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 14, 2019

AIRI $1.23 — (NYSE MKT)

	2017A	2018A	2019E	2020E
Revenues (millions)*	$49.9	$46.3	**$55.4**	**$62.0**
Earnings (loss) per share*	$(1.21)	$(0.36)	**$(0.04)**	**$0.05**

52-Week range	$1.49 – $0.70	Fiscal year ends:	December
Common shares out as/of 11/4/19	29.0 million	Revenue per share (TTM)	$1.88
Approximate float	21.7 million	Price/Sales (TTM)	0.7X
Market capitalization	$36 million	Price/Sales (FY2020)E	0.6X
Tangible book value/share	$0.36	Price/Earnings (TTM)	NMF
Price/tangible book value	3.4X	Price/Earnings (FY2020)E	24.6X

** Continuing operations.*

Air Industries Group, headquartered in Bay Shore, New York, operates primarily in the aerospace and defense industry. The company designs and manufactures structural parts and assemblies, including landing gear, arresting gear, engine mounts, flight controls, throttle quadrants, components for jet engines, and other aerospace components. (www.airindustriesgroup.com)

Key investment considerations:

Reiterating Speculative Buy rating and increasing twelve-month price target to $2.50 per share (previously $2.00 per share) based on our increased sales estimates and a return to profitability.

AIRI's current backlog stands at approximately $100 million. In an effort to satisfy its backlog, the company has been making capital equipment investments, increasing its external supply base and hiring people for its first and second shifts to handle an increase in manufacturing. These investments should help drive AIRI's sales growth through 2020.

The company continues to focus on implementing operational efficiencies and has dramatically reduced annual operating expenses. This, combined with much improved gross margins and growing sales, has returned the company to bottom line profitability in 3Q19, which we believe should continue going forward.

For 2019, we project revenue of $55.4 million and a net loss from continuing operations of $(0.04) per share. We previously projected revenue of $54.9 million and a net loss from continuing operations of $($0.11) per share. The change in our projections primarily reflects 3Q19 results.

For 2020, we project revenue of $62 million and EPS of $0.05. We previously projected revenue of $61 million and a net loss from continuing operations of ($0.07) per share. Our forecast reflects a greater ramp in revenue and higher gross margins than originally anticipated.

3Q19 revenue (10-Q released 11/7/19) increased 30.4% to $14 million. AIRI reported EPS from continuing operations of $0.01 versus a loss of $(0.06) per share in 3Q18. We projected 3Q19 revenue of $13.7 million and a net loss from continuing operations of $(0.03) per share.

****Please view our disclosures on pages 13 - 16.***

Recommendation and Valuation

We are reiterating our Speculative Buy rating on Air Industries Group (AIRI) and increasing our twelve-month price target to $2.50 per share (previously $2.00 per share) based on our increased sales estimates and a return to profitability.

AIRI's current backlog stands at approximately $100 million. In an effort to satisfy its backlog, the company has been making capital equipment investments, increasing its external supply base and hiring people for its first and second shifts to handle an increase in manufacturing. These investments should help drive AIRI's sales growth through 2020.

The company continues to focus on implementing operational efficiencies and has dramatically reduced annual operating expenses. This, combined with much improved gross margins and growing sales, has returned the company to bottom line profitability in 3Q19, which we believe should continue going forward. The efficiencies created by the consolidation of AIM and Nassau Tool Works (completed in late 2018) and a reduced cost structure should enable the company to generate positive EBITDA of approximately $5.2 million in 2019 and $7.5 million in 2020.

Shares of AIRI are trading at a multiple of 0.7X 2020 sales while the aerospace & defense industry trades at a multiple of 1.5X (1.4X previously) 2020 sales. In 2020, we project AIRI's sales growth of 12% compared to 5.2% growth projected for the industry. We anticipate investors are likely to accord AIRI a price to sales multiple in line with the industry. We applied a multiple of 1.4X (unchanged) to our 2020 sales projection of $2.07 per share ($1.92 previously), discounted to account for execution risks, to obtain a year ahead value of approximately $2.50 per share.

Business Overview

Air Industries Group, headquartered in Bay Shore, New York, designs and manufactures structural aircraft parts and assemblies, including landing gear, arresting gear, engine mounts, flight controls, throttle quadrants, components for jet engines, and other aerospace components (see picture at right).

