

Air Industries Group
Second Quarter 2024 Earnings Conference Call
August 14, 2024

Presenters

Lou Melluzzo, President and CEO
Scott Glassman, Chief Financial Officer

Q&A Participants

Howard Halpern - Taglich Brothers

Operator

Hello, and welcome to the Air Industries Group Second Quarter 2024 Earnings Conference Call.

At this time, all participants are in a listen-only mode. A question-and-answer session will follow the formal presentation. At that time, to ask a question, please press “*”, “1” on your telephone keypad. To withdraw your question from the queue, please press “*”, “2”. For participants using speaker equipment, it may be necessary to pick up your handset, before pressing the star keys.

If anyone should require operator assistance during the conference, please press “*”, “0” on your telephone keypad.

This call and the accompanying webcast may contain forward-looking statements as defined in Section 27A of the Securities Act of 1933, as amended, including statements regarding, among our other things, the company's business strategy and growth strategy. Expressions which identify forward-looking statements speak only as of the date the statement is made.

These forward-looking statements are based largely on our company's expectations and are subject to a number of risks and uncertainties, some of which are beyond our control and cannot be predicted or quantified. Future developments and actual results could differ, materially, from those set forth in, contemplated by or underlying the forward-looking statements.

In light of these risks and uncertainties, there can be no assurance that the forward-looking information will prove to be accurate. This call does not constitute an offer to purchase any securities nor a solicitation of a proxy, consent, authorization or agent designation with respect to a meeting of the company's shareholders.

At this time, I would now like to turn the call over to Lou Melluzzo, President and CEO. Please go ahead.

Lou Melluzzo

Thank you, Joe, and thank you all for joining us, today. The results for the second quarter of 2024 are extremely encouraging. We are profitable for the quarter, which was an improvement, over a loss in Q1. While we had a modest 2.8% increase in revenue for the quarter, compared to last year, we achieved a significant increase in gross profit.

For the quarter, gross profit increased by \$474,000, or nearly 22%, compared to Q2 of 2023.

Just to give some perspective on our Q2 results, while revenue was down by \$489,000, gross profit was \$738,000, or nearly 39% higher than in the first quarter. Our gross margin on sales increased from 13.6% to 19.5%. It is important to understand that profitability is highly dependent on several factors, such as product mix, timing and a steady flow of raw material.

Our Connecticut operations benefited from the ramp-up of a Rotorcraft product, and the fruition of several company-wide profit enhancement initiatives that we have been working on, over the last several months. This increased gross margins, together with closely controlled expenses, resulted in our return to profitability.

In addition, I want to mention that we expect Q3 to reflect some softness, as compared to our earlier quarters, followed by a stronger Q4. Now let me turn to bookings.

Our order flow continues to be strong. Bookings in Q2 were \$16.5 million, growing \$3.5 million, or 27%, from the level we achieved in Q1. We achieved a book-to-bill ratio of 1.2:1. Given our strong bookings, our total funded backlog at the end of Q2 was slightly over \$100 million, which is a significant milestone. Our goal is to grow the backlog from here.

Before turning the call over to Scott, I want to provide a brief summary of our recent visit to the Farnborough Air International Show. The show is a trade exhibit for the aerospace and defense industry and is attended by key primes and manufacturers. From our perspective, it was a great show. Our schedule was booked full. We met and solidified relationships with both old and new customers, and believe we have set the stage for great things to come.

Now, let me turn the call over to Scott, who will discuss our Q2 results in more detail. I'll be back to add some closing commentary and a bit more specifics on our 2024 outlook before opening the call up to questions and answers. Scott, you may proceed.

Scott Glassman

Thanks, Lou. I share this enthusiasm about the Q2 results. Let me discuss them in more detail.

Consolidated net sales for the second quarter ended June 30, 2024, were \$13.6 million. This represents a 2.8% increase, as compared to the \$13.2 million we achieved in Q2 of 2023. The improvement in our operating results is directly due to increased gross margin, which was approximately \$474,000, or 22% higher than Q2 of 2023, and \$738,000, or 39% higher than the first quarter.

During our last call, we expressed confidence that margins would improve, and they have. Although quarterly fluctuations may still occur, we believe the gross margin on a year-over-year basis will continue to show improvement.

We continue to focus on keeping operating expenses controlled. For the second quarter, they were \$1.9 million, which was \$206,000, or 9.8% lower than the prior year second quarter and \$273,000, or 12.6% less than Q1 of 2024.

As a result of increased profitability and controlled expenses, we had operating income exceeding \$0.75 million compared to a modest operating income of just \$72,000 in Q2 of 2023, and an operating loss of close to \$260,000, in Q1 of 2024.

Finally, on the bottom line, we had net income of \$298,000, or \$0.09 per share, compared to a loss of \$395,000, or negative \$0.12 a share in 2023, and a loss of \$706,000, or a loss of \$0.21 a share in Q1 of '24. From the first quarter to the second quarter, our net income has increased by over \$1 million.

For the six months ended June 30, 2024, our adjusted EBITDA was \$1.775 million, an improvement of nearly 236,000, or 15% from the prior year. The detailed reconciliation of EBITDA to GAAP was included in our press release that was issued this morning.

As filed on Form 8-K, earlier this year, we amended our credit facility and negotiated more favorable covenants. In this regard, I am pleased to report that we are in compliance with these covenants and expect to remain in compliance.

