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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
September 12, 2023

AIRI $2.86 — (NYSE MKT)

	2021A	2022A	2023E	2024E
Revenues (millions)	$58.9	$53.2	**$52.0**	**$56.4**
Earnings (loss) per share	$0.45	$0.33	**($0.55)**	**($0.29)**

52-Week range	$7.28 – $2.67	Fiscal year ends:	December
Common shares out as/of 8/14/23	3.3 million	Revenue per share (TTM)	$16.28
Approximate float	2.5 million	Price/Sales (TTM)	0.2X
Market capitalization	$9.4 million	Price/Sales (FY2024)E	0.2X
Tangible book value/share	$4.94	Price/Earnings (TTM)	NMF
Price/tangible book value	0.6X	Price/Earnings (FY2024)E	NMF

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. (www.airindustriesgroup.com)

Key investment considerations:

Maintaining our Speculative Buy rating on Air Industries Group and establishing a new twelve-month price target of $5.50 per share. Our newly established price target reflects a change to an EBITDA valuation model from a sales based model in order to better reflect the company future performance.

Air Industries is poses to experience customer and program growth as it continues to deepen longstanding customer relationships and gain new domestic and international customer.

The company has positioned itself to significantly leverage an increase in customer orders since it has made significant investments over the past few years in new equipment, refined delivery processes, and elevated customer service.

AIRI reported (on 8-08-23) a 2Q23 net loss of $395,000 or ($0.12) per share on revenue of $13.2 million. In 2Q22, revenue was $14 million and a net loss of $7,000 or breakeven per share. The company reported EBITDA of $1.2 million in 1H23.

For 2023, we project a loss per share of ($0.55) on a 2.3% decline in revenue to $52 million (prior was $56 million). Our reduced revenue forecast reflects 2Q23 results and year-over-year revenue growth resuming in 4Q23. Our net loss forecast primarily reflects an increase in interest expense to $1.9 million compared to $1.3 million in 2022.

For 2024, we project a loss per share of ($0.29) on 8.5% revenue growth to $56 million driven increased production capabilities to meet customer demand. The narrowing of our loss per share forecast reflects gross margin improvement to 17.8% from an estimated 16.4% in 2023.

****Please view our disclosures on pages 11 - 13.***

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Recommendation and Valuation

Maintaining our Speculative Buy rating on Air Industries Group and establishing a new twelve-month price target of $5.50 per share. Our newly established price target reflects a change to an EBITDA valuation model from a sales based model in order to better reflect the company future performance.

Our rating reflects Air Industries positioning itself to significantly leverage an increase in customer orders since it has made significant investments over the past few years in new equipment, refined delivery processes, and elevated customer service. We anticipate the company should begin to experience customer and program growth as it continues to deepen longstanding customer relationships and gain new domestic and international customer.

Our 12-month price target of $5.50 per share implies shares have the potential to appreciate over 90% over the next twelve months. Shares of AIRI trade at a twelve-month trailing price-to-EBITDA multiple of 4.3X while the aerospace and defense industry peers with similar market capitalizations trades at a twelve-month trailing multiple of 6.9X EBITDA. We applied the industry multiple of 6.9X to our 2024 EBITDA per share projection of $1.07, discounted significantly for execution risks, to obtain a year ahead value of approximately $5.50 per share.

AIRI valuation improvement is contingent upon revenue and operating income growth, as well as increasing cash earnings and EBITDA. We forecast revenue growth of 8.5% in 2024 and operating income reaching $947,000 from an estimated $114,000 in 2023. In 2024, we anticipate cash earnings of $2.8 million compared an estimated $2 million in 2023. EBITDA should reach nearly $3.6 million from an estimated $2.7 million in 2023.

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

Recent Developments

In July 2023, the company announced that it was awarded two new contracts for a total value of $5.2 million to produce components for the U.S. Navy E-2D aircraft and F-35 Joint Strike Fighter.

The first order of $2 million is for E-2D arresting gear components. The order originated from a long-time customer, which has manufactured these flight safety components for many years. Deliveries under this new order are expected to begin in 2025.

The second order is valued at $3.2 million for F-35 arresting gear components for the CV and CTOL versions of the aircraft. This order is from a new, non-U.S. customer. Deliveries under this order are expected to begin in the fourth quarter of 2023.

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.

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.