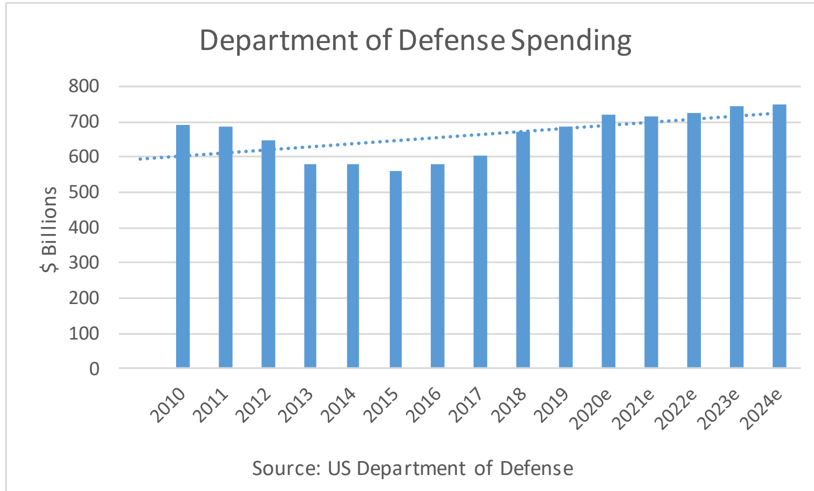
Source: Air Industries Group

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, and the US Navy F-18, and USAF F-16 fighter aircraft. The Turbine Engine segment 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 2024 (see chart above).

Military Aircraft Market and Forecast

The company operates primarily in the US military aircraft market. IBISWorld estimated the US military aircraft, engine and parts manufacturing market at $50.5 billion in 2018. 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.

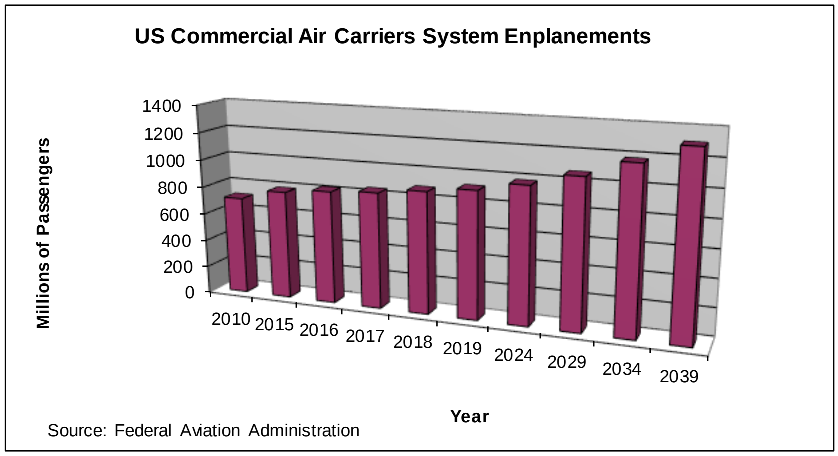
Most US defense manufacturers derive more than half of their revenue from sales to the DoD or defense-related government organizations. The US Navy is currently the largest domestic defense market as it invests in F/A-18 and F-35 fighters, maritime patrol craft, helicopters and unmanned aerial vehicles (UAVs) for both itself and the Marine Core. The US Air Force (USAF) 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 & 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 is for operation and maintenance (O&M) spending is expected to increase 5% to $292.7 billion in 2020 from $278.8 billion in 2019.

Commercial Aircraft Market and Forecast

Although the company's product lines primarily serve the defense market, they also serve the commercial markets. With defense budgets being under pressure since 2013, prime contractors began to shift their focus to the commercial sector. 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 the Federal Aviation Administration's (FAA) Aerospace Forecast 2019-2039, the number of passengers flying US commercial air carriers is projected to increase steadily throughout its forecast horizon. The FAA is forecasting steady US carrier passenger growth of 1.5% per year on average over the next ten years (see chart at right). Driving this growth will be a rise in economic activity. The FAA cited economic forecasts from IHS Markit for US GDP growth to average 1.8% annually from 2019 to 2029.



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 recent operating losses and their impact on the company's working capital, AIRI has repositioned its business through the sale and liquidation of certain businesses acquired since becoming a public company. The company consolidated its headquarters and the operations of its subsidiaries, AIM and NTW, at its corporate campus in Bay Shore, New York, allowing it to re-focus its operations on its core competencies.

