Air Industries Group
Third Quarter 2024 Earnings
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Presenters
Lou Melluzzo - President and Chief Executive Officer
Scott Glassman - Chief Financial Officer, Principal Accounting Officer and Secretary of the Company

Q&A Participants
Jaime Perez - R.F. Lafferty & Company
Lawrence Katz (sp) - Private Investor
Michael Card (sp) - Private Investor

Operator
Hello, and welcome to the Air Industries Group Third Quarter 2024 Earnings Conference Call. At this time, all participants are in a listen-only mode. A brief question-and-answer session will follow the formal presentation. If anyone should require operator assistance during the conference, please press star, zero on your telephone keypad.

This call may contain forward-looking statements as defined in Section 27A of the Securities Act of 1933 as amended, including statements regarding, among 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 there are 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'd like to turn the call over to Mr. Lou Melluzzo, President and CEO. Thank you. You may begin.

Lou Melluzzo
Thank you, Matt, and thank you all for joining us today. This morning, we reported our results for the third quarter of fiscal 2024. We saw top line revenue growth, improved gross margins and expanded our backlog. As I'll discuss later in the call, we also reaffirmed our positive fiscal 2024 outlook.

I'll let Scott share many of the financial details, but before I turn it over to him, I want to spend a few moments on bookings. Without question, our order flow continues to be strong. Our backlog of undelivered fully funded customer orders surpassed $104 million, marking a 4% increase since June 30, 2024, and a 22% increase since January 1, 2024.

I am proud of my team for these achievements. When you take a step back and look over a longer period, our book-to-bill ratio was 1.4 to 1 for the trailing 12 months ended September 30, 2024. This is well above the industry standard of 1.2 to 1, and also encouraging is that our pipeline of new quotes remains full.

Let me turn the call over to Scott for some financial highlights, and I will discuss our business outlook, and provide some closing remarks. Scott, could you--

Scott Glassman
--Yeah, thank you, Lou. Yes. Thanks, Lou. I share Lou's enthusiasm about the third quarter results. Let me discuss them in some more detail. Consolidated net sales for the third quarter ended September 30, 2024, were $12.6 million. That was 2.1% higher than what we achieved in Q3 of last year.

I'm pleased to report that we also saw gross margin improvements. In fact, not only did our gross profit in dollars increase by over $700,000, or 58%, compared to 2023, but our gross profit as a percentage of sales was 15.5%, an increase of more than five percentage points compared to 2023.

Importantly, we are not resting on our laurels. Our gross margin of 15.5% remains below our historical average, and we are shooting to achieve additional improvement as production ramps and we continue to achieve efficiencies. We continue to focus on controlling operating expenses. For the third quarter, they were $1.9 million, which reflects a reduction of $150,000 or 7.4% less than was last year in the third quarter. We achieved operating income of $67,000, a substantial improvement over the loss of $796,000 that we incurred in Q3 of 2023.

Adjusted EBITDA for the quarter and nine months has improved significantly. For the three months, it improved by $898,000, and for the nine months, it improved by $1,134,000. A detailed reconciliation of EBITDA to GAAP is included in our press release that was issued this morning.

And finally, on the bottom line, we had a net loss of $404,000 or $0.12 a share. This is a dramatic improvement from the third quarter of 2023, when we had a net loss of $1,299,000, or $0.40 a share.

On the balance sheet side, as of September 30, 2024, total debt was $24,976,000, up $1,666,000 or 7.1% from December 31, 2023. The company is in compliance with its loan covenants, and we expect to remain in compliance for the balance of the year.

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

Lou Melluzzo
Thanks, Scott. I am pleased that our results for the third quarter and year-to-date reflect continued improvements compared to the prior year. I expect this positive trend to continue in the foreseeable future. Our success is driven by executing our strategy, including a sharp focus on our portfolio expansion, aftermarket strategy and an industry outreach. We continue to meet with both existing and potential customers on a regular basis and are working hard to expand our business.

With respect to our 2024 business outlook, we are reaffirming our guidance. Specifically, we are targeting the achievement of at least $50 million in net sales for fiscal 2024 with adjusted EBITDA expected to significantly surpass 2023 levels. Also, as we think about 2025, we believe that revenues for 2025 will essentially be consistent with 2024. However, we will see improvements in gross margins and operating income.