Projections

AIRI faced significant supply chain disruptions affecting the availability of raw materials in 2022, which dissipated to some degree in 1H23. While the 2H23 should see further improvement in obtaining raw materials is unlikely to be fully resolved until beginning of 2024. While overall revenue is likely to decrease slightly in 2023, growth should resume in 2024. Revenue growth should occur from increased production capabilities to meet customer demand.

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 forecasts 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.

2023 Forecast
We project a 2.3% decrease in revenue to $52 million (prior was $56 million) and a net loss of $1.8 million or ($0.55) per share. Our forecast reflects 1H23 results and year-over-year revenue growth resuming in 4Q23. We anticipate gross margins of 16.4% compared to 14% in 2022.

We forecast a $765,000 increase in operating expenses to $8.4 million from $7.6 million in 2022 with operating income of $114,000 compared to an operating loss of $820,000 in 2022. We project operating margin of 0.2% compared to a negative 0.4% in 2022. Interest and financing costs are projected to increase to $1.9 million from $1.3 million last year due primarily to higher average interest rates, partly offset by lower average debt levels. We project the company paying no taxes.

We project $5.1 million cash from operations on nearly $2 million of cash earnings and a $3.1 million decrease in working capital. Cash from operations should be partially offset by capital expenditures and repayments of debt, increasing cash by $945,000 to $1.2 million by the end of 2023.

2024 Forecast
We project an 8.5% increase in revenue to $56 million and a net loss of $953,000 or ($0.29) per share. Revenue growth should be supported by increased production and delivery of military aircraft programs from new and existing customer stemming from the ability to procure the raw materials needs to complete the manufacturing process. We project gross margins improving to 17.8% from 16.4% projected for 2023. Gross margin improvement should reflect increased manufacturing efficiencies from investments in machinery and production processes in the past few years.

We forecast a $674,000 increase in SG&A expenses to $9.1 million from $8.4 million projected for 2023. We anticipate operating income reaching $947,000 from an estimated $114,000 in 2023. We project operating margin improving to 1.7% compared to an estimated 0.2% in 2023. Interest and financing costs are projected to remain flat at $1.9 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.

2Q23 and 1H23 Results

2Q23 - Total revenue decreased 5.7% to $13.2 million from $14 million in the year-ago period. AIRI reported a net loss of $394,000 or $(0.12) per share versus a net loss of $7,000 or breakeven per share in 2Q22.

The decrease in revenue was due primarily to the timing of shipment of certain larger components. Gross profit decreased to $2.2 million from $2.4 million in 2Q22 on gross margins of 16.4% compared to 17.3% last year.

Operating (SG&A) expenses decreased to $2.1 million from $2.2 million in the year-ago period. The decrease reflects reductions in compensation and shipping expense, partly offset by increases in stock compensation expense and spending on information technology projects. Operating income decreased to $72,000 from $250,000 in 2Q22 due to lower revenue and gross margin, partly offset by reduced operating expenses. Interest and financing expense increased to $480,000 from $289,000 in the year ago period stemming from a higher average debt balance related to new equipment and higher interest rates (7.5% versus 3.6% in 2Q22).

1H23 - Total revenue decreased 1.2% to $25.8 million. AIRI reported a net loss of $1 million or ($0.31) per share versus a net loss of $35,000 or ($0.01) per share in 1H22.

The decrease in revenue reflects the timing of shipment of certain larger components. Gross profit decreased to $4.1 million from $4.5 million on gross margins of 15.7% from 17.3%.

Operating (SG&A) expenses increased to $4.1 million from $4 million due primarily to increases in stock compensation expense and information technology spending, partly offset by decreases in compensation and shipping expense. Operating loss was $86,000 compared to income of $457,000 in 1H22. Interest and financing expense increased to $956,000 from $612,000 in the year ago period.

Income Statement
(in thousands $)

	6M23A	6M22A
Net sales	25,754	26,070
Cost of sales	21,704	21,570
Gross profit	4,050	4,500
Operating expenses	4,136	4,043
Operating income	(86)	457
Interest and financing costs	(956)	(612)
Other (expense) income	29	120
Income before taxes	(1,013)	(35)
Income tax (benefit)	-	-
Net income / (loss)	(1,013)	(35)
EPS	(0.31)	(0.01)
Shares Outstanding	3,262	3,221
Margin Analysis		
Gross margin	15.7%	17.3%
Operating margin	(0.3)%	1.8%
Year / Year Growth		
Total Revenues	(1.2)%	
Net Income	NMF	
EPS	NMF	

Source: Company filings

Liquidity – As of June 30, 2023, the company had $837,000 in cash. Total debt was approximately $26.5 million (of which $15 million is classified as current) for a debt/equity ratio of 1.6X.

