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 21, 2022

AIRI $6.10 — (NYSE MKT)

	2020A	2021A	**2022E**	**2023E**
Revenues (millions)	$50.1	$58.9	**$53.3**	**$60.0**
Earnings (loss) per share	$0.36*	$0.45	**$(0.08)**	**$0.26**

52-Week range	$10.50 – $4.80	Fiscal year ends:	December
Common shares out as/of 11/8/22	3.2 million	Revenue per share (TTM)	$16.45
Approximate float	2.5 million	Price/Sales (TTM)	0.4X
Market capitalization	$19.5 million	Price/Sales (FY2023)E	0.4X
Tangible book value/share	$5.40	Price/Earnings (TTM)	15.6X
Price/tangible book value	1.1X	Price/Earnings (FY2023)E	23.5X

All per share amount reflect the 1 for 10 reverse stock split effective October 17, 2022

** Includes $0.70 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:

Maintaining our Speculative Buy rating on Air Industries Group and establishing a post-reverse split twelve-month price target of $12.15 per share.

AIRI faced significant supply chain disruptions affecting the availability of raw materials in 1H22. While sales declined in 1H22 versus 1H21, the company experienced significant increases in some platforms, namely the Northrup Grumman E2-D, the Pratt & Whitney Geared Turbo Fan, and the Sikorsky CH-53 helicopter.

AIRI has made significant capital investments in the past two years in an effort to improve its manufacturing efficiency and shorten production times. The company's capital investments and ability to obtain raw materials and components parts needed for production, should lead to revenue growth in 2023 compared to 2022 and exceeding revenue generated in 2021.

For 2022, we project a 9.5% decrease in revenue to $53.3 million (prior was $58 million) and loss per share of $(0.08). The reduction in our revenue forecast reflects 3Q22 results.

For 2023, we project a 12.5% increase in revenue to $60 million (prior was $65 million) and EPS of $0.26. While our revenue growth forecast reflects the company's ability to ship products to customers, it is likely to be at a slower pace than previously anticipated.

AIRI reported 3Q22 revenue (on 11/14/22) revenue decreased 7.5% to $13.3 million. AIRI reported a net loss of $142,000 or $(0.04) per share versus a loss of $66,000 or $(0.02) per share in 3Q21. We projected revenue of $15.4 million and net income of $395,000 or $0.10 per share.

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

Recommendation and Valuation

Maintaining our Speculative Buy rating on Air Industries Group and establishing a post-reverse split twelve-month price target of $12.15 per share.

AIRI faced significant supply chain disruptions affecting the availability of raw materials in the first nine-months of 2022. While sales declined overall in 9M22 versus the same period in 2021, the company experienced increases in some platforms, namely the Northrup Grumman E2-D, the Pratt & Whitney Geared Turbo Fan, and the Sikorsky CH-53 helicopter.

AIRI has made significant capital investments in the past two years in an effort to improve its manufacturing efficiency and shorten production times. The company's capital investments and ability to obtain raw materials and components parts needed for production, should lead to revenue growth in 2023 compared to 2022 and exceeding revenue generated in 2021.

Shares of AIRI trade at a trailing price-to-sale multiple of 0.4X (unchanged) while the aerospace and defense industry trades at a trailing multiple of 1.6X sales (prior was 1.9X). With a return to growth projected for 2023, we anticipate investors are likely to accord AIRI a price-to-sales multiple approaching the industry. We applied a multiple of 0.9X to our 2023 sales projection of $16.88 per share, discounted for execution risks, to obtain a year ahead value of approximately $12.25 per share.

Recent Developments

In September 2022, the company announced receiving two contracts with a combined value of $5 million. Air Industries Machining Corp. (AIM) subsidiary was awarded a five-year Long-Term Agreement (LTA) to manufacture flight-critical assemblies for the Blackhawk helicopter, with an estimated value of $2.2 million. The new LTA extends until December 31, 2027, replacing an existing LTA expiring at 2022 year-end. While the Sterling Engineering subsidiary received a new $2.8 million order for engine components to be used on the F404 jet engine.