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 2018, the International Monetary Fund (IMF) lowered its global economic growth estimates to 3% for 2019 and 3.4% for 2020, down from its July 2019 estimates of 3.2% for 2019 and 3.5% for 2020. The IMF said that after slowing sharply in the last three quarters of 2018, the pace of global economic activity remains weak. Momentum in manufacturing activity has weakened substantially to levels not seen since the global financial crisis.

The IMF lowered its economic growth estimate for the US to 2.4% for 2019 but raised it to 2.1% for 2020. In July 2019, the IMF projected US growth of 2.6% for 2019 and 1.9% for 2020. The IMF said that trade tensions have resulted in tariff increases between the US and China and have hurt business sentiment and confidence globally. While financial market sentiment has been undermined by these developments, a shift toward increased monetary policy accommodation in the US has been a counterbalancing force.

The advance estimate of US GDP growth (released on October 30, 2019) showed the US economy grew at an annual rate of 1.9% in 3Q19, down from 2% in 2Q19. The 3Q19 US GDP growth estimate primarily reflects increases in consumer and government spending, housing investment, and exports, while business and inventory investment decreased.

3Q and Nine-month 2019 Financial Results

3Q19 - Total revenue increased 30.4% to $14 million. AIRI reported net income from continuing operations of $398,000 or $0.01 per share versus a loss of $1.6 million or $(0.06) per share in 3Q18. We projected 3Q19 revenue of $13.7 million and a net loss from continuing operations of $792,000 or $(0.03) per share.

The increase in total sales was primarily due to a 26.8% increase in complex machining sales to $12.3 million and a 64.3% increase in turbine engine component sales to $1.7 million.

Gross profit more than doubled to $3 million while gross margins increased to 21.2% from 12.7%. Operating (SG&A) expenses decreased by 17.2% to $1.8 million due primarily to cost reductions including the consolidation of the company's corporate office into its Bay Shore, NY location. The decrease in operating expenses on higher revenue resulted in operating income of $1.2 million versus an operating loss of $816,000. Interest expense remained relatively flat at $835,000.

Nine-months 2019 - Total revenue increased 22.7% to $41.2 million. AIRI reported a net loss from continuing operations of $1.3 million or $(0.05) per share versus a loss of $4.3 million or $(0.16) per share in the comparable period in 2018.

The increase in total sales was primarily due to a 21.3% increase in complex machining sales to $36.4 million and a 34.7% increase in turbine engine component sales to $4.8 million.

Gross profit increased 52.7% to $7.4 million reflecting gross margin improvement to 18% from 14.5%. Operating (SG&A) expenses decreased by 14.5% to $5.8 million. The decrease in operating expenses and revenue growth resulted in operating income of $1.3 million versus an operating loss of $2 million. Interest expense increased to $2.8 million from $2.5 million.

Liquidity - As of September 30, 2019, the company had $333,000 cash and a current ratio of 1.1X, in line with the aerospace and defense industry. Total debt was approximately $24 million (of which $21.9 million is classified as current) for a debt/equity ratio of 2.3X.

Income Statement
(in thousands $)

	9M19A	9M18A
Complex Machining	36,402	30,022
Turbine Engine Components	4,841	3,593
Total sales	41,243	33,615
Cost of sales	33,815	28,749
Gross profit	7,428	4,866
Loss on lease abandonment	275	-
Operating expenses	5,842	6,830
Operating income	1,311	(1,964)
Interest and financing costs	(2,790)	(2,466)
Other (expense) income	169	175
Income before taxes	(1,310)	(4,255)
Income tax (benefit)	22	-
Net income / (loss)	(1,332)	(4,255)
EPS*	(0.05)	(0.16)
Shares Outstanding	28,774	26,296
Margin Analysis		
Gross margin	18.0%	14.5%
Operating margin	3.2%	(5.8)%
Year / Year Growth		
Total Revenues	22.7%	
Net Income	NMF	
EPS	NMF	

*Continuing operations. Excludes results of WMI.
Source: Company filings

In the first nine months of 2019, cash provided by operations was $270,000 consisting of $2 million of cash earnings and a $1.7 million increase in working capital. The increase in working capital was due primarily to an increase in inventory. Cash used in investing was $397,000 consisting solely of capital expenditures. Cash used in financing of $1.6 million consisted primarily of the pay down of debt. Cash decreased by $1.7 million to $333,000 at September 30, 2019.

The company has a loan facility with PNC with an outstanding balance as of September 30, 2019 of $13.9 million consisting of revolving loans of $13.4 million and a term loan of $464,000. The revolving and term loans bear interest at a rate equal to the sum of an alternate base rate plus 4% with a maturity date of December 31, 2019. As of September 30, 2019, the company was in compliance with its loan covenants.