Now let me quickly highlight a few items on the balance sheet. Compared to December 31, 2023, our total debt is up by \$1.6 million to \$24.939 million, a 7% increase. This was due to the completion of the installation of solar panels at our Connecticut manufacturing facility, an increase in our equipment term loan that was made with our recent amendment to our banking agreement.

Inventory is slightly lower, which reflects timing and carefully monitoring inventory levels with a goal to improve our working capital requirements. Accounts receivable are essentially unchanged, but other working capital accounts, such as accounts payable and accrued expenses, are down by about \$0.5 million.

And with that, I will turn the call back to Lou for some closing remarks and an update on our 2024 business outlook. Lou.

Lou Melluzzo

Thank you, Scott. First half of fiscal 2024, reflecting strength, strong order flow and an improvement from last year. I feel confident about our second half. With two quarters under

our belt, fiscal 2024 is on track to be a year of significant growth. Although it remains difficult to predict the timing of orders, raw materials and delivery times for finished products, the company reaffirms our target of net sales for fiscal 2024 to be at least \$50 million, with adjusted EBITDA in 2024 being, significantly, better than in 2023.

Additionally, we are working on a number of large booking opportunities that we expect to finalize soon. If we are successful in closing these opportunities before the end of our fiscal 2024, not only will we achieve growth in 2024, but 2025 will be even better.

With that, Joe, I would like to open the call to our question-and-answer portion.

Operator

Thank you. Ladies and gentlemen, as a reminder, if you would like to ask a question, please press “*”, “1” on your telephone keypad, and a confirmation tone will indicate your line is in the queue. You may press “*”, “2”, if you would like to remove your question from the queue. And for participants using speaker equipment, it may be necessary to pick up your handset, before pressing the star keys.

And our first question comes from the line of Howard Halpern with Taglich Brothers. Please proceed.

Howard Halpern

Congratulations, guys, fantastic quarter.

Lou Melluzzo

Hi, Howard, how are you doing today?

Scott Glassman

Hey, Howard, thank you.

Howard Halpern

You did mention, briefly, that Q4 will be stronger than Q3. Is that in terms of revenue and margin or just in terms of revenue for Q3? And are there new programs starting, I guess, in Q3 that might hamper gross margin a little bit?

Scott Glassman

Hi, Howard, so Q3 is going to be a combination of lower sales and lower--which will obviously give you lower margin dollars, probably slightly lower margin percentage as well, which, as we said, we'll turn around in the fourth quarter. It has to do with some customer pushouts and things of that nature, but we are confident that the year will be as we have laid out.

Lou Melluzzo

Howard, it's timing of orders and material flow. The pipeline is full, the very positive thing for the balance of the year.

Howard Halpern

Okay. Are there any additional projects that you are doing in-house to create efficiencies? Or is that type of capital spending coming to an end where you'll start paying down some debt?

Lou Melluzzo

We came--well, we've been very frugal, this year, with capital spending. We retrofitted--we haven't--we purchased one new Coordinate Measuring Machines in the early, this year, I think to the tune of about \$300,000. But other than that, we had three machines in the shop that have been there for a while that's--it's old iron, and it has great capability, three spindle machines. It's what you need in this business. And we spent roughly \$300,000, per machine, to bring it up to the 21st century.

So basically, new controls, new brains in these things, and we will reap the benefit on them. We're looking--our pipeline of potential orders is immense; I mean immense.

So, we don't want to get caught short. We wanted to make sure that we had machines to be able to produce this work if we're fortunate enough to win some of these projects coming up because in this industry, year in, year out, and getting things repaired and equipment. And so, we went ahead and spent the money to prepare for a potential floodgate of new opportunities coming down the pipe.

Howard Halpern

Okay. And in terms of those opportunities and maybe in conjunction with the air show, too, those opportunities, are they--as you said, new, old and potentially new customers, but are the programs brand new, or will they be similar to some of the other programs that you have that are ongoing?

Lou Melluzzo

It's all aerospace programs. Predominantly, Air Industries Group is roughly 85% military programs. But in light of what's happened to commercial aviation and Boeing, there's been a lot more opportunities on the other side of the fence on the commercial side, which we have one product here in our Bay Shore facility in New York. That's commercial, everything else, and that's our thrust struts.

So we're pursuing both, military and commercial work. Commercial would be a relatively new frontier for us here in New York. We do a lot more commercial in our Connecticut operations.

But it's the same equipment, it's the same materials. It's the same way to approach the work. So it's nothing new to us. It's just commercial in the past hasn't been as lucrative as military work. We all know that. That's no secret.

But Boeing with the 767 and the 787 and all these other new programs. And despite the issues that they've had with it, a lot of people that are in COVID that were commercially based went out of business. So, we're finding that the market is looking for companies such as ours for commercial applications, and we plan on taking advantage of it.

Howard Halpern

Okay, well, I look forward to those announcements, yet to come. Keep up the great works, guys.

Lou Melluzzo

Thank you, Howard.

Scott Glassman

Thanks, Howard.

Operator

There are no further questions at this time. I'll turn the call back to Lou Melluzzo for closing remarks.

Lou Melluzzo

Thank you, Joe. Thank you, all, for taking the time to be on this call, today, and for your interest in Air Industries Group. We look forward to updating you on our progress on the next call. Thank you, again. Joe, with that, if there's no further questions or anything, you may terminate the call or end the call.

Operator

Thank you. This concludes today's conference. You may now disconnect your lines at this time. Enjoy the rest of your day.