Looking at the longer term, we are very enthusiastic. Air Industries' business is heavily weighted to the military. Over the past four years, the military budget has been flat; actually a reduction considering inflation. We believe that the DoD or the Department of Defense is the only federal agency that has fewer employees now than four years ago, and we believe the lack of funding has resulted in delayed maintenance and deteriorating force readiness. Now with the pending new administration and ongoing conflicts abroad, we expect that defense spending in our markets will get more focused.

In our year-end conference call, I'll have more to report on 2025 and long-term as things shape up, but I wanted to give you an early preview of what we are thinking and what we are seeing.

Finally, I do want to mention that, last month, for the first time in several years, we attended the MicroCap Rodeo Investor Conference in New York City. The presentation we used at the conference is posted on our website. If you have not viewed it, I encourage you to take a look.

I look forward to increasing our shareholder investor outreach in the coming months. And whether you are a longtime Air Industries shareholders or a newcomer to our story, I encourage you to give Scott or me a call, and we'd be happy to talk to you.

Now before I turn the call over to the operator for Q&A, we received some questions from an analyst that unfortunately was unable to attend today's call. Scott, can you please read the questions and provide some answers. When Scott is done, we will have the operator open up the portion of Q&A.

So Scott?

Scott Glassman
Okay, Lou. Thank you. As Lou mentioned, we did receive some questions in advance that we would like to address. The first question, can you describe the dynamics between -- excuse me -- the dynamics behind the fluctuation in gross margin? And given the quarterly fluctuations, do you anticipate the overall gross profit margin trend to see improvement over the next few years?

The answer to that question is that the quarterly fluctuation in our gross margin is tied to the mix in products shipped in any given quarter. As many of you are aware, the products we manufacture have long lead times, and we produce to our customers' discrete schedule, thereby causing a fluctuation in the timing of the product that we ship in any given period, which then impacts the gross margin.

Based on what we know today, we believe that overall margins will improve over the next several years. But as I just said, there will continue to be fluctuations quarter-to-quarter and year-to-year.

The second question we received was, what are the macro trends supporting you and your customer base over the next 12 to 24 months?

The answer to that is, as mentioned earlier, the Department of Defense is the only federal agency that has fewer employees now than they did four years ago, and the lack of funding has resulted in delayed maintenance. With that being said, we expect there will be significant spending over the next several years, to bring the aircraft fleet back into a state of readiness, especially given the conflicts abroad.

The third question that we received - while you are not providing 2025 guidance, given the trends in backlog, should we anticipate year-over-year improvement to operating results?

The answer is that we believe that 2025 revenues will be roughly equal with 2024 and expect to see improved gross margin. We have continued to keep our operating costs in check, especially in this highly inflationary time. We anticipate we will be able to continue to do just that. So we expect our operating results to remain consistent, or slightly improved for 2025.

Lou, I turn it back to you.

Lou Melluzzo
Thank you, Scott. Now that we have addressed the questions that we received in advance, let's turn the call over to Matt for the Q&A portion of the call. Matt, can you open up the lines, please?

Operator
Great, thank you. We'll now be conducting a question and answer session. If you'd like to ask a question, please press star, one on your telephone keypad. A confirmation tone will indicate your

line is in the question queue. You may press star, two to remove yourself from the queue. For participants using speaker equipment, it may be necessary to pick up your handset before pressing the star keys. One moment please while we poll for questions.

First question is from Jaime Perez from R.F. Lafferty & Company. Please go ahead.

I'm sorry, Jaime, your line is live. You may be on mute.

Jamie Perez
Yeah, sorry. Yeah, it was on mute. Everybody, thanks for taking my question. Now that we have a change in--

Unknown
(Inaudible)

Jamie Perez
Hello? Yeah. Now that we have a change in administration, where do you see your segment as far as backlog increasing most? Is it aftermarket parts to be placed in new -- old equipment, refurbish old equipment or just to maybe new builds and new aircraft hitting the fleet or the troops?

Lou Melluzzo
Well, thank you for the question. We're going to experience what we believe is an uptick in aftermarket parts. Just like prior to the Republican administration that started with Trump now eight years ago, the U.S. fleets had been aging, and they had been bastardizing aircrafts on the runway to fix other ones, both the helicopter and all the defense planes.