In October 2022, Air Industries was awarded a new five-year Long-Term Agreement (LTA) to manufacture a "quadrant," a complex assembly that controls the gearbox for the tail-rotor of the Blackhawk Helicopter. The LTA has an estimated value of $2.2 million but come with an immediate purchase order for $500,000. Since January 2022, the company received twelve new LTA's for the Blackhawk product with an estimated value of over $30 million.

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.

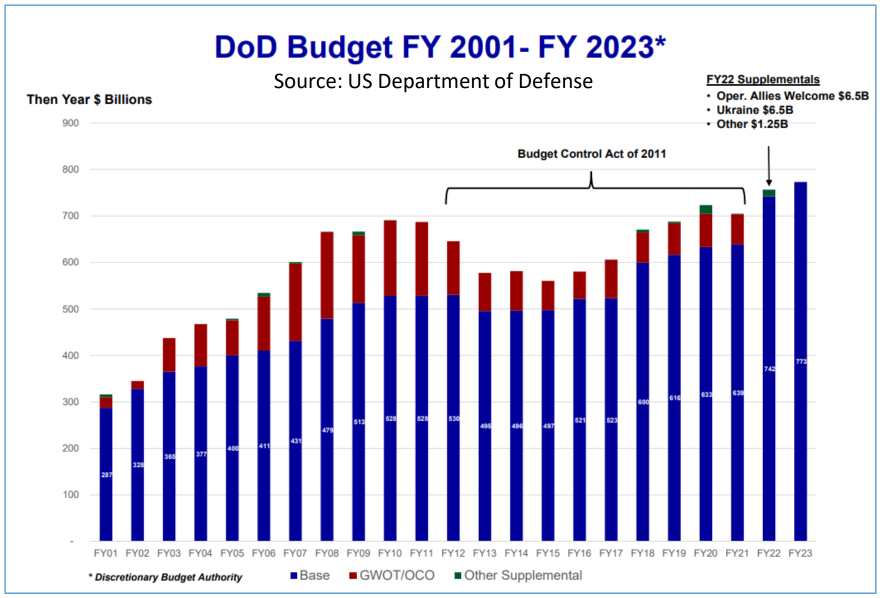
AIRI's products are deployed on a wide range of military and commercial aircraft including Sikorsky's UH-60 Black Hawk, Lockheed Martin's F-35 Joint Strike Fighter, Northrop Grumman's E2 Hawkeye, Boeing's 777, Airbus' 380 commercial airliners, the US Navy F-18 and USAF F-16 fighter aircraft. The Turbine 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 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 October 2022, the International Monetary Fund (IMF) revised its global economic growth estimates to an increase of 3.2% for 2022 and 2.7% for 2023, down from its July 2022 projection calling for 3.2% growth in 2022 and 2.9% growth in 2023. The forecast reflects worldwide inflation that triggered tighter financial conditions (i.e. higher interest rates), an economic slowdown in China, as well as negative effects from the war in Ukraine.

The IMF revised its economic growth estimate for the US to an increase of 1.6% for 2022 and 1% for 2023. In July 2022, the IMF projected US economic growth of 2.3% and 1% for 2022 and 2023, respectively.

The advanced estimate of US GDP growth (released on October 27, 2022) showed the US economy increased at an annual rate of 2.6% in 3Q22, up from the 0.6% decrease reported in 2Q22. The 3Q22 US GDP estimate reflects increases in exports, consumer spending, nonresidential fixed investment, federal government spending, and state and local government spending, partly offset by decreases in residential fixed investment and private inventory investment.

Projections

AIRI faced significant supply chain disruptions affecting the availability of raw materials in 9M22. While overall sales are likely to decrease in 2022 versus the 2021, the company experienced increases in some platforms, namely the Northrup Grumman E2-D, the Pratt & Whitney Geared Turbo Fan, and the Sikorsky CH-53 helicopter.

AIRI has made significant capital investments in the past two years in an effort to improve its manufacturing efficiency and shorten production times. Supporting our 2023 forecast should be the addition of a new $1.2 million high-tech machine tool installed at its Sterling subsidiary, which should expand internal capabilities, improve operating efficiencies, as well as product throughput. In 3Q22, the company is beginning to see increased quoting activity as government entities responsible for procurement, such as the Defense Logistics agencies are increasing their level of activity.