As of September 30, 2019, finance lease obligations totaled $887,000, 8% convertible notes payable totaled $2.9 million, and related party notes payable (to Michael Taglich and Robert Taglich) totaled $5.8 million (payable at rates ranging from 7% to 12% annually).

In October 2019, the company was advanced $1 million from Michael Taglich. Terms of the advance have not yet been finalized.

Projections

AIRI's current backlog stands at approximately $100 million. In an effort to satisfy its backlog, the company has been making capital equipment investments, increasing its external supply base and hiring people for its first and second shifts to handle an increase in manufacturing. These investments should help drive AIRI's sales growth through 2020.

The company continues to focus on implementing operational efficiencies and has dramatically reduced annual operating expenses. This, combined with much improved gross margins and growing sales, has returned the company to bottom line profitability in 3Q19. The efficiencies created by the consolidation of AIM and Nassau Tool Works (completed in late 2018) and a reduced cost structure should enable the company to generate positive EBITDA of approximately $5.2 million in 2019 and $7.5 million in 2020 compared to an EBITDA loss of $548,000 in 2018.

2019 – We project revenue of $55.4 million and a net loss from continuing operations of $1.1 million or ($0.04) per share. We previously projected revenue of $54.9 million and a net loss from continuing operations of $3.2 million or ($0.11) per share. Our revised forecast reflects 3Q19 results. Gross margins should improve to 18.8% from 11.7% in 2018, reflecting increased manufacturing overhead coverage and a full year of cost savings from the consolidation of AIM and NTW.

We forecast a $1.1 million decrease in SG&A expenses to $7.7 million from $8.8 million as the company benefits from a full year of cost reductions. We project operating income of $2.4 million compared to an operating loss of $6 million in 2018 with operating margin of 4.4% compared to (12.9)%. Interest expense is projected to decrease to $3.7 million from $3.9 million due to a lower average debt level. We project the company paying minimal taxes.

We project $750,000 cash from operations on $2.9 million of cash earnings offset in part by a $2.2 million increase in working capital. The increase in working capital should be primarily due to increases in inventory and receivables. Cash from operations should be more than offset by capital expenditures and repayments of debt necessitating the need for the company to raise $1 million from the issuance of common stock. We project a $1.2 million decrease in cash to $841,000 by the end of 2019.

2020 – We project revenue of $62 million and net income from continuing operations of $1.5 million or $0.05 per share. We previously projected revenue of $61 million and a net loss from continuing operations of $2.3 million or ($0.07) per share. Our revised forecast reflects a greater ramp in revenue and higher gross margins than originally anticipated. Gross margins should improve to 21% from 18.8% in 2019 reflecting increased manufacturing overhead coverage.

We forecast a $308,000 increase in SG&A expenses to $8 million from $7.7 million and operating income of $5 million compared to $2.4 million in 2019. Operating margins are projected to improve to 8.1% from 4.4%. Interest expense is projected to decrease to $3.5 million from $3.7 million on a lower average debt level. We project the company paying minimal taxes.

We project $3.8 million cash from operations on $4.9 million of cash earnings offset in part by a $1.1 million increase in working capital. The increase in working capital should be primarily due to increases in inventory and receivables. Cash from operations should cover capital expenditures and repayments of debt, increasing cash by $440,000 to $1.3 million by the end of 2020.

Risks

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

Going concern – Air Industries suffered net losses from continuing operations for the nine months ended September 30, 2019 and the years ended December 31, 2018 and 2017. The company also had negative cash flows from operations in 2018 and 2017. Air Industries' auditors said that the company's loss from operations and negative cash flows from operations, among other reasons, raised substantial doubt about its ability to continue as a going concern.

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 2018, three customers accounted for 70% 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 McDonnell Douglas (Boeing) C-17 Globemaster, the F-16 Falcon and the F-18 Hornet. Boeing closed its C-17 production line in 2015. 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.

Material weakness in disclosure controls and procedures – As of September 30, 2019, AIRI's disclosure controls and procedures were not effective due to certain portions of AIRI's inventory control system not being integrated into the system used by others in the company which could result in a failure to properly account for the costs associated with work in process. Slow moving inventory, the value of inventory on hand, and the system used to track employee costs to be included in work in process, is not sufficiently automated to ensure compliance.