In 1H23, cash from operations was $1.4 million consisting of $897,000 in cash earnings and a $509,000 decrease in working capital. Cash used in investing was $1.4 million consisting solely of capital expenditures. Cash provided by financing of $533,000 consisted primarily of a net increase in debt. Cash increased by $556,000 to $837,000 at June 30, 2023.

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 June 30, 2023, total debt outstanding to Webster was $19.3 million consisting of a $13.8 million revolving credit loan and a term loan in the amount of $5.5 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. In 2Q23, the average interest rate was 7.5% and the company was in compliance with all loan covenants after entering into a fifth amendment with Webster Bank on August 4, 2023.

As of June 30, 2023, a loan payable related to financed assets totaled $27,000, and related party notes payable (to Michael Taglich, President of Taglich Brothers, Inc. and Director of AIRI, 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.

Risks

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

Supply chain – Prior 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 through the end of 2023. 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 2Q23, three customers accounted for 62.7% of net sales compared to 66.2% in the year-ago period. 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 commenced an action relating to a sublease entered into between AIRI and Contract Pharmacal in May 2018. In the action, Contract Pharmacal 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 them to drop its claim for specific performance and to reduce its claim for damages to $700,000. 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.

Internal Controls
As of June 30, 2023, a material weaknesses in the company's internal controls were identified over financial reporting. In 1H23, AIRI has established written controls and operating procedures intended to address the issues reported related to determining the appropriate reserves to be taken with respect to inventory and management's review controls over the income tax provision. The material weaknesses noted will only be deemed to have been remediated after the new controls and procedures have been in place for a sufficient period of time and management has concluded through appropriate testing that the controls are operating effectively.

Shareholder Control
Officers and directors collectively own approximately 37.2% of the outstanding voting stock and three large shareholders own approximately 23.6% of the company' outstanding voting stock (August 2023 SEC Filing). Officers, directors, and large shareholders could potentially greatly influence the outcome of matters requiring stockholder approval. These decisions may or may not be in the best interests of the other shareholders**.**

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 6,200 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 $)

	2021A	2022A	2Q23A	**2023E**	**2024E**
Cash and cash equivalents	627	281	837	**1,226**	**1,104**
Accounts receivable	10,473	9,483	8,142	**8,523**	**8,617**
Inventory	29,532	31,821	32,767	**31,056**	**30,505**
Prepaid expenses and other current assets	226	307	222	**220**	**200**
Contract costs receivable	-	296	296	**296**	**296**
Prepaid taxes	22	28	29	**29**	**29**
Total current assets	40,880	42,216	42,293	**41,351**	**40,752**
Property and equipment, net	8,404	8,593	9,420	**9,400**	**9,350**
Operating lease right-of-use-asset	3,018	2,473	2,178	**2,178**	**2,178**
Deferred financing costs	960	532	493	**493**	**493**
Goodwill	163	-	-	**-**	**-**
Total assets	53,425	53,814	54,384	**53,422**	**52,773**
Notes payable and finance lease obligations	14,112	14,477	14,951	**12,451**	**9,951**
Operating lease liabilities	686	778	828	**828**	**828**
Accounts payable and accrued expenses	6,723	7,542	8,269	**8,454**	**8,758**
Deferred gain on sale	38	38	38	**38**	**38**
Deferred revenue	1,470	781	467	**1,000**	**1,500**
Liabilities associated with assets held for sale	59	-	-	**-**	**-**
Deferred payroll tax liability (CARES Act)	314	-	-	**-**	**-**
Total current liabilities	23,402	23,616	24,553	**22,771**	**21,075**
Long-term liabilities	2,838	4,629	5,381	**6,400**	**7,400**
Long-term debt	6,412	6,162	6,162	**6,162**	**6,162**
Deferred gain on sale	143	105	86	**86**	**86**
Operating lease liabilites	3,241	2,463	2,036	2,036	2,036
Total liabilities	36,036	36,975	38,218	**37,455**	**36,759**
Total stockholders' equity	17,389	16,839	16,166	**15,966**	**16,013**
Total liabilities & stockholders' equity	53,425	53,814	54,384	**53,422**	**52,773**

