>2019A</u>	<u>2020A</u>	<u>2021A</u>	<u>3M22A</u>	<u>2022E</u>	<u>2023E</u>
Net income (loss)	(2,732)	1,096	1,627	(28)	1,984	3,488
Depreciation	3,002	2,570	2,803	665	2,588	2,302
Stock compensation expense	622	519	653	120	650	650
Legal expenses paid by issuance of stock	126	-	-	-	-	-
Non-cash other income	(282)	(402)	(326)	(89)	(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	131	520	520
Deferred gain on sale of real estate	(38)	(38)	(38)	(10)	(38)	(38)
(Gain) loss on sale of equipment	136	60	-	-	-	-
Amortization of debt discount	510	233	-	-	-	-
Bad debt expense (recovery)	311	105	(86)	(118)	(118)	-
Amortization of deferred financing costs	-	126	150	15	60	60
Foregiveness of notes payable - SBA loan	-	(2,414)	-	-	-	-
Loss on assets held for sale	-	-	-	-	-	-
Cash earnings (loss)	<u>2,485</u>	<u>3,086</u>	<u>5,373</u>	<u>686</u>	<u>5,446</u>	<u>6,782</u>
<i>Changes in assets and liabilities</i>						
Accounts receivable	(1,647)	(1,045)	(1,589)	3,033	8	(1,090)
Inventory	405	(3,474)	2,588	(2,467)	175	(1,262)
Prepaid expenses and other current assets	(33)	274	(53)	(32)	(32)	-
Prepaid taxes	49	(15)	(7)	-	-	-
Deposits and other assets	(713)	168	(193)	(70)	482	521
Accounts payable and accrued expenses	(970)	275	(1,594)	354	453	342
Operating lease liabilities	(601)	(673)	(701)	(164)	(922)	(1,038)
Deferred revenue	130	(94)	553	(55)	(55)	-
Other liability	-	-	(313)	-	-	-
Income taxes payable	7	(27)	-	-	-	-
(Increase) decrease in working capital	<u>(3,373)</u>	<u>(4,611)</u>	<u>(1,309)</u>	<u>599</u>	<u>109</u>	<u>(2,527)</u>
<b>Net cash provided by (used in) operations</b>	<b>(888)</b>	<b>(1,525)</b>	<b>4,064</b>	<b>1,285</b>	<b>5,555</b>	<b>4,255</b>
Purchase of property and equipment	<u>(764)</u>	<u>(3,797)</u>	<u>(1,364)</u>	<u>(430)</u>	<u>(2,000)</u>	<u>(1,500)</u>
<b>Net cash provided by (used in) investing</b>	<b>(764)</b>	<b>(3,797)</b>	<b>(1,364)</b>	<b>(430)</b>	<b>(2,000)</b>	<b>(1,500)</b>
Note payable-revolver-Webster Bank	12,543	3,106	(3,193)	(901)	(901)	-
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)	(203)	(1,666)	(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)	(9)	(53)	(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)	(5)	(12)	(9)
Payments of notes payable - third party	-	(100)	-	-	-	-
Deferred financing costs	-	(81)	-	-	-	-
Proceeds from issuance of stock, net	-	984	-	-	-	-
<b>Net cash provided by (used in) financing</b>	<b>934</b>	<b>6,533</b>	<b>(4,578)</b>	<b>(1,118)</b>	<b>(2,632)</b>	<b>(879)</b>
<b>Net change in cash</b>	<b>(718)</b>	<b>1,211</b>	<b>(1,878)</b>	<b>(263)</b>	<b>923</b>	<b>1,876</b>
<b>Cash - beginning of period</b>	<b>2,012</b>	<b>1,294</b>	<b>2,505</b>	<b>627</b>	<b>627</b>	<b>1,550</b>
<b>Cash - end of period</b>	<b>1,294</b>	<b>2,505</b>	<b>627</b>	<b>364</b>	<b>1,550</b>	<b>3,426</b>

Source: Company filings and Taglich Brothers estimates

**Price Chart**



**Taglich Brothers' Current Ratings Distribution**



56 % Buy | 44 % Hold

Investment Banking Services for Companies Covered in the Past 12 Months		
Rating	#	%
Buy	5	25
Hold		
Sell		
Not Rated		

### **Important Disclosures**

As of May 18, 2022, 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 4,268,689 shares of AIRI common stock, 2,369,043 shares that may be acquired upon the conversion of convertible notes, 164,091 shares that may be acquired upon the conversion of warrants, and 48,500 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 2,632,364 shares of AIRI common stock, 1,861,324 shares that may be acquired upon the conversion of convertible notes, 140,090 shares that may be acquired upon the conversion of warrants, and 48,500 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 22,000 shares of common stock and 19,927 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, Axos Clearing, 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.**

## Air Industries Group

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.