2022 – We project a 9.5% decrease in revenue to $53.3 million (prior was $58 million) and a net loss of $244,000 or $(0.08) per share. A swing to a net loss from our prior forecast calling for net income of $1.4 million reflects lower than anticipated 2H22 revenue and lower gross margins than previously anticipated. We anticipate gross margins of 17.2% (prior was 18.1%) compared to 17.4% in 2021.

We forecast a $475,000 increase in SG&A expenses to $8.2 million from $7.8 million in 2021 with operating income decreasing to $909,000 from $2.5 million in 2021. We project operating margin of 1.7% compared to 4.2% in 2021. Interest and financing costs are projected to remain flat at $1.3 million in 2021 on lower average debt levels offset by higher interest rates. We project the company paying no taxes.

We project $4.6 million cash from operations on $3.4 million of cash earnings and a $1.2 million decrease in working capital. Cash from operations should be partially offset by capital expenditures and repayments of debt, increasing cash by $255,000 to $882,000 by the end of 2022.

2023 – We project a 12.5% increase in revenue to $60 million (prior was $65 million) and net income of $935,000 (prior was $3.5 million) or $0.26 per share. 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 albeit at a slower pace than previously anticipated. While we project gross margins improving to 18.5% from 17.2% projected for 2022, it is below our prior gross margin forecast of 20%.

We forecast a $599,000 increase in SG&A expenses to $8.8 million from $8.2 million projected for 2022. We anticipate operating income more than doubling to nearly $2.3 million from an estimated $909,000 in 2022. We project operating margin improving to 3.8% compared to an estimated 1.7% in 2022. Interest and financing costs are projected to remain flat at $1.3 million as lower average debt levels are likely to be offset by higher interest rates. We project the company paying no taxes.

We project $5.3 million cash from operations on $4.4 million of cash earnings offset in part by an $873,000 decrease in working capital. Cash from operations should be partially offset by capital expenditures and repayments of debt, increasing cash by $76,000 to $958,000 by the end of 2023.

3Q22 and 9M22 Financial Results

3Q22 - Total revenue decreased 7.5% to $13.3 million. AIRI reported a net loss of $142,000 or $(0.04) per share versus a net loss of $44,000 or $(0.02) per share in 3Q21. We projected revenue of $15.4 million and net income of $395,000 or $0.10 per share.

The decrease in revenue was due primarily to sale of products with lower selling prices. Gross profit increased 11% to $2.2 million from $2 million in 3Q21 on gross margins improving to 16.9% from 14%, partly offset by lower sales.

Operating (SG&A) expenses increased 12.8% to nearly $2.1 million from $1.8 million in the year-ago period. The increase reflects higher employment costs, including employee health benefits increases that were not passed on to employees, increases in investor relations and travel costs. Operating income decreased to $169,000 from $177,000 in 3Q21. Interest expense decreased to $323,000 from $331,000 in the year ago period.

9M22 - Total revenue decreased 9.6% to $39.3 million. AIRI reported a net loss of $117,000 or $(0.05) per share versus income of $21,000 or $0.01 per share in 9M21.

The decrease in revenue resulted principally from the decline in sales from two products whose contracts expired or were cancelled by the customer in 2021 and sale of products with lower selling prices. Gross profit increased 5.1% to $6.7 million on gross margins improving to 17.1% from 14.7%.

Operating (SG&A) expenses increased to $6.14 million from $5.8 million due primarily to increases in employment costs, including employee health benefits increases which were not passed on to employees, increases in investor relations and increased travel costs. Operating income decreased to $457,000 from $467,000 in 1H21. Interest expense decreased to $626,000 from $644,000 in the year ago period.

	Income Statement (in thousands $)	
	9M22A	9M21A
Net sales	39,348	43,519
Cost of sales	32,606	37,105
Gross profit	6,742	6,414
Operating expenses	6,116	5,770
Operating income	626	644
Interest and financing costs	(935)	(961)
Other (expense) income	132	338
Income before taxes	(177)	21
Income tax (benefit)	-	-
Net income / (loss)	(177)	21
EPS	(0.05)	0.01
Shares Outstanding	3,225	3,874
Margin Analysis		
Gross margin	17.1%	14.7%
Operating margin	1.6%	1.5%
Year / Year Growth		
Total Revenues	(9.6)%	
Net Income	NMF	
EPS	NMF	

Source: Company filings

Liquidity – As of September 30, 2022, the company had $192,000 in cash. Total debt was approximately $25 million (of which $14.8 million is classified as current) for a debt/equity ratio of 1.4X.

