TAGLICH BROTHERS

MEMBER: FINRA, SIPC | WWW.TAGLICHBROTHERS.COM

Research Report – Update

Investors should consider this report as only a single factor in making their investment decision.

AeroCentury Corp.

Rating: Speculative Buy

Howard Halpern

August 16, 2019

ACY $6.84 (NYSE-MKT)

	2016 A	2017 A	2018 A	*2019 E*	*2020 E*
Lease revenue (millions)	$24.5	$29.0	$27.6	***$28.5***	***$28.8***
Earnings per share (diluted)	$0.78	$1.29*	($2.24)**	***$0.14****	***$1.30***

52-Week range	$17.15 – $6.60	Fiscal year ends:	December
Shares out a/o 08/8/19	1.5 million	Lease revenue/share (ttm)	$18.81
Approximate float	1.2 million	Price/Sales (ttm)	0.4X
Market Capitalization	$11 million	Price/Sales (2020) E	0.4X
Book value/share	$24.88	Price/Earnings (ttm)**	NMF
Price/Book	0.3X	Price/Earnings (2020) E	5.3X

** Excludes a $5.4 million or $3.81 per share tax benefit from the revaluation of its deferred tax liability due to the 2017 tax reform act ** Excludes approximately ($3.44) per share related to a total of $5.6 million in charges related to aircraft impairments and one-time costs related to the acquisition of JetFleet Holding. ***Excludes approximately ($0.76) per share aircraft impairment charge*

AeroCentury Corp. is a global aircraft operating lessor and finance company specializing in leasing regional jet and turboprop aircraft and related engines. The company's aircraft and engines are leased to regional airlines and commercial users worldwide.

Key investment considerations:

Maintaining Speculative Buy rating and lowering our 12-month price target to $9.75 per share from $10.50 per share due primarily to a contraction in the sector valuation.

At June 30, 2019, the company had 15 aircraft on lease with three aircraft, one engine, and two airframes being held for sale. Through 2020, minimum future lease revenue could amount to $39.5 million. The company's seven aircraft subject to finance had minimum future lease revenue of $10.9 million to 2020.

In 4Q18, ACY completed its acquisition of JetFleet Holding that consolidates management of its aircraft portfolio into one enterprise, thus eliminating management fees, streamlining operations, and attracting additional capital. In 2H19, ACY's results should begin to realize the cost reduction benefits from the consolidation.

In 2Q19, lease revenue (reported 8-7-19) increased 2.1% to $7 million. The loss per share was ($0.05) compared to ($0.06) in 2Q18. We estimate the loss per share included an approximate ($0.08) per share impairment charge related to a write down in the value of an aircraft. We forecasted EPS of $0.11 on lease revenue of $7.2 million.

For 2019, we project EPS (excluding impairment charges) of $0.14 (prior was $0.43) on lease revenue of $28.5 million (prior was $29.2 million). Our forecast reflects 2Q19 results.

For 2020, we project EPS of $1.30 (prior was $1.31) on lease revenue of $28.8 million (prior was $30 million). Our lower revenue forecast reflects a reduction in on lease aircraft to 15 from 16, offset by lower than anticipated operating expenses due to a more rapid realization of cost reduction benefits from the consolidation of Jetfleet.

In February 2019, the company renewed, modified, and extended its existing credit facility, and also freed up capacity within its credit facility by refinancing six aircraft with new non-recourse term loans.

Please view our Disclosures on pages 13 – 15.

790 New York Ave, Huntington, N.Y. 11743
(800) 383-8464 • Fax (631) 757-1333

Recommendation

Maintaining Speculative Buy rating and lowering our 12-month price target to $9.75 per share from $10.50 per share due primarily to a contraction in the sector valuation.

Our rating reflects the 4Q18 acquisition of JetFleet Holding (ACY's former management company) that should unify the management of the company's aircraft portfolio, improve the company's long-term performance, and attract additional capital sources to purchase aircraft that will drive growth. The company is executing on its strategy to modernize its aircraft portfolio. Entering 2019, the weighted average age of its aircraft portfolio is 11 years old with the average aircraft unit value of $10.7 million or approximately double what it was ten years ago. The company intends to look for sale opportunities for its older turboprop aircraft and seeks to acquire newer aircraft types that would accelerate its operating lease revenue. In February 2019, the company renewed and extended the maturity date of its credit facility to February 2023 from May 2019.

The six comparative rental and leasing airline companies we profile, all with larger market capitalizations than ACY, have an aggregate forward price to EBITDA multiple of 1.8X versus 0.3X for AeroCentury. ACY's 2020 P/E of 5.3X (prior was 6.7X) is based on our EPS forecast of $1.30 per share (prior was $1.31 per share). We anticipate investors are likely to accord ACY a P/E approaching that of its peers 9.8X (prior was 10.6X) based on ACY's EPS growth to $1.30 from an estimate of $0.14 (excluding impairment charges) in 2019 compared to 19.9% for the peer group. We applied a 9.5X multiple (prior was 10X) to our 2020 estimate of $1.30 per share, discounted for execution risks, to obtain a year ahead price target of approximately $9.75 per share.

Name	Symbol	Price 08-15-19	Market Cap in $mil	P/E 2020 E	Forward Net Income Growth Rate	2020E P/EBITDA
Aircastle Limited Common Stock	AYR	20.50	1536	7.7	22.5%	1.8
Air Lease Corporation	AL	37.95	4217	5.8	22.0%	1.8
Air Transport Services Group	ATSG	20.09	1193	13.2	15.2%	2.4
Embraer SA	ERJ	18.08	3299	17.2	NA	NMF
Fly Leasing Limited	FLY	16.76	544	5.3	NMF	1.3
Willis Lease Finance Corporation	WLFC	59.98	351	NA	NA	NA
Source: Taglich Brothers estimates, Thomson Reuters - EIKON				9.8	19.9%	1.8
Company						
AeroCentury Corp.	ACY	6.84	11	5.3	858%	0.3

Source: Taglich Brothers estimates, Thomson Reuters - EIKON

In our view this stock is suitable for highly risk-tolerant investors. Earnings gains could slow if maintenance costs exceed maintenance reserves and off-lease aircraft need more extensive refurbishment than anticipated once a new lessee is identified. Also, the October 2018 acquisition of JetFleet resulted in ACY becoming an employer for the first time. The company had 12 total employees, 11 of which are full-time.

Recent Developments

In 3Q19, the company, signed a purchase agreement for the sale of two turboprop aircraft that are currently off lease and classified as held for sale. The sale of the two aircraft should occur before the end of 3Q19.