When that happened, when the Republicans took over the office, spending upticked pretty sharply. And we think what's going on right now with the threats across the world, and the conflicts going on, both in Israel and the Ukraine, although we're not intimately involved, we support some of the aircrafts that are in the field. So we foresee an uptick in aftermarket parts.

Jamie Perez
Now would that be U.S. military and also NATO, or just the U.S. military?

Lou Melluzzo
Well, we typically sell to the U.S. military, although we have striked an agreement not too long ago to service other countries, NATO countries. So that agreement is new; just this fall, we announced it. So we'll see what comes out of the field in there, as well.

Jamie Perez
Now what do you think the timing could be -- I know Trump hasn't taken office, but what the timing could be when you start looking into new bids or as far as on the aftermarket?

Lou Melluzzo
What we're seeing now is lead time on materials increasing. We were able to get BlackHawk parts forgings and -- forgings predominantly in 17, 40 weeks. And we're seeing those lead times go up from 40 to 80 weeks; E2D, the same thing. So we're seeing lead time on materials dramatically being increased.

The production -- once we have the materials, we put our hands on it, we get them out the door as quickly as possible. That hasn't changed. But the material business is what's tough right now and driving timelines.

Jamie Perez
Right. Now on the material, how is it -- is there any cost inflation -- I mean, what's the cost inflation? Is it you guys sort of--

Lou Melluzzo
--No, no. There's been dramatic price increase across materials all across the board. Our long-term agreements all stipulate a band. So when we quote the part and win the business, we win it at X dollars, and typically, the first 5% is our problem and anything above 5% becomes the OEM's or whoever issues the purchase order problem. We're not in that business. We can't guarantee a long-term agreement for three, four, five years out with pricing being the way it is.

Jamie Perez
Right. Now in your new markets, I mean, possibility of new markets, what are you looking at? I mean, I know we talked about eVTOL and, was it, different types of drones, I mean, and you guys do the landing gears. Are you looking at that type of market of like--

Lou Melluzzo
--So in new markets for us, we're predominantly -- we're 85% military, so -- across our operations. So a new market for us, one that's hot, despite the Boeing woes that they're having right now, there's others. But commercial aviation, again, materials are long lead time, but they're start -- we're starting to see a pretty heavy demand for commercial products that's -- and with commercial, the OEMs have a lot more leniency on where they put this work.

A lot of the work was across in China and in other unstable areas that are now pulling it back. They're starting to pull it back. And so we're seeing an uptick in quoting activity, both on commercial. We're quoting some vertical -- new vertical lift. We're in with the BlackHawk and have been for over 40 years. The V-280, the Bell helicopter replacement is going to be coming into fruition within the next several years.

And we're going to be in that supply chain. We're also seeing -- we're also involved with a couple of electric vehicle companies for short takeoff -- for vertical takeoff in 50, 60-mile range planes.

That's going to be the way of the future. We don't see it now, but it will be coming at some point, and we're in with some of those companies, as well.

Jamie Perez
Yeah, when I was a kid I was watching the jets, and I didn't realize that was going to become a reality one day.

Lou Melluzzo
Well, we're there.

Jamie Perez
Yeah. All right, so your new markets are the eVTOL and the drones--

Lou Melluzzo
--eVTOL, new vertical lift. We're looking at drones. We're looking at missiles. We're looking at commercial. There are several new opportunities for us.

Jamie Perez
Yeah, no, especially the last couple of years with the drone warfare, I mean, everything is going on AI and drones. And you guys are, I think -- I'm not an aeronautical engineer, but since you guys do the landing gears for some of these fighters, it just makes sense for you guys to get involved with some of the predator (inaudible) drones, I think.

Lou Melluzzo
It's more than just landing gear. We're a landing gear company, but we do aerostructures. We do arresting gear, which stops the planes on carriers. We do a lot of structural work. So there's a lot of markets. Missiles, for example, they don't have landing gear. It's a one-shot deal, but there's a lot of structural parts in a missile. And the beauty about missiles is it's a one-shot deal.