In 9M22, cash used in operations was $73,000 consisting of $2.4 million in cash earnings and a $2.5 million increase in working capital. Cash used in investing was $2 million consisting solely of capital expenditures. Cash provided by financing of $1.6 million consisted primarily of a net increase in debt. Cash decreased by $435,000 to $192,000 at September 30, 2022.

On December 31, 2019, AIRI entered into a loan facility with Webster Bank that expires on December 30, 2025. The loan facility currently provides for a $20 million revolving loan, a $5 million term loan, and a $2 million equipment line of credit.

As of September 30, 2022, total debt outstanding to Webster was $18.8 million consisting of a $14.1 million revolving credit loan and a term loan in the amount of $4.7 million. All advances under the Webster facility bear interest at a rate that is more than 3.5% annually, or the Prime Rate less 65 basis points. As of September 30, 2022, the current interest rate was 4.7% and the company was in compliance with all loan covenants. As of November 14, 2022, the interest rate increase to nearly 6.4%.

As of September 30, 2022, a loan payable related to financed assets totaled $33,000, 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 AIRI) totaled $6.2 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 3Q22 on all related party notes payable was $118,000.

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 2.5 million shares in the float and the average daily volume is approximately 8,200 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	9/22A	**2022E**	**2023E**
Cash and cash equivalents	1,294	2,505	627	192	**882**	**958**
Accounts receivable	7,858	8,798	10,473	8,658	**9,632**	**10,333**
Inventory	28,646	32,120	29,532	33,408	**29,465**	**28,765**
Prepaid expenses and other current assets	447	173	226	250	**250**	**250**
Prepaid taxes	-	15	22	25	**25**	**25**
Total current assets	38,245	43,611	40,880	42,533	**40,255**	**40,331**
Property and equipment, net	7,578	9,581	8,404	8,478	**8,066**	**7,264**
Operating lease right-of-use-asset	3,623	3,510	3,018	2,615	**2,615**	**2,615**
Deferred financing costs	1,481	912	960	989	**989**	**989**
Goodwill	163	163	163	163	**163**	**163**
Total assets	51,090	57,777	53,425	54,778	**52,088**	**51,362**
Notes payable and finance lease obligations	22,544	16,475	14,112	14,820	**11,066**	**9,566**
Operating lease liabilities	697	701	686	754	**754**	**754**
Accounts payable and accrued expenses	8,105	8,682	6,723	6,979	**7,121**	**7,471**
Deferred gain on sale	38	38	38	38	**38**	**38**
Deferred revenue	1,011	917	1,470	1,291	**1,500**	**1,500**
Liabilities associated with assets held for sale	200	200	59	-	**-**	**-**
Deferred payroll tax liability (CARES Act)	-	314	314	314	**314**	**314**
Income taxes payable	27	-	-	-	**-**	**-**
Total current liabilities	32,622	27,327	23,402	24,196	**20,793**	**19,643**
Long-term debt	3,406	10,798	9,250	10,163	**10,246**	**8,746**
Deferred gain on sale	219	181	143	114	**114**	**114**
Operating lease liabilites	4,235	3,927	3,241	2,669	**2,669**	**2,669**
Disposition of subsidiary	402	122	-	-	**-**	**-**
Deferred payroll tax liability (CARES Act)	-	313	-	-	**-**	**-**
Total liabilities	40,884	42,668	36,036	37,142	**33,822**	**31,172**
Total stockholders' equity	10,206	15,109	17,389	17,636	**18,266**	**20,190**
Total liabilities & stockholders' equity	51,090	57,777	53,425	54,778	**52,088**	**51,362**