Legal proceedings – In December 2018, pursuant to a stock purchase agreement (SPA), Air Industries completed the sale of its subsidiary, Welding Metallurgy (WMI), to CPI Aerostructures, Inc. for a purchase price of $9 million reduced by an estimated working capital adjustment as determined by Air prior to closing of $1.1 million. The SPA required that Air deposit $2 million into escrow as security for any amounts that might be due as a final working capital adjustment. As of June 30, 2019, Air had reserved $1.8 million against the escrow deposit.

In March 2019, Air received a notice from CPI claiming that the working capital deficit used to compute the purchase price was understated. The issue of the amount of the working capital deficit was submitted to BDO USA, LLP, acting as an expert where it determined that the amount of the working capital deficit was approximately $4.1 million. In September 2019, CPI filed a notice of motion in the Supreme Court of the State of New York against Air seeking, among other things, an order of specific performance requiring the company to deliver the funds deposited in escrow, together with the balance of the working capital deficit which it claimed, and a judgment against Air in the amount of approximately $4.2 million, of which $2 million would be satisfied by delivery of the funds in escrow.

In October 2019, Air agreed to release $619,000 of the funds held in escrow in respect of claims related to the working capital deficit not related to the value of WMI's inventory. The company advised CPI that the determination by BDO was void because, among other things, it believes BDO exceeded the scope of its authority as set forth in the SPA and intends to contest vigorously any claim CPI may make for payment based upon such report.

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 21.7 million shares in the float and the average daily volume is approximately 23,000 shares.

Miscellaneous risk - The company's financial results and equity values are subject to other risks and uncertainties including competition, operations, financial markets, regulatory risk, and/or other events. These risks may cause actual results to differ from expected results.

Consolidated Balance Sheets
(in thousands $)*

	2017A	2018A	9/19A	2019E	2020E
Cash and cash equivalents	630	2,012	333	841	1,281
Accounts receivable	5,464	6,522	6,427	6,930	7,750
Inventory	31,141	29,051	30,352	30,022	30,613
Prepaid expenses and other current assets	214	414	568	542	542
Assets held for sale	10,082	-	-	-	-
Prepaid taxes	49	49	6	8	8
Total current assets	47,580	38,048	37,686	38,343	40,193
Property and equipment, net	10,050	8,777	8,132	8,117	7,144
Capitalized engineering costs	2,188	-	-	-	-
Operating lease right-of-use-asset	-	-	3,741	3,741	3,741
Deferred financing costs	665	768	1,029	1,029	1,029
Goodwill	272	163	163	163	163
Total assets	**60,755**	**47,756**	**50,751**	**51,393**	**52,270**
Notes payable and capitalized lease obligations	23,393	19,345	21,880	21,312	20,516
Operating lease liabilities	-	-	672	672	672
Accounts payable and accrued expenses	10,872	8,723	9,291	9,632	10,476
Deferred gain on sale	38	38	38	38	38
Deferred revenue	931	881	895	895	895
Liabilities associated with assets held for sale	2,795	-	200	200	200
Income taxes payable	20	20	20	20	20
Total current liabilities	38,049	29,007	32,996	32,769	32,817
Long-term debt	3,448	5,721	2,084	2,084	2,084
Deferred gain on sale	295	257	228	228	228
Operating lease liabilites	-	-	4,420	3,943	2,807
Liabilities associated with assets held for sale	-	-	462	462	462
Deferred rent	1,197	1,165	-	-	-
Total liabilities	**42,989**	**36,150**	**40,190**	**39,486**	**38,398**
Total stockholders' equity	**17,766**	**11,606**	**10,561**	**11,907**	**13,872**
Total liabilities & stockholders' equity	**60,755**	**47,756**	**50,751**	**51,393**	**52,270**

* Continuing operations.
Source: Company filings and Taglich Brothers estimates

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

	2017A	2018A	2019E	2020E
Net sales	49,869	46,309	55,443	62,000
Cost of sales	45,002	40,895	45,033	48,980
Gross profit	4,867	5,414	10,410	13,020
Impairment of goodwill, asset abandonment	6,195	495	275	-
Operating expenses	11,430	8,839	7,692	8,000
Operating income (loss)	(12,758)	(5,963)	2,443	5,020
Interest and financing costs	(3,378)	(3,921)	(3,658)	(3,472)
Other (expense) income	(22)	278	169	-
Income (loss) before taxes	(16,270)	(9,606)	(1,046)	1,548
Income tax (benefit)	(197)	3	35	78
Net income / (loss)	(16,073)	(9,609)	(1,081)	1,470
EPS*	(1.21)	(0.36)	(0.04)	0.05
Shares Outstanding	13,231	26,898	28,878	29,900
EBITDA		(548)	5,212	7,503
Adjusted EBITDA		1,898	5,982	7,903
Margin Analysis				
Gross margin	9.8%	11.7%	18.8%	21.0%
Operating margin	(25.6)%	(12.9)%	4.4%	8.1%
Net margin	(32.2)%	(20.7)%	(1.9)%	2.4%
Tax rate	1.2%	0.0%	(3.3)%	5.0%
Year / Year Growth				
Total Revenues		(7.1)%	19.7%	11.8%