The Company

AeroCentury Corp., based in Burlingame, California, was formed in 1997. ACY leases used commercial mid-life (loosely defined as engine maintenance life for valuation purposes) regional jet aircraft and a new generation of turboprop aircraft and equipment (i.e., engines) to foreign and domestic regional air carriers.

The company earns a return on the aircraft and engines it owns through lease and eventual sale. ACY reinvests cash flow in more assets that are then leased. As of June 30, 2018, the company's aircraft/engine portfolio – held for lease – consisted of 15 aircraft.

At June 30, 2019, assets held for sale consisted of two Saab 340B Plus turboprop aircraft, one Bombardier Dash-8-300 aircraft, one engine and airframe parts from two turboprop aircraft.

Aircraft Owned for Lease

Aircraft Type	# Held for Lease @ 06/30/19	# On Lease 06/30/19	# Held for Lease @ 06/30/18	# On Lease 06/30/18	# On Lease D
Turboprops	2	2	11	6	-4
Regional Jets	13	13	14	14	-1
Engines	1	0	1	0	0

Source:10Q - August 2019

Projections

Basis of Forecasts
In 1H19, 98% of lease revenue was derived primarily from Europe and North America with the remaining 2% derived from Asia. In 2Q19, 100% of lease revenue was derived from Europe and North America. The company's aircraft diversification effort was realized in 2015 through the reduction of the average age of its aircraft to 13 years (from 18 years) and an increase in the average aircraft lease term to five years from three years. This effort continued in 2017 and 2018 with the purchase of eight aircraft on lease to regional carriers in Europe and three in the US, reducing the average aircraft age in the portfolio to 11 years with the weighted average remaining lease term of 58 months at the end of 2018.

Entering 3Q19, the company anticipated it would receive minimum future operating lease revenue payments under non-cancelable leases of $39.5 million in 2019 and 2020 combined. We estimate minimum lease payments receivable under sales-type finance leases could approximate $10.9 million over the next two years to 2020.

US and Global Economic Forecasts
Economic growth in North America and Europe should enable ACY to grow operating lease revenue in 2020.

In July 2019, the IMF raised its US economic growth forecast for 2019 by 0.3% to 2.6% but left 2020 unchanged at 1.9%. The upward revision for 2019 reflects stronger-than-anticipated first half performance. In July 2019, the IMF maintained its 2019 European GDP forecast of 1.3% and increased by 0.1% its 2020 forecast to 1.6% from its April 2019 forecast.

The advance estimate of US GDP growth (released on July 26, 2019) showed the US economy grew at an annual rate of 2.1% in 2Q19, down from 3.1% in 1Q19. The 2Q19 US GDP growth estimate reflects increases in consumer and government spending while inventory investment, exports, and business and housing investments decreased.

Aircraft Portfolio Evolution
In 2015, the company transformed its aircraft portfolio through the purchase of three CRJ-700 and two CRJ-900 mid-life regional jets, and one new ATR 42-600 turboprop. All six aircraft had long-term leases in-place. The company's future lies in its strategic growth plan to add mid-life regional jet aircraft and new generation turboprops while reducing its reliance on older aircraft. This evolution continued with the purchase of two Bombardier CRJ-1000 aircraft on lease to a regional carrier in Europe and two Bombardier CRJ-900 aircraft on lease to a current customer in Europe, as well as the purchase of three Embraer 175 aircraft and two Bombardier Dash 8-Q400 aircraft on lease to Croatia Airlines.

The company's average portfolio utilization rate was approximately 92% and 93% in 2018 and 2017, respectively. In 2019 and 2020, the average portfolio utilization rate should remain in the mid-to-upper 90% range. In 2Q19, the average portfolio utilization rate was 99% compared to 91% in the year-ago period.

For 2019 and 2020, we forecast an average of 15 aircraft (no engines) on lease (prior was 16), as well as seven aircraft that are subject to finance leases (prior was six).

2019 Forecast
We project a 3.1% increase in operating and finance lease revenue to $28.5 million (prior was $29.2 million) due to estimated minimum operating and finance lease revenue owed. Our revenue forecast should be supported by the May 2018 acquisition of two aircraft, offset in part by the sale of three sales-type finance lease aircraft in September 2018. We project total revenue of $29.6, including $996,000 in finance lease (interest) revenue from seven aircraft being leased on a sales-type financial lease basis. We are projecting no maintenance reserve income but approximately $118,000 in net gains/other costs reflected in 2Q19 results.

We project a 2.9% decrease in total operating expenses (see table on the right) to $30.8 million reflecting 15 (prior was 16) aircraft/engines on lease. The decrease in operating expenses is due primarily to the elimination of management fees and a reduction in provision for the impairment of aircraft, offset in part by higher professional (G&A) expense and salaries and employee benefits due to the full year integration of JetFleet Holdings management operations compared to three months in 2018. Interest expense is likely to rise 7.8% to $10.2 million due to higher interest rates and initiation of an interest rate swap (approximately a $400,000 expense). Operating expense margin (based on operating lease revenue) should improve to 108% from 130.9% in 2018.

Operating Expense Forecast in Millions $	2019 E	2018 A	% D
Depreciation	$11.8	$12.6	**(6.4%)**
Interest	$10.2	$9.5	**7.8%**
Professional G&A includes insurance	$4.3	$2.7	**56.2%**
Maintenance	$0.3	$0.6	**(50.1%)**
Salaries and employee benefits	$2.5	$0.6	**321.2%**
Total Expenses - excludes provisions	**$29.1**	**$26.1**	**11.7%**
Provisions - value of aircraft impairment, bad debt expense, other taxes	$1.6	$5.6	**NMF**
Total Expenses - includes provisions	**$30.8**	**$31.7**	**(2.9%)**

Source: Taglich Forecasts and Company's SEC filings

We project an operating loss of $1.2 million compared to a loss of $9.1 million in 2018, as operating margin narrows to (4.0%) from (33.4%) in 2018. We forecast a 2019 net loss of $966,000 or ($0.62) per share after applying an income tax rate of 17.8%. We previously forecast a net loss $383,000 or ($0.25) per share after applying an income tax rate of 9.8%. Excluding the provision for aircraft impairment, we estimate EPS of $0.14. The reduction in our forecast is due primarily to lower than anticipated operating lease revenue.