Source: Company filings and Taglich Brothers estimates

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

	2020A	2021A	**2022E**	**2023E**
Net sales	50,097	58,939	**53,348**	**60,000**
Cost of sales	43,585	48,686	**44,198**	**48,900**
Gross profit	6,512	10,253	**9,150**	**11,100**
Operating expenses	7,951	7,766	**8,241**	**8,840**
Operating income (loss)	(1,439)	2,487	**909**	**2,260**
Interest and financing costs	(1,491)	(1,265)	**(1,285)**	**(1,325)**
Other (expense) income	2,844	405	**132**	**-**
Income (loss) before taxes	(86)	1,627	**(244)**	**935**
Income tax (benefit)	(1,412)	-	**-**	**-**
Net income / (loss)	1,326	1,627	**(244)**	**935**
EPS	0.36	0.45	**(0.08)**	**0.26**
Shares Outstanding	3,675	3,642	**3,231**	**3,555**
EBITDA	3,975	5,845	**3,677**	**4,610**
Adjusted EBITDA	4,494	6,287	**4,327**	**5,260**
Margin Analysis				
Gross margin	13.0%	17.4%	**17.2%**	**18.5%**
Operating margin	(2.9)%	4.2%	**1.7%**	**3.8%**
Net margin	2.6%	2.8%	**(0.5)%**	**1.6%**
Tax rate	NMF	0.0%	**0.0%**	**0.0%**
Year / Year Growth				
Total Revenues	(8.2)%	17.6%	**(9.5)%**	**12.5%**

Source: Company filings and Taglich Brothers estimates

All per share amount reflect the 1 for 10 reverse stock split effective October 17, 2022

Quarterly Income Statements
(in thousands $)

	3/21A	6/21A	9/21A	12/21A	2021A	3/22A	6/22A	9/22A	12/22E	**2022E**	3/23E	6/23E	9/23E	12/23E	**2023E**
Net sales	13,712	15,453	14,354	15,420	58,939	12,062	14,008	13,278	14,000	**53,348**	13,000	14,500	16,500	16,000	**60,000**
Cost of sales	11,915	12,850	12,340	11,581	48,686	9,984	11,586	11,036	11,592	**44,198**	10,595	11,818	13,448	13,040	**48,900**
Gross profit	1,797	2,603	2,014	3,839	10,253	2,078	2,422	2,242	2,408	**9,150**	2,405	2,683	3,053	2,960	**11,100**
Operating expenses	1,770	2,163	1,837	1,996	7,766	1,871	2,172	2,073	2,125	**8,241**	2,065	2,225	2,300	2,250	**8,840**
Operating income (loss)	27	440	177	1,843	2,487	207	250	169	283	**909**	340	458	753	710	**2,260**
Interest and financing costs	(297)	(333)	(331)	(304)	(1,265)	(323)	(289)	(323)	(350)	**(1,285)**	(350)	(350)	(325)	(300)	**(1,325)**
Other (expense) income	118	132	88	67	405	88	32	12	-	**132**	-	-	-	-	**-**
Income (loss) before taxes	(152)	239	(66)	1,606	1,627	(28)	(7)	(142)	(67)	**(244)**	(10)	108	428	410	**935**
Income tax (benefit)	-	-	-	-	-	-	-	-	-	**-**	-	-	-	-	**-**
Net income / (loss)	(152)	239	(66)	1,606	1,627	(28)	(7)	(142)	(67)	**(244)**	(10)	108	428	410	**935**
EPS	(0.05)	0.06	(0.02)	0.44	0.45	(0.01)	(0.00)	(0.04)	(0.02)	**(0.08)**	(0.00)	0.03	0.12	0.11	**0.26**
Shares Outstanding	3,197	3,799	3,207	3,642	3,642	3,218	3,221	3,232	3,250	**3,231**	3,255	3,650	3,655	3,660	**3,555**
EBITDA					5,845					**3,677**					**4,610**
Adjusted EBITDA					6,287					**4,327**					**5,260**
Margin Analysis															
Gross margin	13.1%	16.8%	14.0%	24.9%	17.4%	17.2%	17.3%	16.9%	17.2%	**17.2%**	18.5%	18.5%	18.5%	18.5%	**18.5%**
Operating margin	0.2%	2.8%	1.2%	12.0%	4.2%	1.7%	1.8%	1.3%	2.0%	**1.7%**	2.6%	3.2%	4.6%	4.4%	**3.8%**
Net margin	(1.1)%	1.5%	(0.5)%	10.4%	2.8%	(0.2)%	(0.0)%	(1.1)%	(0.5)%	**(0.5)%**	(0.1)%	0.7%	2.6%	2.6%	**1.6%**
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%	(12.0)%	(9.4)%	(7.5)%	(9.2)%	**(9.5)%**	7.8%	3.5%	24.3%	14.3%	**12.5%**

