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Research Note

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

Air Industries Group

Speculative Buy

Howard Halpern
April 6, 2023

AIRI $3.65 — (NYSE MKT)

	2021A	2022E	2023E	2024E
Revenues (millions)	$58.9	**$53.2**	**$56.0**	**$59.0**

52-Week range	$8.50 – $3.47	Fiscal year ends:	December
Common shares outstanding	3.3 million	Revenue per share (TTM)	$16.45
Approximate float	2.5 million	Price/Sales (TTM)	0.2X
Market capitalization	$12.0 million	Price/Sales (FY2023)E	0.2X
Tangible book value/share	NA	Price/Earnings (TTM)	NA
Price/tangible book value	NA	Price/Earnings (FY2023)E	NA

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

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.

Key investment considerations:

Maintaining our Speculative Buy rating on Air Industries Group and establishing a new twelve-month price target of $6.00 per share. Our newly established price target reflects a change in analyst coverage.

On April 4, 2023, the company announced it would be unable to file its 2022 10-K in a timely manner due primarily to their independent audit firm that has been used for many years, merged with a much larger firm. Air Industries is still in the process of adjusting to the new review procedures of the new larger firm.

The company did provide preliminary 4Q22 and full year 2022 revenue of $13.9 million and $52.2 million, respectively. We project 4Q22 and full year 2022 revenue of $14 million and $52.3 million respectively.

On April 4, 2023, management indicated that 2022 was negatively impacted by supply chain issues that delayed the arrival of raw materials. That disruption delayed the delivery of more than $8 million worth of product. That product should be shipped to customers during 2Q23 and 3Q23.

For 2023 and 2024, we anticipate revenue growth in each period should approximate 5%. Our growth forecast indicates revenues should reach approximately $59 million in 2024, up from an estimated $56 million in 2023. While our forecast reflects the contracts AIRI has in its backlog, it is predicated on the company solving supply chain disruptions by 2H23.

Until the company files its 2022 10-K, we will not be making balance sheet, income statement, and cash flow projections. AIRI did state that it has substantial availability on its primary credit line and that it was in compliance with bank covenants.

****Please view our disclosures on pages 5 - 7.***

Recommendation and Valuation

Maintaining our Speculative Buy rating on Air Industries Group and establishing a new twelve-month price target of $6.00 per share. Our newly established price target reflects a change in analyst coverage.

Our rating reflects the company's continue ability to win contracts. In 2022, AIRI won 12 new long-term agreements for the Blackhawk helicopter with a combined estimated value of over $30 million. Other wins include a $5.2 million long-term agreement for Chaff Pods for theCH-53K heavy lift helicopter, and two new contracts from two suppliers related to nuclear submarines from Electric Boat.

Our 12-month price target of $6.00 per share implies shares have the potential appreciate at least 60% over the next twelve months. Shares of AIRI trade at a twelve-month trailing price-to-sale multiple of 0.2X (prior was 0.4X) while the aerospace and defense industry peers with similar market capitalizations trades at a twelve-month trailing multiple of 1.1X sales (prior was 1.6X). We applied a multiple of 0.5X to our 2024 sales projection of $15.95 per share, discounted significantly for execution risks, to obtain a year ahead value of approximately $6.00 per share.

AIRI valuation improvement is contingent filing its 2022 10-K as soon as possible and subsequent quarterly reports in a timely manner in order to restore investor confidence. The company will also need to demonstrate that is has the ability to correct and overcome supply chain issues in order to deliver products to customers at a consistent pace.

We believe Air Industries Group is most suitable for high risk tolerant investors seeking exposure to a microcap company in the aerospace industry.

April 4, 2023 Announcement

The company announced it would be unable to file its 2022 10-K in a timely manner due primarily to their independent audit firm that has been used for many years, merged with a much larger firm. Air Industries is still in the process of adjusting to the new review procedures of the new larger firm.

The large firm is accessing how AIRI values its inventory. AIRI's policy has been to write-down the value of inventory that is aged (meaning inventory that has not moved either back into production or has been sold and for which it do not have existing purchase orders). In reviewing this policy, the auditors are considering whether a more appropriate policy might be to write-off the total value of this aged inventory after a period of non-movement.

If that change occurs an additional non-cash write-down charge of AIRI's inventory would take place. The magnitude of such a write-down or non-cash charge has not yet been determined.

AIRI did state that it has substantial availability on its primary credit line and that it was in compliance with bank covenants.

Revenue Projection

The company did provide preliminary 4Q22 and full year 2022 revenue of $13.9 million and $52.2 million, respectively. We project 4Q22 and full year 2022 revenue of $14 million and $52.3 million respectively.

On April 4, 2023, management indicated that 2022 was negatively impacted by supply chain issues that delayed the arrival of raw materials. That disruption delayed the delivery of more than $8 million worth of product. That product should be shipped to customers during 2Q23 and 3Q23.

