

Air Industries Group
First Quarter 2025 Earnings Conference Call
May 15, 2025

Presenters

Lou Melluzzo, President and CEO
Scott Glassman, CFO

Q&A Participants

Howard Halpern – Taglich Brothers

Operator

Hello and welcome to Air Industries Group first quarter of 2025 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 during the conference, please press star zero on your telephone keypad. Please note 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 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 solicitation of 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.

Lou Melluzzo

Thank you, Darrell, and thank you all for joining us today. We just recently on April 16th had our year-end conference call. Not too much has transpired since then, but for the first quarter our sales were lower compared to 2024. Despite this, gross profit increased. We have worked many hours trying to increase the efficiency of our operations, and making more money on fewer sales is a good measure that those efforts are paying off. Scott will go into more details on the numbers, but I note that in the first quarter our operating loss increased. This was largely due to an increase in non-cash expense for stock compensation.

I would like to focus on our business development efforts. In the first quarter, we accelerated an already aggressive program. As part of this, I am excited to share that once again we will be attending the Paris Air Show in June. We have attended the last several shows both in Paris and

in alternate years in England. These shows have been very successful for us resulting in the onboarding of several major new customers. The aerospace industry uses a book-to-bill ratio. This metric is the total of new business book divided by sales billed to customers. It is an excellent metric to measure the health of a business development effort. If the ratio is below one, not enough new business is being booked, and it is likely that future sales will decline. A ratio of 1.2:1 generally reflects a growing business. Our ratio, calculated on a trailing 12-month basis, was 1.34:1 at the end of the first quarter. This is above the industry standard and almost a 20% improvement from the prior year, and since the first quarter of 2023, it has increased by 80%. We have laid a firm foundation for future sales growth. Bookings lead the backlog, and our success in bookings is reflected in our backlog.

Our funded backlog supported by firm orders from customers is at a record 120 million. Our total backlog including forecast but not yet firm customer orders is more than \$0.25 billion. These levels were achieved during 2024 and are at record levels for Air Industries. Bookings lead to backlog, and backlog leads to sales. But to make sales we need to have raw materials. Raw materials are flowing more steadily to us and to others. However, over the past several years, the initial lead time, the time from order placement to receipt on our dock, have grown exponentially. They remain very long today. If we receive an order from a customer today and order material today, it may be 9 months to 15 months before we can begin to cut metal and make the product. While this is frustrating, it is a reality of the industry. I'm going to turn the call over to Scott who will discuss first quarter results and then come back from some closing remarks. Scott?

Scott Glassman

Thanks, Lou. Let me discuss the results of Q1 2025 in some more detail. Consolidated net sales for the first quarter ended March 31, 2025, were 12.1 million. This was lower than the 14.1 million we achieved during Q1 of 2024. However, and rather more importantly, our gross margin for the first quarter increased by over \$100,000 on these lower sales to about 2 million from the 1.9 million in 2024. Our gross margin percentage for the quarter was 16.8%, an increase of 320 basis points compared to the first quarter of 2024. I would also like to note that this margin percentage was higher than the full year of 2024. While a gross margin of 16.8% does still remain below our historical average, we anticipate continuing to improve this in the future.

As I mentioned a few weeks ago when discussing our year end results, we continue to control our operating expenses despite the inflationary environment. For the first quarter, they were 2.8 million, an increase of 615,000 or 28.4% higher than last year. Of this increase, 412,000 was related to an increase in stock compensation expense, which is a non-cash expense, and that accounted for 67% of the increase. Absent this non-cash expense, the increase would have been slightly above 9%. We had a loss from operations of \$746,000 in the first quarter of 2025 as compared to a loss of 259,000 during the same period in 2024. Finally, on the bottom line, we had a net loss of \$988,000 or \$0.27 a share in 2025 as compared to a loss of 706,000 or \$0.21 a share in the first quarter of 2024. Our adjusted EBITDA for the first quarter was

increased to 576,000, which was an increase of 214,000 or nearly 60% compared to the first quarter of 2024. I'm also very pleased to report that we remain in compliance with all of our covenants with our loan agreement with our lender.

Now let me quickly highlight a few items on the balance sheet compared to December 31, 2024. Our total debt has been reduced by approximately \$1.6 million. Our inventory has remained stable, increasing slightly more than \$100,000. As this is our largest asset, we monitor this diligently. Accounts receivable has decreased by over 2 million, and this is a function of the timing of sales and collections. Accounts payable plus accrued expenses have also decreased by about \$550,000. And with that, I will turn the call back to Lou for some closing remarks and an update on our business outlook for the remainder of 2025. Lou?