Source: Company filings and Taglich Brothers estimates

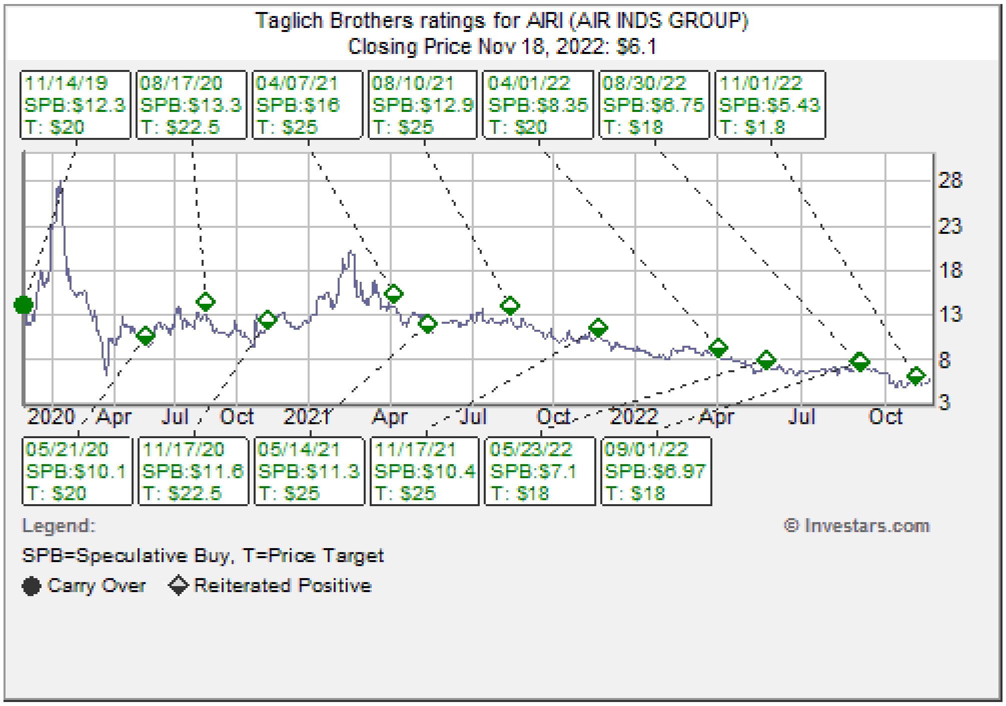
All per share amount reflect the 1 for 10 reverse stock split effective October 17, 2022