Source: Company filings and Taglich Brothers estimates

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

	2021A	2022A	**2023E**	**2024E**
Net sales	58,939	53,238	**52,004**	**56,400**
Cost of sales	48,686	45,786	**43,479**	**46,368**
Gross profit	10,253	7,452	**8,525**	**10,032**
Operating expenses	7,766	7,646	**8,411**	**9,085**
Operating income (loss)	2,487	(194)	**114**	**947**
Interest and financing costs	(1,265)	(1,338)	**(1,936)**	**(1,900)**
Gain on write-off of accounts payable	-	317	**-**	**-**
Other (expense) income	405	139	**29**	**-**
Income (loss) before taxes	1,627	(1,076)	**(1,793)**	**(953)**
Income tax (benefit)	-	-	**-**	**-**
Net income / (loss)	1,627	(1,076)	**(1,793)**	**(953)**
EPS	0.45	(0.33)	**(0.55)**	**(0.29)**
Shares Outstanding	3,642	3,227	**3,280**	**3,314**
EBITDA	5,845	2,849	**2,716**	**3,567**
Adjusted EBITDA	6,287	3,375	**3,511**	**4,307**
Margin Analysis				
Gross margin	17.4%	14.0%	**16.4%**	**17.8%**
Operating margin	4.2%	(0.4)%	**0.2%**	**1.7%**
Net margin	2.8%	(2.0)%	**(3.4)%**	**(1.7)%**
Tax rate	0.0%	0.0%	**0.0%**	**0.0%**
Year / Year Growth				
Total Revenues	17.6%	(9.7)%	(2.3)%	**8.5%**

Source: Company filings and Taglich Brothers estimates

2022 includes an inventory reserve due to implementing a new policy for determining the reserve for slow-moving and excess inventory

Quarterly Income Statements
(in thousands $)

	3/22A	6/22A	9/22A	12/22A	2022A	3/23A	6/23A	9/23E	12/23E	**2023E**	3/24E	6/24E	9/24E	12/24E	**2024E**
Net sales	12,062	14,008	13,278	13,890	53,238	12,549	13,205	12,250	14,000	**52,004**	13,200	14,100	13,500	15,600	**56,400**
Cost of sales	9,984	11,586	11,036	13,180	45,786	10,669	11,035	10,190	11,585	**43,479**	10,955	11,630	11,068	12,715	**46,368**
Gross profit	2,078	2,422	2,242	710	7,452	1,880	2,170	2,060	2,415	**8,525**	2,245	2,470	2,432	2,885	**10,032**
Operating expenses	1,871	2,172	2,073	1,530	7,646	2,038	2,098	2,100	2,175	**8,411**	2,135	2,300	2,250	2,400	**9,085**
Operating income (loss)	207	250	169	(820)	(194)	(158)	72	(40)	240	**114**	110	170	182	485	**947**
Interest and financing costs	(323)	(289)	(323)	(403)	(1,338)	(476)	(480)	(485)	(495)	**(1,936)**	(490)	(485)	(475)	(450)	**(1,900)**
Gain on write-off of accounts payable	-	-	-	317	317	-	-	-	-	**-**	-	-	-	-	**-**
Other (expense) income	88	32	12	7	139	16	13	-	-	**29**	-	-	-	-	**-**
Income (loss) before taxes	(28)	(7)	(142)	(899)	(1,076)	(618)	(395)	(525)	(255)	**(1,793)**	(380)	(315)	(293)	35	**(953)**
Income tax (benefit)	-	-	-	-	-	-	-	-	-	**-**	-	-	-	-	**-**
Net income / (loss)	(28)	(7)	(142)	(899)	(1,076)	(618)	(395)	(525)	(255)	**(1,793)**	(380)	(315)	(293)	35	**(953)**
EPS	(0.01)	(0.00)	(0.04)	(0.28)	(0.33)	(0.19)	(0.12)	(0.16)	(0.08)	**(0.55)**	(0.11)	(0.10)	(0.09)	0.01	**(0.29)**
Shares Outstanding	3,218	3,221	3,232	3,250	3,227	3,258	3,266	3,295	3,300	**3,280**	3,305	3,310	3,315	3,325	**3,314**
EBITDA					2,849	489	727	610	890	**2,716**	765	825	837	1,140	**3,567**
Adjusted EBITDA					3,375	613	998	810	1,090	**3,511**	950	1,010	1,022	1,325	**4,307**
<u>Margin Analysis</u>															
Gross margin	17.2%	17.3%	16.9%	5.1%	14.0%	15.0%	16.4%	16.8%	17.3%	**16.4%**	17.0%	17.5%	18.0%	18.5%	**17.8%**
Operating margin	1.7%	1.8%	1.3%	(5.9)%	(0.4)%	(1.3)%	0.5%	(0.3)%	1.7%	**0.2%**	0.8%	1.2%	1.3%	3.1%	**1.7%**
Net margin	(0.2)%	(0.0)%	(1.1)%	(6.5)%	(2.0)%	(4.9)%	(3.0)%	(4.3)%	(1.8)%	**(3.4)%**	(2.9)%	(2.2)%	(2.2)%	0.2%	**(1.7)%**
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%**
<u>Year / Year Growth</u>															
Total Revenues	(12.0)%	(9.4)%	(7.5)%	(9.9)%	(9.7)%	4.0%	(5.7)%	(7.7)%	0.8%	(2.3)%	5.2%	6.8%	10.2%	11.4%	**8.5%**