2020 Forecast

We project a $316,000 increase in operating and finance lease revenue to $28.8 million (prior was $30 million) due to estimated minimum operating and finance lease revenue owed. We project total revenue of $29.8 million (prior was $31 million), including $1 million in finance lease (interest) revenue from seven aircraft being leased on a sales-type financial lease basis. We are projecting no maintenance reserve income or gains/losses on sale of assets.

We project an 11.9% decrease in total operating expenses (see table on the right – including impairment provisions) to $27.1 million reflecting 15 aircraft on lease, unchanged from our 2019 forecast. The decrease in operating expenses is due to reductions in maintenance, depreciation, interest, and professional G&A expenses. Lower interest expense is due primarily to the $400,000 cost to initiate an interest rate swap in 2019 not being repeated in 2020 and a lower level of outstanding debt. Professional G&A expenses include $200,000 in additional acquisition costs in 2019 that will not be repeated in 2020. We project a nominal increase in salaries and employee benefits in the second full year of the company having employees. Operating expense margin (based on operating lease revenue) should improve to 94.2% from our forecast of 108% in 2019.

Operating Expense Forecast in Millions $	2020 E	2019 E	% D
Depreciation	$10.8	$11.8	**(8.5%)**
Interest	$9.4	$10.2	**(8.8%)**
Professional G&A includes insurance	$4.2	$4.3	**(2.0%)**
Maintenance	$0.2	$0.3	**(37.0%)**
Salaries and employee benefits	$2.6	$2.5	**3.4%**
Total Expenses - excludes provisions	**$27.1**	**$29.1**	**(7.0%)**
Provisions - value of aircraft impairment, bad debt expense, other taxes	$0.0	$1.6	**NMF**
Total Expenses - includes provisions	**$27.1**	**$30.8**	**(11.9%)**

Source: Taglich Forecasts and Company's SEC filings

We project operating income of $2.7 million compared to a projected loss of $1.2 million in 2019, as operating margin improves to 9% from our forecast of (4%) in 2019. We forecast 2020 net income of $2 million or $1.30 per share. We previously forecast 2020 net income of $2 million or $1.31 per share. Our forecast reflects lower than anticipated total revenue that should be nearly offset by a reduction in operating expenses.

Finances - 2019

We project cash earnings of $10.6 million, an increase in working capital of $2.4 million and cash from operations of $8.2 million. The increase in working capital is due primarily to a decrease increase in receivables and decreases in payables and accrued expenses. Cash from operations, proceeds from disposal of assets, and the restructuring of the company's term and revolving credit facilities should result in cash increasing by $593,000 to $2.1 million in 2019.

Finances - 2020
We project cash earnings of $12.8 million, a decrease in working capital of $4.5 million and cash from operations of $17.3 million. The decrease in working capital is due primarily to decreases in receivables including finance lease receivables. Cash from operations is unlikely to cover debt repayments and lease obligations, decreasing cash by $187,000 to $1.9 million in 2020.

Our forecast does not include acquisitions of aircraft leases that could occur in 2019 and 2020.

Outlook

In June 2019, the International Air Transport Association (IATA) anticipated a net profit of $28 billion in 2019, down from its December 2018 forecast of $35.5 billion for the global airline industry. In 2018, net profit was $30 billion. The reduced net profit forecast by the IATA forecast reflects a business environment that deteriorated with rising fuel prices in the 1H19, as well as substantial headwinds from weakening world trade. Also, 2019 costs are expected to increase 7.4% compared to a 6.5% increase in revenues. North America should have strong financial performance with 2019 forecasted profits of $15 billion, followed by Europe with net profits of $9.4 billion, and Asia-Pacific with net profits of $6 billion.

In July 2019, the US Travel Association forecasted US domestic travel expenditures to grow annually by 3.2% to nearly $1.2 trillion in 2020 from $1.1 trillion in 2018. The Association anticipates 2022 spending of $1.3 trillion.

ACY's business is influenced by general economic conditions and the strength of the travel and transportation industry. The industry is just beginning to recover from a prolonged period of financial difficulty and economic contraction. Financing constraints stemming from the credit crisis and a protracted economic downturn weakened the industry. During periods of economic contraction, carriers generally reduce capacity in response to lower passenger loads. As a result, there is reduced demand for aircraft, and potentially a corresponding decrease in market lease rental rates and aircraft values.

2Q19 and 1H19 Results

<u>2Q19</u>
Operating lease revenue increased 2.1% to $7 million from $6.8 million due to assets purchased in 2Q18 and an asset that was on lease in 2Q19, but off lease in the year-ago period, which were nearly offset by lower revenue stemming from an asset sold in 1Q19. The company also had finance lease revenue (interest income) of $260,000, down from $361,000 in the year-ago period. The decrease in finance lease revenue was due primarily to a lower finance lease receivables balance and the purchase by the lessee of three aircraft subject to finance leases in 3Q18.

Maintenance reserves revenue was nil compared to $578,000 related to cash received from a former lessee of three aircraft after the aircraft were returned in 2017. The company had a combined loss of approximately $64,000 compared to a combined gain of approximately $20,000 on disposal of assets and other. Other revenue in the current period included a nearly $171,000 loss on the reclassification of an aircraft from held for lease to a finance lease receivable. No such change occurred in 2Q18. Total revenue was $7.2 million compared to $7.8 million in the year-ago period.

Operating Expenses in Millions $

	2Q19 A	2Q18 A	% D
Provisions - aircraft impairment, bad debt, other taxes, settlement loss	$0.2	$0.3	**NMF**
Professional G&A includes insurance	$1.0	$0.5	**118.9%**
Interest	$2.5	$2.4	**5.1%**
Depreciation	$3.0	$3.2	**(5.7%)**
Salaries and employee benefits	$0.6	$0.0	**NMF**
Management Fees	$0.0	$1.5	**NMF**
Maintenance	$0.0	$0.1	**(85.5%)**
Total Expenses	**$7.3**	**$7.9**	**(7.6%)**

Source: August 2019 10Q

Operating expenses (including a $160,000 impairment charge based on an asset held for sale, based on appraised value versus $298,000 in 2Q18) decreased by approximately $595,000 to $7.3 million. Interest expense increased 5.1% to $2.5 million due primary to $43,000 in valuation charges related to the company implementing interest rate swaps in order to reduce exposure on a portion of its variable interest rates associated with its credit facility. Professional G&A (including insurance) costs more than doubled to nearly $1 million due primarily to incremental expenses related to the acquisition of JetFleet in 4Q18. Salaries and employee benefits of nearly $621,000 compare to nil in the year-ago period stem from the acquisition of JetFleet in 4Q18.

