

**Air Industries Group**  
**First Quarter 2024 Earnings Conference Call**  
**May 16, 2024**

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**Presenters**

**Luciano Melluzzo, Senior Vice President and CEO**  
**Scott Glassman, Chief Financial Officer**

**Q&A Participants**

**Howard Halpern - Taglich Brothers**

**Operator**

Hello, and welcome to the Air Industries Group First 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, if you would like to ask a question, please press star one on your telephone keypad. You may press star two if you would like to remove your question from the queue.

You may need to pick up your handset before pressing the star keys if you are using speaker equipment. If anyone should require operator assistance during the conference, please press star zero on your telephone keypad. Please note this conference is being recorded.

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 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 underline 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, sir.

**Luciano Melluzzo**

Thank you, Shamali. I thank everyone for joining us today. The first quarter of 2024 saw revenue growth as compared to the first quarter of last year as well as compared to revenues we achieved during the fourth quarter of 2023. More importantly, the strong order and opportunity flow we experienced during the fourth quarter of last year continues and remains strong.

We achieved bookings of \$12.95 million, and our backlog increased to \$99.3 million. Our quarterly book-to-bill ratio, which is simply quarterly bookings divided by quarterly net sales was 0.92 to 1. Q2 has started strong with new activity, and while timing is always difficult to predict, given the opportunities we see, I believe that our annual book-to-bill ratio in fiscal 2024 will continue to exceed the industry standards of 1.2 to 1.

After the market closed today, we announced an \$8.2 million order for Black Hawk and H-92 components. Our funded backlog of \$99.3 million represents the net future sales we expect to realize from funded orders we have already received. These funded orders issued by our customers come from long-term agreements, spot buys, and other. It is important to understand that our backlog does not include what is sometimes referred to as unfunded orders. Unfunded orders represent future orders possible under existing long-term agreements and other contracts.

When you take a step back, the total value of contracts awarded to us as of March 31, 2024, including our \$99.3 million of funded backlog, was \$179.1. The \$179.1 million amount provides some multiyear visibility into our future revenue and validates the key partnerships we have with our customers. Importantly, as I mentioned earlier, we remain laser-focused on several large opportunities we eventually expect to close. All in all, I am confident that fiscal 2024 will be a year of growth.

Now, let me turn the call over to Scott, who will discuss our Q1 results. I'll be back to add some closing commentary and a bit more specifics on our 2024 outlook before opening it up to questions and answers. Scott, you may proceed.

**Scott Glassman**

Thanks, Lou. As Lou mentioned, we remain confident that fiscal 2024 will be a year of growth. Let me discuss our results. Consolidated net sales for the first quarter ended March 31, 2024, were \$14 million. This was higher than the \$12.5 million we achieved in Q1 of 2023. And in fact, it was even higher than the \$13.5 million we achieved in the fourth quarter of 2023, although I caution everyone not to annualize any particular quarter's results.

This quarter's sales level shows you a sense of our current production capabilities at our current staffing levels. Gross profit as a percentage of sales in Q1 2024 was 13.6 percent as compared to the 15 percent we achieved in Q1 of 2023. It was lower than what we had achieved in Q4 2023, which was 16 percent.

This quarter, our gross margins were impacted by several new products. We also experienced some hiccups in our Connecticut manufacturing facility, specifically incurring lower than expected hours. However, I am confident that gross margin will improve later in the year as we refine our operations and accelerate our products.

Operating expenses in Q1 2024 were \$2.2 million, or 15.4 percent of sales. When compared to Q1 of 2023, these metrics were very similar. Our Q1 2024 operating loss, largely driven by the lower gross profit, was \$259,000 compared to a Q1 2023 loss of \$158,000. Interest expense in Q1 2024 was \$462,000, down slightly as compared to the \$476,000 in Q1 of 2023.

Finally, on the bottom line, net loss was \$706,000 for the quarter, compared to a Q1 2023 loss of \$618,000. With respect to adjusted EBITDA, we generated \$362,000 in 2024, compared to \$578,000 in 2023. The detailed reconciliation of this non-GAAP financial metric is included in our press release that was issued last evening.

Now, let me quickly highlight a few items on the balance sheet. We finished the quarter with \$225,000 of cash. Our debt level was approximately \$23,936,000, a slight increase from Q4 of 2023. As of March 31, 2024, we unfortunately did not meet our fixed covered (inaudible) ratio, and our credit facility was Webster Bank.

However, we did make all required principle payments pursuant to the terms of the credit facility, and we are working with Webster to obtain adjusted or new financing that better meet our operating requirements. Cash receivable at quarter end was \$8 million, and inventory was \$29.3 million. Both amounts are very similar to how we finished Q4 of 2023.

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

### **Luciano Melluzzo**

Thank you, Scott. Let me provide some additional color on the challenges of gross profit in Q1. During Q1, we began initial production on a number of new programs for new customers at the same time. Gross margins at the development stage of a new product tend to be lower. Historically, as we become more knowledgeable about how to produce a product, we reduce production time, we reduce cost, and become more efficient as the product matures.

The good news is that once these products are under our belt, it is not uncommon for us to improve our production cycle times upwards of 30 percent to 40 percent. At the end of the day, I am pleased with our Q1 performance, and I am confident that fiscal 2024 will be a year of growth.