Source: Company filings and Taglich Brothers estimates

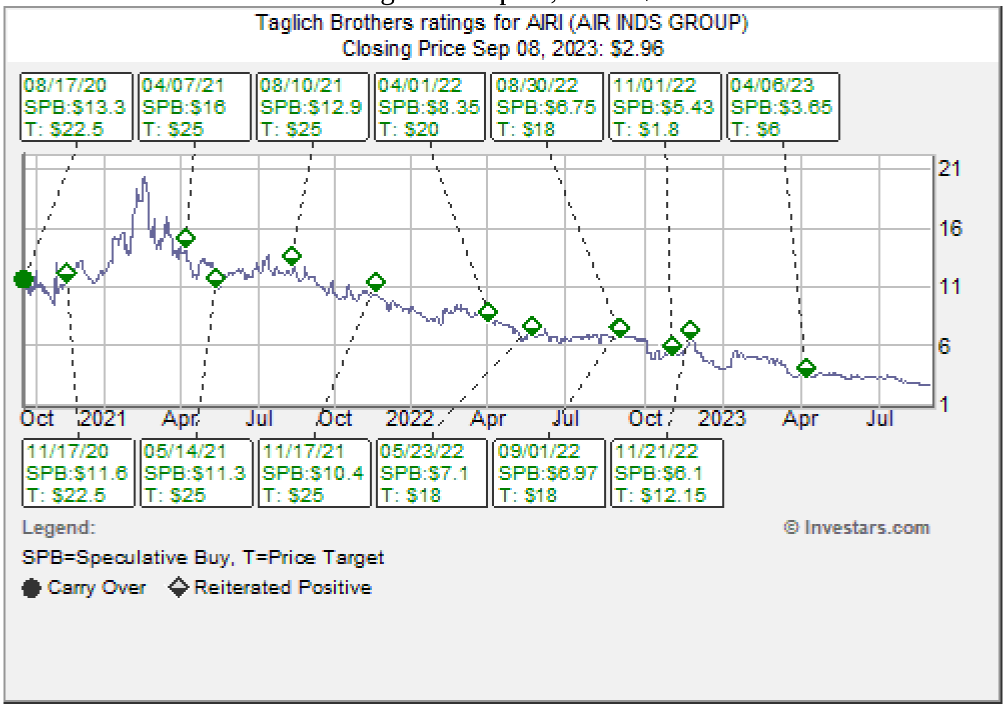
Statement of Cash Flows for the Periods Ended
(in thousands $)