Operating income (excluding the impairment charge) was $15,000 compared to income of $145,000. The net loss was $78,000 or ($0.05) per share compared to a loss of $81,000 or ($0.06) per share. Excluding the one-time impairment charge in 2Q19, EPS was approximately $0.03.

1H19

Operating lease revenue increased 6.2% to $14.1 million due to assets purchased in the second quarter of 2018 and an asset that was on lease in the 2019 period, but off lease in the 2018 period. The company had finance lease revenue (interest income) of $496,000, down from $740,000 in the year-ago period.

	6 Mos. 19A	6 Mos. 18A	% D
Revenues:			
Operating and finance lease revenue	$ 14,114	$ 13,287	**6.2%**
Finance lease (interest) revenue	496	740	**(33.1%)**
Maintenance reserves income	-	1,629	**NMF**
Gain(loss) on disposal of assets & other	118	13	**NMF**
Total Revenues	14,729	15,669	**(6.1%)**
Total Expenses	16,498	15,276	**8.0%**
Operating Income	(1,770)	393	**NMF**
Taxes(Benefit)	(384)	157	**NMF**
Net Income	$ (1,386)	$ 236	**NMF**
EPS-fully diluted	$ (0.90)	$ 0.17	**NMF**
Avg Shares Out-fully diluted	1,546	1,417	
Tax Rate	*21.7%*	*39.9%*	
As Per Cent of lease revenue			
Total Expenses	116.9%	115.0%	

Source: company reports

Maintenance reserves revenue was nil compared to $1.6 million in the year-ago period primarily related to cash received from a former lessee of three aircraft after the aircraft were returned in 2017. The company had a $118,000 gain on disposal of assets compared to $13,000 in the year-ago period. Total revenue was $14.7 million versus $15.7 million in the year-ago period.

Operating expenses increased 8% to $16.5 million due primarily to higher expenses – depreciation (a $78,000 increase), interest (a $778,000 increase), professional and G&A expenses (a $850,000 increase), as well as salaries and employee benefits (a $1.2 million increase) and impairment and other expenses (a $1.3 million increase), partly offset by maintenance expense (a $43,000 decrease) and management fees (a $2.9 million decrease).

Operating loss was $1.8 million compared to income of $393,000. The decrease was due to lower operating lease revenue and higher operating expenses including an impairment charge. The net loss was $1.4 million or ($0.90) per share compared to EPS of $0.17 per share in 1H18. We estimate excluding the impairment charge, the loss per share would have been ($0.14).

Finances

At June 30, 2019, the company's debt to equity ratio was 3.2 versus 2.6 for the industry, indicating that ACY is more leveraged than other rental and leasing services companies.

In 1H19, cash from operations of $6.4 million, proceeds from the sale of aircraft, and net borrowings covered repayment of debt. Cash increased by $1.8 million to $3.4 million at June 30, 2019.

Credit Facility

In July 2017, ACY's credit facility (secured by all of ACY's aircraft and engine portfolio) was amended to $170 million (from $150 million) with covenants modified for debt to equity and customer concentration. The acquisition of JetFleet Holding (JFH) that closed on October 1, 2018 resulted in one-time expenses that resulted in the company not being in compliance with all of its credit facility covenants. To mitigate that potential, in December 2017, ACY's credit facility was amended to allow for the proposed acquisition of JFH with modifications made to covenants regarding profitability, debt to equity, and customer concentration. At December 31, 2018, the company was not in compliance with its interest coverage, debt service coverage, and revenue concentration covenants. At June 30, 2019, the company was in compliance with all covenants under the credit facility due to the February 2019 amendment that extended the credit facility to 2023 and decreased the maximum availability from $170 million to $145 million (with the ability for an increase up to $160 million), and modified certain financial ratio covenants. Borrowings will bear interest at floating rates and ACY will pay a quarterly fee on any unused portion of the credit facility at a rate of 0.50%. Subsequently, the company entered into a $50 million interest rate protection derivative instrument (interest rate-swap) in order to mitigate a portion of the interest rate variability.

At June 30, 2019, the unused portion of the company's credit facility was $57.6 million. The weighted average interest rate on the credit facility was 6.2% compared to 5.5% at June 30, 2018.

On February 8, 2019, ACY through four wholly owned subsidiary limited liability companies entered into a credit agreement with the NY branch of a foreign lender providing six separate term loans with an aggregate principal amount of $44.3 million.

Competition

The company leases aircraft and aircraft engines to regional commercial aircraft operators. Competition is based on price and lease terms. Competition includes leasing companies, banks and other financial institutions, and aircraft leasing partnerships. The large non-public participants in the aircraft leasing industry are GE Capital Aviation Services, a subsidiary of General Electric Commercial Finance, and AIRFUND Corporation, a US-based commercial aircraft asset manager founded in 1984.

The public competitors (see chart on the right) are Aircastle Limited, Air Lease Corp., Air Transport Services Group, and Willis Lease Finance Corp. Two of its competitors reported net income growth for 2Q19 and 1H19 compared to the year-ago period.

Public Competitors

Net Income in millions	**2Q19A**	**vs.** **2Q18A**	**D %**
Aircastle Limited	$31.1	$50.2	(38.0%)
Air Lease Corp.	$124.0	$115.2	8%
Air Transport Services Group	($26.6)	$24.6	NMF
Willis Lease Finance	$16.1	$7.5	114%
Net Income in millions	**1H19A**	**vs.** **1H18A**	**D %**
Aircastle Limited	$65.9	$107.8	(38.8%)
Air Lease Corp.	$262.1	$225.9	16%
Air Transport Services Group	($3.9)	$40.5	NMF
Willis Lease Finance	$32.6	$13.8	136%

Source: Company press releases

Risks

<u>Lessee Credit</u>
The company may be unable to enforce remedies as a result of defaults by its customers on lease obligations. Lessees are small regional passenger airlines, which are more vulnerable to business risks than the major airlines. The company ended 2017 with six less aircraft/engine on lease followed by two less at the end of 2018.

<u>Regional Air Carriers</u>
The company's focus on its customer base of regional air carriers subjects it to risks since many regional airlines rely heavily or exclusively on a code-share or other contractual relationship with a major carrier for revenue, and can face financial difficulty or failure if the major carrier terminates the relationship or if the major carrier files for bankruptcy or becomes insolvent.

<u>Acquisition</u>
On October 1, 2018, the company completed the acquisition of JetFleet Holding Corp., which has managed ACY's operations and aircraft portfolio since 1997. Since the acquisition ACY assumed the role of employer. At December 31, 2018, the company had 12 total employees, including 11 full-time employees.