Lou Melluzzo

Thank you, Scott. Earlier this year, when discussing the 2024 results, we discussed the possible impacts of tariffs and changes in the defense budget on our future. The situation has clarified somewhat, and we can now see it more clearly. As to tariffs, we are now pretty convinced that any impact on tariffs on imports will be muted. Tariffs will not affect the one item we import as we have price protection from our customers. But the defense spend, the proposed Pentagon budget has been described as a surge budget, perhaps increasing spending to \$1 trillion. We do not expect any significant benefit from the surge in spending, but by the same token, we do not expect any material reduction from a possible reordering of spending priorities. As we stand here today and as we stated in our press release this morning, while quarterly results during 2025 will vary, we reaffirm our belief that the full year of 2025 will exceed the results of 2024. With that, Darrell, I'd like to open up the call to questions and answers, if you may.

Operator

Thank you. We'll now 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 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, for your first question. Our first questions come from the line of Howard Halpern with Taglich Brothers. Please proceed with your questions.

Howard Halpern

Good afternoon, guys.

Lou Melluzzo

How you're doing, Howard?

Scott Glassman

Hey, Howard. How are you?

Howard Halpern

Okay. I guess, a little clarity on the first quarter revenue. Was it really a function more of the long lead times? And -- or was it more when purchase orders were coming in? If you could just add some color to the first quarter. And what are you seeing in the trends so far for the second quarter?

Lou Melluzzo

So, Howard, as I stated earlier, the products that we shipped this first quarter the material probably came about a year ago or in some cases a little longer. So, at that time, it was definitely an issue with getting materials timely. I said -- we are seeing some -- definitely an ease in acquiring materials. The lead times have gotten exponentially longer. There's no question about it. But at least we have access to these materials. So, even though we piggyback on a lot of OEMs purchase orders, the mills just are not producing materials in the three months to six months like we are accustomed to in this business in the past. So, we are getting material -- like the stuff that we had proud in the past, we're getting those materials. It's just taking a little longer. We've ordered a few more pieces than we need to try to get ahead of the curve. But that's the reality of the business. Just things have gotten pushed out.

Scott Glassman

But we are meeting our customers' delivery expectations.

Lou Melluzzo

For sure. With some customers we've -- right at the doorstep, we've caught up, and we're delivering to their cadence. So, that's a nonissue.

Howard Halpern

Okay. And that remains pretty solid. No hesitation on your customers due to everything that's been going on in the past couple of months economically?

Scott Glassman

No, there's been no hesitation at all.

Lou Melluzzo

No. On the programs that we are involved with, we feel they're relatively insulated. I mean, the CH-53K, Sikorsky is behind in qualifications. We don't foresee that slowing up. We're still shipping last year's requirement because we couldn't get material. So, I think we'll be good on that. On the E-2D, the big platform that we have for [inaudible], there's eight planes. Four -- I think four or five are domestic, and the rest are overseas. We feel that those will ship as scheduled. The F-35 might see some pressures in the future. Maybe -- there might be a reduction in quantities. We just don't know. But our take on that platform is not huge right now. We're looking to expand it. So, even if those claims decline in numbers, we feel that we can increase our content on the F-35, and we're diligently working to make sure that that happens. So, we -- unless there's some forsaken event that we are not aware of, we see our products still continuing to flow as we have forecasted them.

Howard Halpern

Okay. And with a trip to the Paris Air Show, are there specific new customers that you are looking to I guess touch base with and hope that they will become new customers?

Lou Melluzzo

So, by the time we get to the Paris Air Show, our schedule has been booked fully. And there's definitely some interest from some large overseas manufacturers that we have scheduled meetings for. And the last time we were -- the show alternates between Paris and Farnborough England. And the last time we were there, we managed to bring in several really large clients. So, the show has been very successful. We are targeting some additional customers, though there's a lot of activity around the electric vehicle. Now, that's an investment in the future. There's no question about it for the electric takeoff -- electric planes per se. So, we've got some appointments with those, and some meetings scheduled with those. So, there are some things in works, yes.

Howard Halpern

Okay. And one last one. The onetime -- was this a onetime stock-based compensation event for this year?

Scott Glassman

It will likely be -- the expense will likely be lower in future quarters.

Howard Halpern

Okay. I just wanted to make sure on that. Thanks, guys, and keep up the great work. It's a nice lean machine that you have running there now.

Lou Melluzzo

Thanks, Howard. Appreciate it.

Operator

Thank you. As a reminder, if you would like to ask a question, please press star one on your telephone keypad. I'm not showing any further questions at this time. I'll hand the call back over to Lou Melluzzo for any closing remarks.

Lou Melluzzo

Thank you, Darrell. Thank you all 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. And thank you again for everybody for taking the time to sit in on the call. Darrell, I think we're all set.

Operator

Thank you so much. This does conclude today's teleconference. We appreciate your participation. You may disconnect your lines at this time. Enjoy the rest of your day.