And considering all the typical disclaimers in our Form 10-Q filed with the SEC yesterday, we are still targeting the net sales for fiscal 2024 to be at least \$50 million, with an adjusted EBITDA in

2024 being better than that of 2023. As the year progresses, we intend to provide updates, as appropriate.

Now, let's turn the call over for the Q&A portion of the call. Shamali, can you please open up the lines?

**Operator**

Thank you. And at this time, we will be conducting a question-and-answer session. If you would 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 if you would like to remove your question from the queue. 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 with your question.

**Howard Halpern**

Good afternoon, and good start to the year on--.

**Luciano Melluzzo**

--Good afternoon, Howard.

**Scott Glassman**

Hi, Howard. How are you?

**Howard Halpern**

Okay. So, for--on a modeling basis, going forward, would that--operating expenses in the first quarter, is that what we're going to see for a time as you continue to upgrade the information technology and cybersecurity area of the business?

**Scott Glassman**

So, I would say that in Q1, the operating expenses will probably be--were probably slightly higher than I anticipate for the remainder of the year. However, there are additional costs in there, as you indicated, for IT upgrades and cybertechnology to make us compliant with the various things we need to be as a government contractor and just as a business in general. But, I wouldn't think they would be higher than that in the future periods.

**Howard Halpern**

Okay. And in terms of, you talk about it was a new program that began in Q1. Now, is that sales going to ramp quarter-by-quarter, or will there still be some fluctuations in that new program--but as you continue to deploy it, it will help drive margins up throughout the quarters?

**Scott Glassman**

As Lou--do you want to go? As Lou said, as production matures, typically, our cycle time is reduced, and that would, of course, lead to a higher margin. I believe that we will see that as time progresses. Lou, would you care to add any more color to that?

**Luciano Melluzzo**

Absolutely. As--Howard, as you know, and we've been saying all along, we've been on a real new business development quest for the last 12 to 16 months. And we've been successful at bringing in new product and from new clients. So, what's happening is some of this material, and I think we're all aware of it, has nine months, a year, year and a half lead time. It all showed up at the same time. So, we had several projects that we initiated all at one time.

We expect to be shipping this product throughout the course of the year. And some of these are LTAs that go on beyond this year, and they'll go out three to five, seven years. So, we'll start seeing some gains from the product that we have developed in Q1 and the end of last year as well.

**Howard Halpern**

Okay. And we will from time to time, I guess, see some fluctuations based on if it's a new program. There will be some startup always and then a ramp to follow on some of the new programs that you will be engaged in.

**Scott Glassman**

That is correct.

**Luciano Melluzzo**

That is absolutely correct.

**Howard Halpern**

Okay. And as of now, the raw materials issue seems like it's pretty much behind?

**Luciano Melluzzo**

Most of our product, especially the important ones that really caused us some aggravation in 2023--it seems like that's mostly beyond us. I mean, we're still managing it day to day, but we're getting material. And I have more material in-house so far this year than I had all of last year, so that's a positive trend. Just--you can't predict the future, but we're hopeful that it continues.

**Howard Halpern**

Yes, indeed. And you're seeing--and what are you seeing from your customers that you're producing for and potential new customers? Their goal is to--they have budgets to deploy capital?

**Luciano Melluzzo**

Well, it seems like the government direct--we're seeing a lot more activity from the government than we saw in the last couple years. Since COVID hit, government spending was more allocated for stuff that we don't get involved with, space and stuff that just was outside of our forte. But, it just seems like now, there's a lot more opportunities for spares on programs that we do get involved with.

So, we're seeing an uptick in that. We brought in several new customers that potentially could make up 30 percent, 40 percent of our business. So, we're going through the curve of producing product and developing product right now, but it seemed commercial--we produced a strategic plan that was presented at the end of last year to our Board.

And so, we're following that plan to a tee. And that plan had us--as you are well aware, we're predominantly military. And 85 percent, 90 percent of our revenue comes from military programs. And during the COVID years, there was no such thing as commercial. But, commercial is starting to make a comeback, so we're pursuing that pretty heavily as well because there's work to be had there.

**Howard Halpern**

Okay. And just one last one. How is the move or the progression to the submarine business going?

**Luciano Melluzzo**

Slowly but surely. It's new to us. So, materials react differently than the aerospace materials that we are accustomed to. It's all about the proper development. When you're cutting (inaudible) as tight as we produce, the way you address a part and speeds, there is a litany of things that you just have to try to see how the materials react. It's moving along. It's not going as fast as I would like to go, but it is moving along.

**Howard Halpern**

Okay, okay. Thanks, and keep up the great work.

**Luciano Melluzzo**

Thank you for your call, Howard.

**Scott Glassman**

Thanks, Howard.

**Operator**

Thank you. And we have reached the end of the question-and-answer session. I'll turn the call back over to Lou Melluzzo for closing remarks.

**Luciano Melluzzo**

Thank you, Shamali. Thank you, everybody, for being on the call today and for your interest in Air Industries Group. We look forward to updating you on our progress on the next call. Shamali, at this point, you may conclude the call.

**Operator**

Thank you. Ladies and gentlemen, this concludes today's conference, and you may disconnect your lines at this time. Thank you for your participation.