For 2023 and 2024, we anticipate revenue growth in each period should approximate 5%. Our growth forecast indicates revenues should reach approximately $59 million in 2024, up from an estimated $56 million in 2023.

While our forecast reflects the contracts AIRI has in its backlog, it is predicated on the company solving supply chain disruptions by 2H23.

Until the company files its 2022 10-K, we will not be making balance sheet, income statement, and cash flow projections.

Risks

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

Supply chain – 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. Supply chain issues are likely to persist into at least 1H23. If supply chain issues are not resolved it would most likely constrain the company's ability to produce and ship products to customers on a regular basis, thus negatively impacting future results.

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.

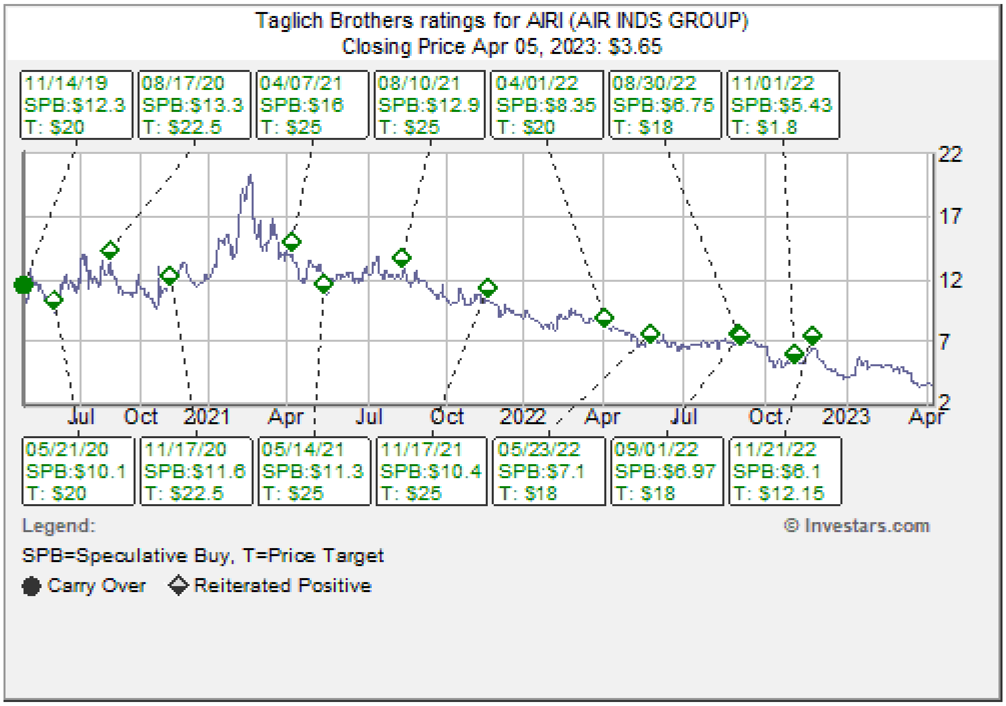
Legal proceedings – In October 2018, Contract Pharmacal Corp. commenced an action relating to a sublease entered into between AIRI and Contract Pharmacal in May 2018 with respect to the property in Hauppauge, New York. In the action, Contract Pharmacal originally sought damages in excess of $1 million 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.

Filing SEC reports – AIRI needs to file its 2022 10-K filing by April 17, 2023. If the company doesn't meet that deadline, at some future point shares could be delisted from the NYSE MKT.

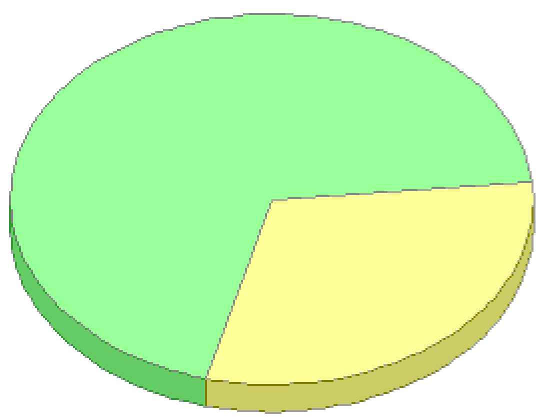
Liquidity risk **-** Shares of Air Industries Group have risks common to those of the microcap segment of the market. Often these risks cause microcap stocks to trade at discounts to their peers. The most common of these risks is liquidity risk, which is typically caused by small trading floats and very 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 8,300 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.

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 April 5, 2023, 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 367,717 shares of AIRI common and restricted 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 221,731 shares of AIRI common and restricted 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 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

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Analyst Certification

I, Howard Halpern, 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:

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.