*Continuing operations.
Source: Company filings and Taglich Brothers estimates

Quarterly Income Statements
(in thousands $)*

	3/19A	6/19A	9/19A	12/19E	2019E	3/20E	6/20E	9/20E	12/20E	2020E
Net sales	13,878	13,368	13,997	14,200	55,443	14,750	15,250	15,750	16,250	62,000
Cost of sales	11,604	11,177	11,034	11,218	45,033	11,653	12,048	12,443	12,838	48,980
Gross profit	2,274	2,191	2,963	2,982	10,410	3,098	3,203	3,308	3,413	13,020
Impairment of goodwill, asset abandonment	275	-	-	-	275	-	-	-	-	-
Operating expenses	2,062	1,972	1,808	1,850	7,692	1,900	1,950	2,050	2,100	8,000
Operating income (loss)	(63)	219	1,155	1,132	2,443	1,198	1,253	1,258	1,313	5,020
Interest and financing costs	(963)	(992)	(835)	(868)	(3,658)	(868)	(868)	(868)	(868)	(3,472)
Other (expense) income	31	38	100	-	169	-	-	-	-	-
Income (loss) before taxes	(995)	(735)	420	264	(1,046)	330	385	390	445	1,548
Income tax (benefit)	-	-	22	13	35	17	19	20	22	78
Net income / (loss)	(995)	(735)	398	251	(1,081)	313	366	370	423	1,470
EPS*	(0.03)	(0.03)	0.01	0.01	(0.04)	0.01	0.01	0.01	0.01	0.05
Shares Outstanding	28,601	28,771	29,041	29,100	28,878	29,900	29,900	29,900	29,900	29,900
EBITDA					5,212					7,503
Adjusted EBITDA					5,982					7,903
Margin Analysis										
Gross margin	16.4%	16.4%	21.2%	21.0%	18.8%	21.0%	21.0%	21.0%	21.0%	21.0%
Operating margin	(0.5)%	1.6%	8.3%	8.0%	4.4%	8.1%	8.2%	8.0%	8.1%	8.1%
Net margin	(7.2)%	(5.5)%	2.8%	1.8%	(1.9)%	2.1%	2.4%	2.3%	2.6%	2.4%
Tax rate	0.0%	0.0%	5.2%	4.9%	(3.3)%	5.2%	4.9%	5.1%	4.9%	5.0%
Year / Year Growth										
Total Revenues	16.5%	21.8%	30.4%	27.8%	19.7%	6.3%	14.1%	12.5%	14.4%	11.8%

*Continuing operations.
Source: Company filings and Taglich Brothers estimates

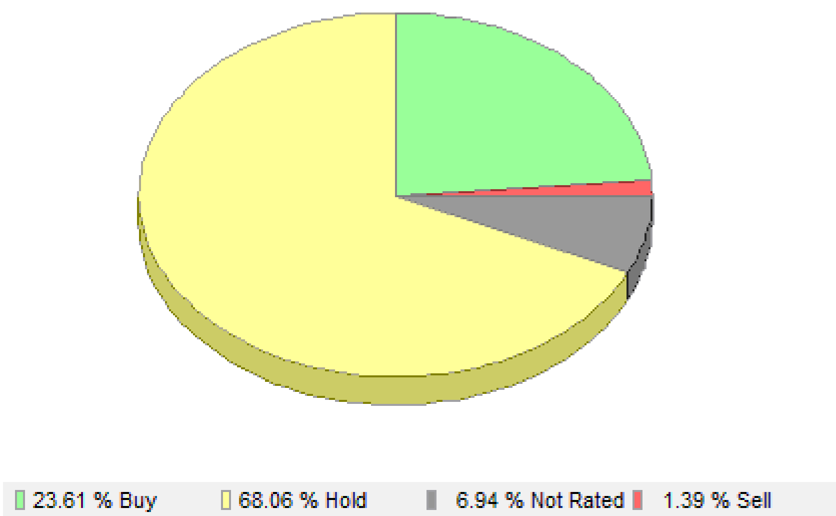
Statement of Cash Flows for the Periods Ended
(in thousands $)*