<u>Financial Covenants</u>
While at June 30, 2019, the company was in compliance its financial covenants, if ACY were to fall out of compliance with any of its credit facility covenants at future calculation dates, it would need to request waivers or amendments of applicable covenants from the lenders. Future noncompliance that is not timely cured or waived could have material negative consequences.

Interest Rates
The company's credit facility carries a floating interest rate based upon short-term interest rate indices. Also, lease rates typically, but not always, move with interest rates, but market demand for the asset also affects lease rates. Because lease rates are fixed at the origination of leases, interest rate changes during the term of a lease have no effect on existing lease payments. A sharp increase in interest rates would raise interest expense causing existing lease payments to be undervalued relative to the market in a rising interest rate environment.

Credit Facility - Renewal
Under terms of its February 2019 credit facility renewal and extension to 2023, the company was required to initiate interest rate swaps that effectively convert the variable interest rate payments to fixed rate payments. However, approximately half of the credit facility debt is subject to its interest rate swap. Therefore, the amount of interest paid by the company will still fluctuate depending on prevailing interest rates.

Customer Concentration
In 2Q19, ACY's three largest customers accounted for approximately 78% of monthly lease revenue compared to 78% for the month of June 2018 (four largest customers). In the event of a lease default or cessation of operations by a large customer, operating lease revenue could fall.

Economic
An economic downturn in a key region in which the company leases its assets could have a negative impact on operations. For 2Q19, approximately 61% and 39% of operating lease revenue came from Europe and North America, respectively, compared to 60%, 37%, and 3%, in 2Q18 from Europe, North America, and Asia, respectively.

International
The company leases assets globally. Future growth is expected to occur outside of North America. Leases with foreign lessees may present different risks than those with domestic lessees and could divert management's focus, thus diminishing future growth. With the company having a significant concentration of operating lease revenue in Europe, withdrawal of the United Kingdom (UK) from the European Union could threaten "open-sky" policies under which UK-based carriers operate throughout the European Union, and European Union-based carriers operate between the UK and other European Union countries. If open-sky flight rights are lost, it would likely have a negative impact on the health of ACY's European lessees.

Credit
ACY evaluates the credit risk of each customer and attempts to obtain a third party guaranty, letters of credit or other credit enhancements, in addition to security deposits. Some customers reside outside of the US and bankruptcy laws in those jurisdictions may make collection and enforcement more difficult and complicated.

Shareholder Control
The proxy statement filed with the SEC in March 2019 (the most recent filing) stated Toni Perazzo, the company's CFO, controls approximately 21.1% of AeroCentury Inc. common stock. This large percentage of ownership is potentially able to exercise influence on company decisions that may not be in the best interests of shareholders at large.

Miscellaneous
The company's financial results are subject to other risks and uncertainties including competition, operations, financial markets, regulatory risk, and/or other events. These risks may cause actual results to differ from expected results.

Trading Volume
An equity specific concern relates to liquidity. During 2017, average daily volume was 6,900, which decreased to 3,400 in 2018. Over the three months to August 15, 2019, average daily volume increased to 7,200 shares. A small float (approximately 1.2 million) could lead to price volatility.

AeroCentury Corp.
Consolidated Balance Sheet
2016A – 2020E
(in thousands)

	2016A	2017A	2018A	2Q19A	2019E	2020E
ASSETS						
Current assets:						
Cash & Equivalents	$ 2,194	$ 8,658	$ 1,543	$ 3,357	$ 2,135	$ 1,948
Securities	-	-	121	-	-	-
Asset held for sale	1,998	4,967	10,223	9,683	9,683	9,683
Accounts Receivable	4,046	3,825	3,967	5,633	4,748	4,721
Finance lease receivables	17,468	23,561	15,251	16,589	12,846	8,140
Property, equipment, and furnishings, net	-	-	69	67	65	65
Lease right use, net	-	-	-	1,272	1,272	1,272
Favorable lease acquired, net	-	-	863	-	-	-
Deferred tax asset	-	-	255	394	394	394
Prepaid Expense & Other	229	301	840	286	427	576
Total current assets	**25,936**	**41,312**	**33,132**	**37,280**	**31,571**	**26,799**
Aircraft & engines and other assets, net of depreciation	192,800	195,098	184,020	168,382	168,000	157,285
Total assets	**$ 218,736**	**$ 236,410**	**$ 217,152**	**$ 205,662**	**$ 199,570**	**$ 184,084**
LIABILITIES AND STOCKHOLDERS' EQUITY						
Current liabilities:						
Accounts Payable and accrued expenses	1,218	645	1,026	333	385	325
Accured payroll	-	-	79	100	125	200
Notes Payable and accrued interest	125,838	145,598	131,092	123,417	120,417	102,917
Derivative liability	-	-	-	2,229	2,229	2,229
Lease liability	-	-	-	536	536	536
Maintenance deposits and accrued costs	30,389	28,218	28,991	26,554	25,640	25,204
Security deposits	3,933	3,148	3,368	3,053	3,000	2,800
Unearned revenues	1,904	2,448	3,275	4,107	4,300	4,500
Total current liabilities	**163,282**	**180,057**	**167,830**	**160,329**	**156,632**	**138,712**
Deferred Income Taxes and taxes payable	12,954	8,986	8,035	6,870	4,054	4,474
Total Liabilities	**176,236**	**189,043**	**175,864**	**167,199**	**160,686**	**143,186**
Stockholders' equity:						
Common stock, par value $0.01; authorized 10,000,000 shares;	2	2	2	2	2	2
Paid-in capital	14,780	14,780	16,783	16,783	16,783	16,783
Retained earnings	28,223	35,622	27,541	26,155	26,575	28,590
Accumulated other comprehensive income	-	-	-	(1,439)	(1,439)	(1,439)
Treasury Stock, at cost	(504)	(3,037)	(3,037)	(3,037)	(3,037)	(3,037)
Total stockholders' equity*	**42,500**	**47,367**	**41,288**	**38,463**	**38,884**	**40,899**
Total liabilities and stockholders' equity	**$ 218,736**	**$ 236,410**	**$ 217,152**	**$ 205,662**	**$ 199,570**	**$ 184,084**
SHARES OUT	1,567	1,417	1,546	1,546	1,546	1,546

* Includes $2.5 million reduction in treasury stock (in 2017) due to an asset exchange for 150,000 shares and approximately $1.3 million in additional paid in capital for the acquisition of JetFeet Holding in 2Q 2018.

