

**Air Industries Group
Conference Call
April 16, 2025**

Presenters

**Lou Melluzzo, President and CEO
Scott Glassman, CFO**

Q&A Participants

Howard Halpern -- Taglich Brothers

Operator

Hello and welcome to the Air Industries Group year-end 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. If anyone should require operator assistance, please press star zero on your telephone keypad. As a reminder, this conference is being recorded. 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 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 could 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 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 Lou Melluzzo, President and CEO. Please go ahead.

Lou Melluzzo

Thank you, Rob, and thank you all for joining us today. 2024 was a successful rebuilding year. Our financial results showed significant improvement over 2023. Our dramatic improved bookings of new business have led to a record backlog at a level we have never seen before. For 2024 compared to 2023, revenue, operating profit, and net income, adjusted EBITDA all improved. Revenue was in excess of 55 million, improvement of nearly \$2.6 million or 7%, operating income by more than 750,000 converting a loss in 2023 to operating profit in 2024. We incurred a net loss for the year, but the loss was reduced by \$765,000, a reduction of 36%.

Adjusted EBITDA, our primary measure of financial performance, improved by nearly \$1 million or 35%. As 2024 came to a close, we continued our accelerated business development and sales efforts. The aerospace industry uses a book-to-bill ratio. The total number -- the total of new business booked divided by sales billed to customers to measure the health of the business. A

ratio of 1.2:1 is considered healthy and supportive of a growing business. In January of 2023, our ratio was a dismal 0.75:1. At December 2024, it had improved to 1.29:1, an improvement of 72%, now higher than the industry standard. Our new business sales efforts accelerated at the year-end and into the first quarter of 2025. Beginning in December and continuing to March 11th of 2025, we announced six major new contracts, or LTA's long-term agreements, totaling nearly \$60 million of new business spread over four aircraft platforms and four customers.

Bookings meet [sp] the backlog. Over the past two years in '23 and '24, our full funded backlog and backlog fully supported by firm customers' purchase orders increased by nearly \$32 million or 36.7% and is now at almost \$118 million. Our total backlog, including unfunded orders, also increased dramatically and now is in excess of a quarter of a billion dollars. During 2024, we enjoyed improving financial results. Our business development efforts during that year continue to accelerate. This has laid a strong foundation for the future. While we do not expect straight line improvement, we do expect improvement to continue in 2025 and beyond.

Now let me turn the call over to Scott who will discuss our results in more detail. And I'll be back to add closing commentary and a bit more specific on the outlook for some preliminary thoughts on 2025 before opening it up to questions and answers. So, Scott, let's go over to finances, please.

Scott Glassman

Good morning, everybody, and thank you, Lou. Before I begin, I would also like to comment on the delay in filing our 10-K. Late last year, our independent audit firm merged. Mergers of accounting firms often result in additional time to complete an audit as new personnel and procedures are involved. The good news is that it was filed yesterday afternoon. It's in the 15-day automatic extension period, so we remain compliant. I, too, share Lou's enthusiasm about the 2024 results. Let me discuss them in some more detail. Our consolidated net sales for the year were \$55.1 million. That was 7% higher than the 51.5 million we achieved in 2023. The improvement in gross margin and profit is even more significant news.

For the year, gross profit increased by over 1.5 million or 20.2% compared to that of 2023. Gross margin for the year was 16.2%, an increase of 1.7 percentage points compared to 2023. Now, while gross margin of 16.2% remains below our historical average, we anticipate continued improvements in the future. Our operating expenses were controlled, as well, even though we are in an inflationary environment. For the year, they were \$8.5 million, an increase of 750,000 or 9.7% higher than the previous year. I'd like to point out that included in this increase was an additional \$315,000 of stock compensation expense, which is a noncash item. The increase in stock compensation expense accounted for 42% of the total increase. Had it not been for this noncash additional expense, our operating expenses would have only increased by 435,000 or 5.6%.

Our operating profit for the year was 459,000, which is a significant improvement from the loss we had in 2023. Finally, on the bottom line, we had a net loss of \$1.366 million or \$0.41 a share.