	2017A	2018A	9M19A	2019E	2020E
Net income (loss)	(22,551)	(10,992)	(1,471)	(1,081)	1,470
Depreciation	2,723	2,877	2,085	2,600	2,483
Amortization of intangible assets	673	-	-	-	-
Amortization of capitalized engineering costs	423	668	-	-	-
Loss on impairment of goodwill	9,612	109	-	-	-
Bad debt expense (recovery)	87	49	46	46	46
Stock compensation expense	564	356	351	400	400
Directors compensation	-	-	95	95	95
Other income recognized	-	-	(198)	(198)	-
Interest expense	-	-	60	60	-
Abandonment of lease	-	-	275	275	-
Amortization of right-to-use asset	-	-	352	352	-
Amortization of deferred financing costs	267	212	-	-	-
Gain on sale of real estate	(38)	(38)	(29)	(29)	-
(Gain) loss on sale of subsidiary	(200)	340	-	-	-
Change in useful life of capitalized engineering costs	-	2,043	-	-	-
Loss on impairment of intangible assets	1,085	-	-	-	-
Loss on assets held for sale	1,563	386	42	42	-
Loss on extinguishment of debt	112	-	-	-	-
Amortization of convertible notes payable	2,301	941	370	370	370
Cash earnings (loss)	(3,379)	(3,049)	1,978	2,932	4,864
Changes in assets and liabilities					
Assets held for sale	39	-	-	-	-
Accounts receivable	1,004	(561)	49	(408)	(820)
Inventory	905	1,395	(1,301)	(971)	(591)
Prepaid expenses and other current assets	281	39	(154)	(128)	-
Prepaid taxes	360	-	43	41	-
Deposits and other assets	(113)	(1,112)	(261)	(261)	-
Accounts payable and accrued expenses	(3,527)	(1,127)	343	909	844
Operating lease liabilities	-	-	(441)	(1,378)	(543)
Income taxes payable	-	-	-	-	-
Deferred rent	34	3	-	-	-
Deferred revenue	410	2,076	14	14	-
(Increase) decrease in working capital	(607)	713	(1,708)	(2,182)	(1,109)
Net cash provided by (used in) operations	**(3,986)**	**(2,336)**	**270**	**750**	**3,755**
Capitalized engineering costs	(985)	(523)	-	-	-
Purchase of property and equipment	(1,514)	(1,264)	(397)	(500)	(500)
Proceeds from sale of subsidiary	4,260	5,472	-	-	-
Net cash provided by (used in) investing	**1,761**	**3,685**	**(397)**	**(500)**	**(500)**
Notes payable - revolver	(7,938)	(2,415)	(597)	(796)	(796)
Payments of notes payable - term loan	(3,178)	(1,899)	(1,108)	(1,477)	(1,477)
Net proceeds from sale of payment rights	-	-	797	797	-
Finance lease obligations	(1,397)	(1,286)	(899)	(1,200)	(542)
Proceeds from notes payable - related party	2,660	2,803	500	500	-
Payments of notes payable - related party	-	-	(16)	(16)	-
Payments of loan payable - financed assets	-	-	(116)	(116)	-
Proceeds from notes payable	4,184	70	-	-	-
Payments of notes payable	(463)	-	-	-	-
Deferred financing costs	(50)	(125)	-	-	-
Share issuance costs	-	-	(113)	(113)	-
Proceeds from issuance of stock	7,733	2,885	-	1,000	-
Net cash provided by (used in) financing	**1,551**	**33**	**(1,552)**	**(1,421)**	**(2,815)**
Net change in cash	**(674)**	**1,382**	**(1,679)**	**(1,171)**	**440**
Cash - beginning of period	**1,304**	**630**	**2,012**	**2,012**	**841**
Cash - end of period	**630**	**2,012**	**333**	**841**	**1,281**

* Continuing operations.
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	**2**	**10**
Hold		
Sell		
Not Rated	**1**	**25**