Source: Company reports and Taglich Brothers estimates

AeroCentury Corp.
Annual Income Statement
2016A – 2020E
(in thousands)

	2016A	2017A	2018A	**2019E**	**2020E**
Revenues:					
Operating and finance lease revenue	$ 24,465	$ 29,003	$ 27,638	**$ 28,489**	**$ 28,805**
Finance lease (interest) revenue	868	1,572	1,251	**996**	**1,000**
Maintenance reserves income	-	3,887	1,629	**-**	**-**
Gain (loss) on disposal of assets	2,150	792	(3,409)	**278**	**-**
Other - includes sale of finance leases	1,234	301	8	**(160)**	**-**
Total Revenues	28,716	35,554	27,117	**29,604**	**29,805**
Expenses:					
Management Fees	5,216	6,109	4,483	**-**	**-**
Depreciation	9,140	12,026	12,637	**11,826**	**10,815**
Interest	5,340	7,753	9,506	**10,247**	**9,350**
Professional G&A includes insurance	1,977	2,216	2,728	**4,262**	**4,175**
Maintenance	3,286	2,924	636	**317**	**200**
Salaries and employee benefits	-	-	592	**2,495**	**2,580**
Provisions - aircraft impairment, bad debt, other taxes, settlement loss	1,786	1,092	5,589	**1,632**	**-**
Total Expenses	26,744	32,121	36,170	**30,779**	**27,120**
Operating Income (loss)	1,972	3,433	(9,054)	**(1,175)**	**2,685**
Taxes(Benefit)	750	(3,967)	(973)	**(209)**	**670**
Net Income (loss)	$ 1,222	$ 7,399	$ (8,081)	**$ (966)**	**$ 2,015**
EPS-fully diluted	$ 0.78	$ 5.10	$ (5.58)	**$ (0.62)**	**$ 1.30**
Avg Shares	1,567	1,450	1,449	**1,546**	**1,546**
EBITDA	16,451	23,212	18,678	**22,530**	**22,850**
Margin Analysis					
Operating margins	6.9%	9.7%	(33.4%)	**(4.0%)**	**9.0%**
NI/Rev	4.3%	20.8%	(29.8%)	**(3.3%)**	**6.8%**
NI/Operating lease revenue	5.0%	25.5%	(29.2%)	**(3.4%)**	**7.0%**
Total Exp/Rev	93.1%	90.3%	133.4%	**104.0%**	**91.0%**
Tax rate	38.0%	(115.6%)	10.7%	**17.8%**	**25.0%**
Expense percentage of rental income:					
Management Fees	21.3%	21.1%	16.2%	**0.0%**	**0.0%**
Depreciation	37.4%	41.5%	45.7%	**41.5%**	**37.5%**
Interest	21.8%	26.7%	34.4%	**36.0%**	**32.5%**
SG&A	8.1%	7.6%	9.9%	**15.0%**	**14.5%**
Operating expense margin	109.3%	110.8%	130.9%	**108.0%**	**94.2%**
Percent Change Year/Year					
Operating lease revenue	(3.9%)	18.6%	(4.7%)	**3.1%**	**1.1%**

Source: Company reports and Taglich Brothers estimates

AeroCentury Corp.
Quarterly Income Statement
2018A – 2020E
(in thousands)

	1Q18A	2Q18A	3Q18A	4Q18A	2018A	1Q19A	2Q19A	3Q19E	4Q19E	**2019E**	1Q20E	2Q20E	3Q20E	4Q20E	**2020E**
Revenues:															
Operating and finance lease revenue	$ 6,463	$ 6,824	$ 7,173	$ 7,177	$ 27,638	$ 7,148	$ 6,966	$ 7,185	$ 7,190	**$ 28,489**	$ 7,245	$ 7,090	$ 7,215	$ 7,255	**$ 28,805**
Finance lease (interest) revenue	379	361	262	249	1,251	236	260	250	250	**996**	250	250	250	250	**1,000**
Maintenance reserves income	1,051	578	-	-	1,629	-	-	-	-	-	-	-	-	-	-
Gain (loss) on disposal of assets	(8)	18	(2,384)	(1,035)	(3,409)	178	100	-	-	**278**	-	-	-	-	-
Other - includes sale of finance leases	0	2	1	4	8	4	(164)	-	-	**(160)**	-	-	-	-	-
Total Revenues	7,886	7,784	5,052	6,396	27,117	7,567	7,162	7,435	7,440	**29,604**	7,495	7,340	7,465	7,505	**29,805**
Expenses:															
Management Fees	1,447	1,502	1,534	-	4,483	-	-	-	-	-	-	-	-	-	-
Depreciation	2,942	3,150	3,328	3,217	12,637	3,201	2,970	2,855	2,800	**11,826**	2,765	2,715	2,685	2,650	**10,815**
Interest	2,254	2,365	2,467	2,420	9,506	2,912	2,485	2,450	2,400	**10,247**	2,375	2,350	2,325	2,300	**9,350**
Professional G&A includes insurance	657	455	497	1,118	2,728	966	996	1,100	1,200	**4,262**	1,000	1,025	1,000	1,150	**4,175**
Maintenance	91	69	245	231	636	107	10	100	100	**317**	50	50	50	50	**200**
Salaries and employee benefits	-	-	-	592	592	599	621	625	650	**2,495**	600	630	660	690	**2,580**
Provisions - aircraft impairment, bad debt, other taxes, settlement loss	23	321	2,696	2,550	5,589	1,446	186	-	-	**1,632**	-	-	-	-	-
Total Expenses	7,414	7,862	10,768	10,127	36,170	9,232	7,267	7,130	7,150	**30,779**	6,790	6,770	6,720	6,840	**27,120**
Operating Income (loss)	472	(78)	(5,716)	(3,732)	(9,054)	(1,665)	(105)	305	290	**(1,175)**	705	570	745	665	**2,685**
Taxes(Benefit)	154	3	(1,232)	103	(973)	(356)	(28)	90	85	**(209)**	175	145	185	165	**670**
Net Income (loss)	$ 318	$ (81)	$(4,483)	$(3,834)	$ (8,081)	$(1,308)	$ (78)	$ 215	$ 205	**$ (966)**	$ 530	$ 425	$ 560	$ 500	**$ 2,015**
EPS-fully diluted	$ 0.22	$ (0.06)	$ (3.16)	$ (2.48)	$ (5.58)	$ (0.85)	$ (0.05)	$ 0.14	$ 0.13	**$ (0.62)**	$ 0.34	$ 0.27	$ 0.36	$ 0.32	**$ 1.30**
Avg Shares	1,417	1,417	1,417	1,546	1,449	1,546	1,546	1,546	1,546	**1,546**	1,546	1,546	1,546	1,546	**1,546**
EBITDA	5,690	5,758	2,776	4,454	18,678	5,895	5,535	5,610	5,490	**22,530**	5,845	5,635	5,755	5,615	**22,850**
Margin Analysis															
Operating margins	6.0%	(1.0%)	(113.1%)	(58.3%)	(33.4%)	(22.0%)	(1.5%)	4.1%	3.9%	**(4.0%)**	9.4%	7.8%	10.0%	8.9%	**9.0%**
NI/Rev	4.0%	(1.0%)	(88.7%)	(60.0%)	(29.8%)	(17.3%)	(1.1%)	2.9%	2.8%	**(3.3%)**	7.1%	5.8%	7.5%	6.7%	**6.8%**
NI/Operating lease revenue	4.9%	(1.2%)	(62.5%)	(53.4%)	(29.2%)	(18.3%)	(1.1%)	3.0%	2.9%	**(3.4%)**	7.3%	6.0%	7.8%	6.9%	**7.0%**
Total Exp/Rev	94.0%	101.0%	213.1%	158.3%	133.4%	122.0%	101.5%	95.9%	96.1%	**104.0%**	90.6%	92.2%	90.0%	91.1%	**91.0%**
Tax rate	32.7%	(3.2%)	21.6%	(2.8%)	10.7%	21.4%	26.4%	29.5%	29.3%	**17.8%**	24.8%	25.4%	24.8%	24.8%	**25.0%**
Expense percentage of rental income:															
Management Fees	22.4%	22.0%	21.4%	0.0%	16.2%	0.0%	0.0%	0.0%	0.0%	**0.0%**	0.0%	0.0%	0.0%	0.0%	**0.0%**
Depreciation	45.5%	46.2%	46.4%	44.8%	45.7%	44.8%	42.6%	39.7%	38.9%	**41.5%**	38.2%	38.3%	37.2%	36.5%	**37.5%**
Interest	34.9%	34.7%	34.4%	33.7%	34.4%	40.7%	35.7%	34.1%	33.4%	**36.0%**	32.8%	33.1%	32.2%	31.7%	**32.5%**
SG&A	10.2%	6.7%	6.9%	15.6%	9.9%	13.5%	14.3%	15.3%	16.7%	**15.0%**	13.8%	14.5%	13.9%	15.9%	**14.5%**
Operating expense margin	114.7%	115.2%	150.1%	141.1%	130.9%	129.1%	104.3%	99.2%	99.4%	**108.0%**	93.7%	95.5%	93.1%	94.3%	**94.2%**
Percent Change Year/Year															
Operating lease revenue	(11.7%)	(4.0%)	(5.2%)	2.4%	(4.7%)	10.6%	2.1%	0.2%	0.2%	**3.1%**	1.4%	1.8%	0.4%	0.9%	**1.1%**