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

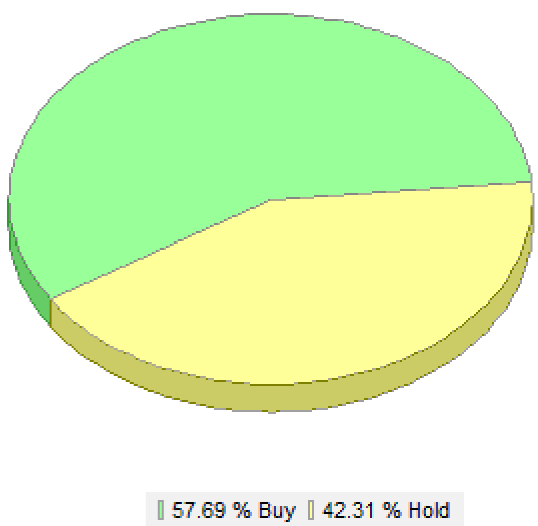
	2019A	2020A	2021A	9M22A	**2022E**	**2023E**
Net income (loss)	(2,732)	1,096	1,627	(177)	**(244)**	**935**
Depreciation	3,002	2,570	2,803	1,906	**2,588**	**2,302**
Stock compensation expense	622	519	653	424	**650**	**650**
Legal expenses paid by issuance of stock	126	-	-	-	**-**	**-**
Non-cash other income	(282)	(402)	(326)	(59)	**(59)**	**-**
Non-cash interest expense	85	122	98	-	**-**	**-**
Abandonment of lease	275	-	-	-	**-**	**-**
Non-cash deferred payroll expense-CARES Act	-	627	-	-	**-**	**-**
Amortization of right-to-use asset	470	482	492	403	**520**	**520**
Deferred gain on sale of real estate	(38)	(38)	(38)	(29)	**(29)**	**(29)**
(Gain) loss on sale of equipment	136	60	-	-	**-**	**-**
Amortization of debt discount	510	233	-	-	**-**	**-**
Bad debt expense (recovery)	311	105	(86)	(102)	**(102)**	**-**
Amortization of deferred financing costs	-	126	150	48	**48**	**48**
Foregiveness of notes payable - SBA loan	-	(2,414)	-	-	-	-
Cash earnings (loss)	2,485	3,086	5,373	2,414	**3,372**	**4,426**
Changes in assets and liabilities						
Accounts receivable	(1,647)	(1,045)	(1,589)	1,917	**841**	**(701)**
Inventory	405	(3,474)	2,588	(3,876)	**67**	**701**
Prepaid expenses and other current assets	(33)	274	(53)	(24)	**(24)**	**-**
Prepaid taxes	49	(15)	(7)	(3)	**(3)**	**-**
Deposits and other assets	(713)	168	(193)	(74)	**460**	**523**
Accounts payable and accrued expenses	(970)	275	(1,594)	256	**398**	**350**
Operating lease liabilities	(601)	(673)	(701)	(504)	**(504)**	**-**
Deferred revenue	130	(94)	553	(179)	**(55)**	**-**
Other liability	-	-	(313)	-	**-**	**-**
Income taxes payable	7	(27)	-	-	**-**	**-**
(Increase) decrease in working capital	(3,373)	(4,611)	(1,309)	(2,487)	**1,179**	**873**
Net cash provided by (used in) operations	**(888)**	**(1,525)**	**4,064**	**(73)**	**4,551**	**5,299**
Purchase of property and equipment	(764)	(3,797)	(1,364)	(1,980)	(2,250)	(1,500)
Net cash provided by (used in) investing	**(764)**	**(3,797)**	**(1,364)**	**(1,980)**	**(2,250)**	**(1,500)**
Note payable-revolver-Webster Bank	12,543	3,106	(3,193)	1,641	**(2,112)**	**(3,000)**
Note payable-revolver-PNC	(14,043)	-	-	-	**-**	**-**
Proceeds from notes payable-term loan-Webster	3,800	2,337	-	1,945	**1,945**	**-**
Payments of notes payable-term loan-Webster	-	(579)	(1,371)	(1,430)	**(1,608)**	**(714)**
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)	-	-	(20)	**-**	**-**
Payment of finance lease obligations	(1,764)	(18)	(5)	(263)	**(263)**	**-**
Share issuance costs	(113)	(145)	-	-	**-**	**-**
Proceeds from notes payable - related party	1,500	-	-	-	**-**	**-**
Payments of notes payable - related party	(28)	(1,000)	-	(250)	**-**	**-**
Payments of loan payable - financed assets	(186)	(385)	(9)	(5)	**(8)**	**(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)**	**1,618**	**(2,046)**	**(3,723)**
Net change in cash	**(718)**	**1,211**	**(1,878)**	**(435)**	**255**	**76**
Cash - beginning of period	**2,012**	**1,294**	**2,505**	**627**	**627**	**882**
Cash - end of period	**1,294**	**2,505**	**627**	**192**	**882**	**958**

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**	**26**
Hold		
Sell		
Not Rated		

Important Disclosures

As of November 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 513,323 shares of AIRI common stock, 219,677 shares that may be acquired upon the conversion of convertible notes, and 9,000 shares that may be acquired upon the exercise of options and warrants. 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 249,484 shares of AIRI common stock, 168,906 shares that may be acquired upon the conversion of convertible notes, and 7,500 shares that may be acquired upon the exercise of options and warrants. 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 5,605 shares of AIRI common stock. Other employees at Taglich Brothers, Inc. also own or have controlling interests in 3,200 shares of common stock. Taglich Brothers, Inc. owns 23,995 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.

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.