This is a dramatic improvement from 2023 where we had a net loss of \$2.1 million or \$0.65 a share. Adjusted EBITDA for the year was 3.641 million, an increase of 944,000 or 35% compared to that of 2023. I'm also very pleased to report that we remain in compliance with our loan with our lender.

Now let me quickly highlight a few balance sheet items comparing 2024 to 2023. Our total debt is up by about 3 million, which resulted from additional borrowings under our revolving credit facility and additional borrowings due to the completion of our solar power installation in our Connecticut facility. Our inventory is about \$1 million lower than at the end of 2023, and we continue to monitor our inventory levels very diligently. Accounts receivable are up by about \$1 million as are accounts payable and accrued expenses. And with that, I turn the call back to Lou for some other remarks and then to our Q&A. Lou?

Lou Melluzzo

Thanks, Scott. We would be remiss if we did not address the question on everybody's mind, the impact of potential tariffs and the DOGE effects on budget cuts. Nobody knows the final effect on tariffs, what they may be, and what expected damages we might incur. Our business is heavily weighed to the military aerospace. And as such, we are required to source most of the raw materials and hardware from our domestic sources. That said, increased tariffs may be strict imports, and restricted imports may reduce supply, perhaps leading to an increase in prices for domestically produced products.

We do have one important product in the commercial aviation for which we source material from China. Now thankfully, our contract for its product has a price protection clause, allowing us to pass along any significant cost that is more than 5% lifetime. There's also a widespread concern about possible reductions in the defense budget. We expect that there will be strategic reductions in the budget, but we believe that the programs we support will not materially be reduced and perhaps may be increased. The administration has made it clear that it is maintaining or increasing spending to counter tensions in the Pacific. We are well positioned for this.

One of our major aircraft programs is the Navy's E-2D advanced Hawkeye aircraft. This plane is a flying combat information center, surveilling and controlling the airspace around any aircraft carrier battle group. We were recently awarded a large \$33 million contract for the CH-53K heavy lift helicopter that is now just entering into full rate production. This helicopter's function is to transfer U.S. Marines and equipment from ship to land. Aircraft carriers in the new heavy lift helicopters are obviously critical for the military to counter threats in the Pacific. And although the conversations in Washington changes daily, we do not expect to be materially harmed by reductions in military spending. Thus, we are working tirelessly to continue to take risk out of the business. With that, I would like to turn this over to our questions-and-answers portion of the call. Rob, can you open up the lines, please?

Operator

Sure. If you'd like to ask a question at this time, you may press star one from your telephone keypad, and a confirmation tone will indicate your line is in the question queue. You may press star two if you'd like to withdraw your question from the queue. For participants that are using speaker equipment, it may be necessary to pick up your handset before pressing the star keys. One moment, please, while we pull for questions. Once again, that is star one. Thank you. Thank you. The first question is from the line of Howard Halpern with Taglich Brothers. Please proceed with your questions.

Howard Halpern

Congratulations on [inaudible].

Lou Melluzzo

Morning, Howard.

Scott Glassman

Morning, Howard. Thank you.

Howard Halpern

Just one more question, I guess, regarding potential supply chain. And I mean, I don't know the answer to this, but do any of the raw materials that are in the supply chain, are there any rare earth elements that come from China in your supply chain?

Lou Melluzzo

Howard, not in the products that we make that -- we're not aware of any, to be honest with you. So, on all the military programs, there's an [inaudible] to make sure that the products are sourced out of American soil, American mines. We have one product that is a commercial product that we do piggyback off the OEM's contract and the OEM has chosen China to be a supplier. So, that's kind of what we do. But we have price protection on that one contract to a band of 5%, as I stated earlier. So, our obligations on that contract is -- it could only go up another 5%. That would be our incurred costs, and everything else will be transferred to the client. Now, that doesn't mean that that product can't be sourced in the United States. It used to be prior to, I guess, maybe two or three years ago [inaudible] in the United States, and we have started those conversations again in lieu of what is happening. And actually, we started the long before. But again, the ultimate decision rests on the OEM because they're the ones that placed the purchase order with these mills.