Source: Company reports and Taglich Brothers estimates

AeroCentury Corp.
Cash Flow Statement
2016A – 2020E
(in thousands)

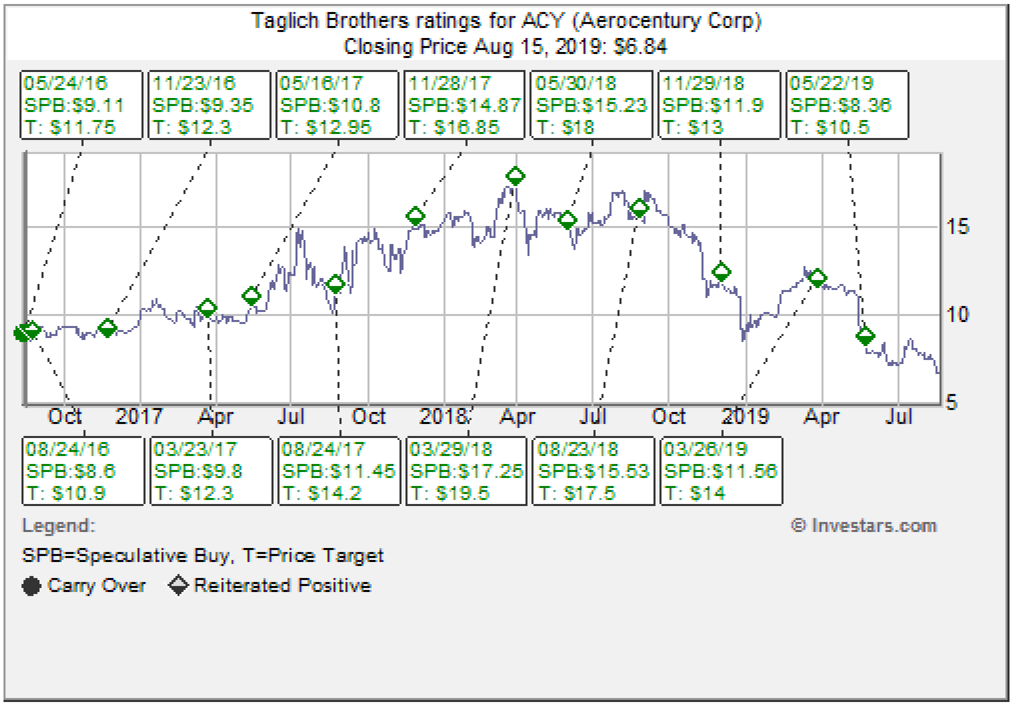
	FY2016A	FY2017A	FY2018A	6 Mos. 19A*	FY2019E	FY2020E
Cash Flows from Operating Activities						
Net Income	$ 1,222	$ 7,399	$ (8,081)		$ (966)	$ 2,015
Loss (gain) on sale of aircraft/engines including sales-type finance lease	(3,366)	(1,089)	3,409		(278)	-
Depreciation	9,140	12,026	12,637		11,826	10,815
Amortization	-	-	62		-	-
Non-cash income	-	-	(43)		-	-
Provision for impairment in value of aircraft	1,227	1,002	2,972		-	-
Non-cash interest	879	1,012	1,616		-	-
Settlement loss	-	-	2,527		-	-
Deferred Taxes	626	(4,297)	(1,390)		-	-
Cash Earnings	9,727	16,054	13,708		10,582	12,830
Changes In:						
Accounts receivable - includes finance lease receivables	400	1,001	(537)		1,624	4,733
Taxes receivable	-	-	23		(139)	394
Prepaid expenses and other	(10)	(124)	(458)		413	(149)
Accounts payable and accrued expenses	(152)	(572)	1,788		(641)	(59)
Accrued interest on notes payable	(35)	188	(147)		(147)	-
Maintenance reserves and accrued costs	699	(2,171)	3,553		(3,350)	(436)
Security Deposits	781	(232)	(4)		(368)	(200)
Prepaid rent - unearned revenue	481	609	827		1,025	200
Finance lease receivable	(668)	(511)	(133)		(133)	-
Taxes payable	123	329	(677)		(667)	-
(Increase)/decrease in Working Capital	1,617	(1,483)	4,234		(2,383)	4,483
Net cash Provided by Operations	11,345	14,571	17,941	6,420	8,199	17,313
Cash Flows from Investing Activities						
Cash to acquire JetFleet	-	-	(2,875)	-	-	-
Proceeds from insurance	18,887	-	-	-	-	-
Proceeds from disposal of assets	6,341	12,934	16,634	3,892	3,892	-
Investment in aircraft and aircraft engines & direct financing leases	(54,358)	(39,677)	(22,844)	-	-	-
Net cash used in Investing	(29,130)	(26,743)	(9,086)	3,892	3,892	-
Cash Flows from Financing Activities						
Borrowings under credit facility	31,300	35,900	21,000	-	-	-
Issuance of notes payable - special purpose financing	19,610	-	-	-	-	-
Issuance of notes payable - credit facility	-	-	-	5,100	5,100	-
Issuance of notes payable - term loans	-	-	-	44,310	44,310	-
Repayment of notes payable - term loans	-	-	-	(3,534)	(6,534)	
Lease obligations	-	-	-	-	-	-
Debt issuance costs	(65)	(1,153)	(70)	(5,063)	(5,063)	-
Repayment of credit facility, note payable, special purpose financing,	(33,586)	(16,112)	(36,901)	(49,311)	(49,311)	(17,500)
Net cash provided by Financing	17,259	18,636	(15,971)	(8,498)	(11,498)	(17,500)
Net change in Cash	(526)	6,463	(7,115)	1,814	593	(187)
Cash Beginning of Period	2,721	2,194	8,658	1,543	1,543	2,135
Cash End of Period	$ 2,194	$ 8,658	$ 1,543	$ 3,357	$ 2,135	$ 1,948