Important Disclosures

As of the date of this report, Taglich Brothers, Inc. and/or its affiliates, own more than 1% of AIRI common stock. Michael Taglich, President of Taglich Brothers, Inc. and Chairman of Air Industries Group, owns or has a controlling interest in 3,973,266 shares of AIRI common stock, 2,282,621 shares that may be acquired upon the conversion of convertible notes, 437,849 shares that may be acquired upon the conversion of warrants, and 27,750 shares that may be acquired upon the conversion of stock options. In September 2015, April, May, and August 2016, March and May 2017, June and October 2019, Michael Taglich loaned the company monies. Robert Taglich, Managing Director of Taglich Brothers, Inc. and a Director of Air Industries Group, owns or has a controlling interest in 2,372,748 shares of AIRI common stock, 1,849,288 shares that may be acquired upon the conversion of convertible notes, 285,856 shares that may be acquired upon the conversion of warrants, and 27,750 shares that may be acquired upon the conversion of stock options. In April and May 2016, February, March, and May 2017, and in June 2019, Robert Taglich loaned the company monies. Doug Hailey, Director of Investment Banking at Taglich Brothers, Inc., owns or has a controlling interest in 56,042 shares of AIRI common stock and 23,908 shares that may be acquired upon the conversion of warrants. Robert Schroeder, Vice President of Investment Banking at Taglich Brothers, Inc. and a Director of Air Industries Group, owns or has a controlling interest in 92,293 shares of AIRI common stock, 27,750 shares that may be acquired upon the conversion of stock options, and 55,278 shares that may be acquired upon the conversion of warrants. Richard Oh, Managing Director of Taglich Brothers, Inc., owns or has a controlling interest in 15,513 shares of AIRI common stock that may be acquired upon the conversion of warrants. Other employees at Taglich Brothers, Inc. also own or have controlling interests in 45,836 shares of common stock upon the conversion of warrants. Taglich Brothers, Inc. owns 1,030 shares of AIRI common stock. Taglich Brothers, Inc. had an investment banking relationship with the company mentioned in this report. In April and May of 2007, Taglich Brothers Inc. served as the placement agent in the sale of convertible preferred stock for the company. In June 2008, Taglich Brothers, Inc. served as the placement agent in the sale of junior subordinated notes for the company. In September and October of 2008, Taglich Brothers, Inc. served as the placement agent in the sale of junior subordinated notes and convertible preferred stock for the company. In October 2013 and May 2014, Taglich Brothers, Inc. served as the placement agent in the sale of common stock for the company. In May and June 2016, Taglich Brothers, Inc. served as the placement agent in the sale of convertible preferred stock for the company. In August, November and December 2016, and in February and March 2017, Taglich Brothers, Inc. served as the placement agent in the sale of convertible notes for the company. In May 2017, Taglich Brothers, Inc. served as a placement agent in the sale of convertible notes and warrants for the company. In January 2018, Taglich Brothers, Inc. served as a placement agent in the sale of common stock and warrants for the company.

All research issued by Taglich Brothers, Inc. is based on public information. The company paid a monetary fee of $1,500 (USD) in October 2013 for the creation and dissemination of research reports. After the initial publication, the company pays a monthly monetary fee of $1,500 (USD) to Taglich Brothers, Inc., for a minimum of six months for the creation and dissemination of research reports.

General Disclosures

The information and statistical data contained herein have been obtained from sources, which we believe to be reliable but in no way are warranted by us as to accuracy or completeness. We do not undertake to advise you as to changes in figures or our views. This is not a solicitation of any order to buy or sell. Taglich Brothers, Inc. is fully disclosed with its clearing firm, Pershing, LLC, is not a market maker and does not sell to or buy from customers on a principal basis. The above statement is the opinion of Taglich Brothers, Inc. and is not a guarantee that the target price for the stock will be met or that predicted business results for the company will occur. There may be instances when fundamental, technical and quantitative opinions contained in this report are not in concert. We, our affiliates, any officer, director or stockholder or any member of their families may from time to time purchase or sell any of the above-mentioned or related securities. Analysts and members of the Research Department are prohibited from buying or selling securities issued by the companies that Taglich Brothers, Inc. has a research relationship with, except if ownership of such securities was prior to the start of such relationship, then an Analyst or member of the Research Department may sell such securities after obtaining expressed written permission from Compliance.

Analyst Certification

I, John Nobile, the research analyst of this report, hereby certify that the views expressed in this report accurately reflect my personal views about the subject securities and issuers; and that no part of my compensation was, is, or will be, directly, or indirectly, related to the specific recommendations or views contained in this report.

Public companies mentioned in this report:

Boeing (NYSE: BA)
CPI Aerostructures Inc. (NYSE MKT: CVU)
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.

Dropping Coverage – Research coverage discontinued due to the acquisition of the company, termination of research services, 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.