Jamie Perez
Yeah, yeah. All right, all right. Yeah, all right. So those are the questions I have. I mean, just the new administration, it seems like it's bringing a lot of good things, especially to the defense industry. All right, thanks for my question.

Lou Melluzzo
(Inaudible) Thank you so much for your questions.

Scott Glassman
Thank you.

Operator
The next question is from Lawrence Katz (sp), a Private Investor. Please go ahead.

Lawrence Katz
Yes, thank you for taking my question. On August 22, the company put out a press release announcing a $117 million order and a resultant $280 million backlog. Today, in the press release, the company says it has $105 million backlog. The difference between $280 million and $105 million is a lot. And I want -- it seems to be a huge discrepancy here between the two press releases. I wondered if you would like to clarify that? So--

Lou Melluzzo
--I'd be happy to. I'd be happy to. If you look at our press releases, when we talk about backlog, the company utilizes a couple of different measures. But predominantly it's $104 million is what we have in-house that is firm funded orders that stretches between 18 months and potentially two years, okay? So that's what the $104 million backlog is.

Our awards order -- so anything, let's say, over 18 months or two years is not in the backlog. But we have five-year and seven-year contracts. Those numbers are not in the contract. But when we say awards given to the company, they can total up to about $270 million, $280 million.

Scott Glassman
Let me clarify that a little further, if I may. As Lou said, the $104 million, $105 million number is what is fully funded, meaning that if a customer were to cancel an order that has been funded, there would be a termination liability, whereas the total order -- award order, as Lou just mentioned, is over the life of the entire contract, the entire contract, the LTA would call for a much longer period of time, as in the one we announced, the $110 million, they've only funded or released or placed orders against that $110 million that go out for the next 18 to 24 months, as Lou said. And as time goes on, they provide additional releases within the lead time required to manufacture those parts.

Lawrence Katz
Okay. I understand what you said, and it was clear. Let me just try to make it even more clear. The $110 million order that was talked about in the press release on August 22 resulting in a $280 million backlog, that is still on. That hasn't been rescinded or anything. It's (inaudible) long-term order?

Lou Melluzzo
Absolutely not (inaudible)--

Scott Glassman
--You're completely correct. He's correct, completely correct.

Lawrence Katz
Good. That's what I wanted to hear.

Lou Melluzzo

No, I appreciate the call, and I appreciate that we could further explain what that meant.

Operator
Once again, as a reminder, if you'd like to ask a question, it is star, one.

Next question is from Mitchell Card (sp), a Private Investor. Please go ahead.

Michael Card
Yes sir. Thank you for taking my call. My question has to do with your internal manufacturing operation. What programs do you have in place to optimize workflows, improve equipment utilization, increase operator productivity, eliminate or reduce bottlenecks in the production line?

Lou Melluzzo
That's a great question. We have a continuous improvement coordinator that's part of our team at the facilities, and his sole job is looking at scheduling, looking at customers' needs, customers' requirements, make sure that we're utilizing the best equipment to produce these parts. We call like in our Connecticut operations, for example, there's an operation called CCAT, which is Connecticut Center for Advanced Technologies and also an operation called ConSTEP (sp), which is an operation of retired executives that would help -- that help everything from workflow charts to addressing outside services across the board. So we tend to use both systems, both internally and outside consultants when we need to to streamline whatever operations we can do.

Plus there's a -- if we did -- if we milled a product in 10 hours, let's say, last month, we strive to do it in nine hours this month. And there's a lot of gumble (sp) walks and there's a lot of get-togethers on how do we improve, how do we put the material closer to the machine, are the speeds and feeds correct, is there new cutter technologies? We look at everything.

Michael Card
All right, sir, thank you for your answer. Appreciate it.

Lou Melluzzo
Thank you.

Scott Glassman
Thank you.

Operator
One more time, if there's any questions, that is star, one to join the queue.

If there are no further questions, I'd like to turn the floor back to management for any closing comments.

Lou Melluzzo
Thank you, Matt. Thank you all for taking the time to be on the call today and for your interest in Air Industries Group. We look forward to updating you on the progress on our next call. Matt, with that, you can conclude the call.

Operator
Thank you. This concludes today's teleconference. You may disconnect your lines at this time. Thank you again for your participation.