Howard Halpern

Okay. And the way you've constructed now the operations in 2024, you believe that the efficiency and flexibility you have in 2025 -- I mean, you would have the ultimate flexibility going forward in your operations.

Lou Melluzzo

The operations -- and you're welcome to visit with us, and we'll schedule and give you a tour. The operations are impeccable at this point. The floors look polished. The machines are clean and new. And we've done -- we've solved the problem for the -- we had in the past with bottlenecks and pinch points. We have duplicate machines across the board. And quite frankly, the operations are running -- in New York are running a smooth as silk. In Connecticut, we're a little bit behind because we put a lot of money early in my career here to make sure that our flagship operation in Connecticut -- in New York, I'm sorry, was optimal. But since -- in the last two years, we put about, Scott, was about \$4 or \$5 million --

Scott Glassman

About \$5 million.

Lou Melluzzo

We have two new large machines being installed in Connecticut right now. One of them just hit a floor about three weeks ago and has been installed and is going through final testing. And a very large other second machine is scheduled to come in mid-May, and it'll probably be operational at some point mid-June, maybe the end of June. So, now we've solar paneled that facility in Connecticut. It's got a brand new roof. Now that facility dates back to 1941, and so we are bringing that up to speed. And it's making great, big strides. So, yes, the operations are running very efficiently at this point.

Howard Halpern

Okay. And talking about CapEx, is that still going to be around property and equipment about \$2 million? Or might that be a little less this year?

Scott Glassman

I would expect this year to be a little less. I want to preface that with saying we've already committed for these machines that we're installing and that's kind of straddling -- straddled if you will, 2024 into the beginning of 2025 as far as the timing of the payments and whatnot. However, for the rest of the year aside from that, those are our largest expenditures that we expect currently for 2025.

Lou Melluzzo

I'll also preface that, Howard, with, if a client walks in tomorrow and has \$10 million a year of [inaudible] to drop off, and I need a new piece of equipment, I'm going to buy a new piece of equipment.

Scott Glassman

Absolutely. 100%.

Lou Melluzzo

But we're not -- you never know. But right now, we feel that we've done a pretty decent job at making the shops efficiently for what we do.

Howard Halpern

And I don't know if you have a precise answer, but do you know how many potential new program starts you might have this year? Or is it going to be just piling into -- did you have a lot of starts last year and is just full bore production?

Lou Melluzzo

Yeah. In years past, especially coming out of COVID, which were very lean times for orders to go out, we got flooded with a lot of new starts here, absolutely correct, Howard. That's been minimized. Some of the work is repeat. We've gotten follow-on contracts for the E-2D Hawkeye, which we've been making for a while. So, that's just going to be a continuation of our existing production. There's no engineering. There's always continuous improvement, but there's no new engineering. We are working with some new clients, and there's always a new start here and there, but it's definitely more controlled.

Howard Halpern

And that will be the one of the drivers for improved gross margins as time goes by.

Lou Melluzzo

Right. Right. Once the program becomes mature in the first and the second -- after the first year, we tend to improve efficiencies dramatically.

Howard Halpern

Okay. And one last one, if you care to comment on it. Q1 relative to Q4, could you give some -- just a little bit of color?

Scott Glassman

We're really not going to give that much color on it. Obviously, we just filed the 10-K yesterday, which was year-end, as you all know. So, I would say our gross margin dollars are in line with our internal expectations. We are still going through the closing process, which should be done in the next day or so. And then in a couple of weeks, we will put out results for the first quarter.

Howard Halpern

Okay. Okay. Thanks, guys. And keep up the great work in 2025.

Scott Glassman

Thank so much, Howard.

Lou Melluzzo

Thank you for the call, Howard.

Operator

Thank you. Once again, if you'd like to ask a question, you may press star one at this time. Thank you. At this time, we have no additional questions, and I'll hand the call over to Lou Melluzzo for closing remarks. Thank you.

Lou Melluzzo

Thank you, Rob. Thank you all for taking the time to be on the call today and your interest in Air Industries Group. We look forward to updating on the progress of our next call. Rob, at this point, you may close the line.

Operator

Thank you, Mr. Melluzzo. This will conclude today's conference. You may disconnect your lines at this time. Thank you for your participation.