	2021A	2022A	6M23A	**2023E**	**2023E**
Net income (loss)	1,627	(1,076)	(1,013)	**(1,793)**	**(953)**
Depreciation	2,803	2,522	1,239	**2,478**	**2,500**
Stock compensation expense	653	526	340	**680**	**700**
Non-cash other income	(326)	(94)	-	**-**	**-**
Non-cash interest expense	98	35	-	**-**	**-**
Amortization of right-to-use asset	492	545	295	**590**	**590**
Deferred gain on sale of real estate	(38)	(38)	(19)	**(38)**	**(38)**
Non-cah gain on accounts payable write-off	-	(317)	-	**-**	**-**
Bad debt expense (recovery)	(86)	(313)	38	**38**	**-**
Loss on impairment of goodwill	-	163	-	**-**	**-**
Amortization of deferred financing costs	150	65	17	34	34
Cash earnings (loss)	5,373	2,018	897	**1,989**	**2,833**
Changes in assets and liabilities					
Accounts receivable	(1,589)	1,303	1,303	**960**	**(94)**
Inventory	2,588	(2,289)	(946)	**765**	**551**
Prepaid expenses and other current assets	(53)	(81)	85	**87**	**20**
Prepaid taxes	(7)	(6)	(1)	**(1)**	**-**
Deposits and other assets	(193)	(194)	33	**523**	**523**
Accounts payable and accrued expenses	(1,594)	1,136	726	**912**	**304**
Operating lease liabilities	(701)	(686)	(377)	**(377)**	**-**
Deferred revenue	553	(439)	-	**-**	**-**
Other liability - customer deposits	(313)	(314)	(314)	**-**	**-**
Income taxes payable	-	-	-	**219**	**500**
(Increase) decrease in working capital	(1,309)	(1,570)	509	**3,088**	**1,804**
Net cash provided by (used in) operations	4,064	448	1,406	**5,077**	**4,637**
Purchase of property and equipment	(1,364)	(2,361)	(1,383)	**(2,800)**	**(2,250)**
Net cash provided by (used in) investing	(1,364)	(2,361)	(1,383)	**(2,800)**	**(2,250)**
Note payable-revolver-Webster Bank	(3,193)	916	486	**486**	**-**
Proceeds from notes payable-term loan-Webster	-	2,823	740	**740**	**-**
Payments of notes payable-term loan-Webster	(1,371)	(1,609)	(640)	**(2,500)**	**(2,500)**
Payment of finance lease obligations	(5)	(284)	(49)	**(49)**	**-**
Payments of loan payable - financed assets	(9)	(9)	(4)	**(9)**	**(9)**
Payments of notes payable - third party	-	(250)	-	**-**	**-**
Deferred financing costs	-	(20)	-	**-**	**-**
Net cash provided by (used in) financing	(4,578)	1,567	533	**(1,332)**	**(2,509)**
Net change in cash	(1,878)	(346)	556	**945**	**(122)**
Cash - beginning of period	2,505	627	281	**281**	**1,226**
Cash - end of period	627	281	837	**1,226**	**1,104**

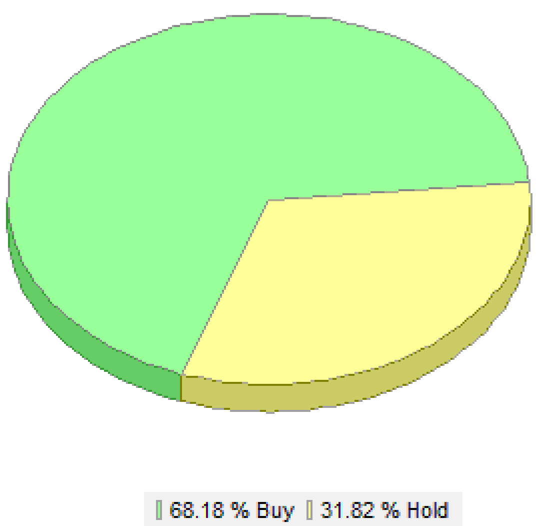
Source: Company filings and Taglich Brothers estimates

Price Chart

Closing Price Sep 11, 2023: $2.86



Taglich Brothers' Current Ratings Distribution



Investment Banking Services for Companies Covered in the Past 12 Months		
Rating	#	%
Buy	**4**	**22**
Hold		
Sell		
Not Rated		

Important Disclosures

As of September 8, 2023, Taglich Brothers, Inc. and/or its affiliates, own more than 1% of AIRI common stock. Michael Taglich, President of Taglich Brothers, Inc. and Director of Air Industries Group, owns or has a controlling interest in 221,676 shares of AIRI common and restricted common stock, 236,907 shares that may be acquired upon the conversion of convertible notes, and 8,370 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 241,893 shares of AIRI common and restricted common stock, 186,135 shares that may be acquired upon the conversion of convertible notes, and 8,370 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. The company currently does not pay Taglich Brothers, Inc., for the creation and dissemination of 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)	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.