*The company's quarterly cash flow statements do not report changes in working capital.

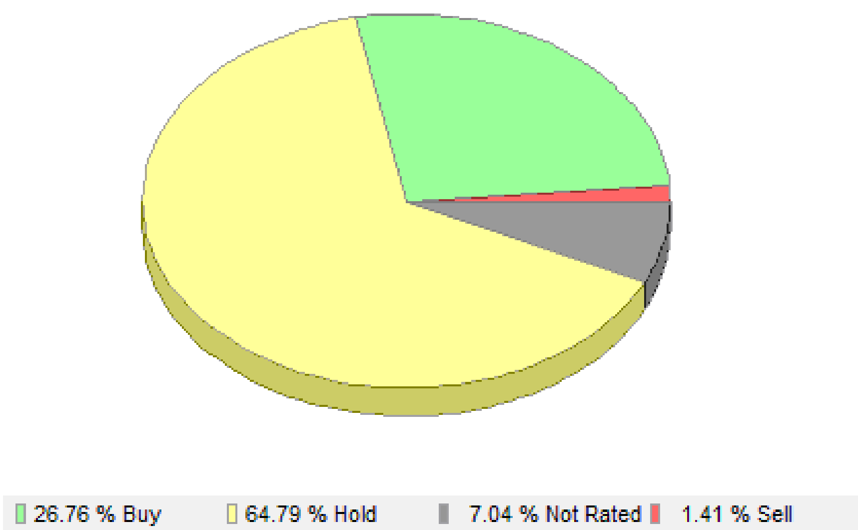
Source: Company reports and Taglich Brothers estimate

AeroCentury Corp.

Price Chart



Taglich Brothers Current Ratings Distribution



<u>Investment Banking Services for Companies Covered in the Past 12 Months</u>

Rating	#	%
Buy	2	9
Hold		
Sell		
Not Rated	1	25

Important Disclosures

As of the date of this report, we, our affiliates, any officer, director or stockholder, or any member of their families do not have a position in the stock of the company mentioned in this report. Taglich Brothers, Inc. does not currently have an Investment Banking relationship with the company mentioned in this report and was not a manager or co-manager of any offering for the company with in the last three years.

All research issued by Taglich Brothers, Inc. is based on public information. Since February 2000, the company pays a monthly monetary fee of $1,250 (USD) to Taglich Brothers, Inc. for the creation and dissemination of research reports.

General Disclosures

The information and statistical data contained herein have been obtained from sources, which we believe to be reliable but in no way are warranted by us as to accuracy or completeness. We do not undertake to advise you as to changes in figures or our views. This is not a solicitation of any order to buy or sell. Taglich Brothers, Inc. is fully disclosed with its clearing firm, Pershing, LLC, is not a market maker and does not sell to or buy from customers on a principal basis. The above statement is the opinion of Taglich Brothers, Inc. and is not a guarantee that the target price for the stock will be met or that predicted business results for the company will occur. There may be instances when fundamental, technical and quantitative opinions contained in this report are not in concert. We, our affiliates, any officer, director or stockholder or any member of their families may from time to time purchase or sell any of the above-mentioned or related securities. Analysts and members of the Research Department are prohibited from buying or selling securities issued by the companies that Taglich Brothers, Inc. has a research relationship with, except if ownership of such securities was prior to the start of such relationship, then an Analyst or member of the Research Department may sell such securities after obtaining expressed written permission from Compliance.

Analyst Certification

I, Howard Halpern, the research analyst of this report, hereby certify that the views expressed in this report accurately reflect my personal views about the subject securities and issuers; and that no part of my compensation was, is, or will be directly or indirectly related to the specific recommendations or views contained in this report.

Public Companies mentioned in this report:

Aircastle Limited	(NYSE: AYR)
Air Lease Corporation	(NYSE: AL)
Air Transport Services Group	(NASDAQ: ATSG)
American International Group	(NYSE: AIG)
Fly Leasing Limited	(NYSE: FLY)
Willis Lease Finance Corp.	(NASDAQ: WLFC)

Meaning of Ratings

Buy – The growth prospects, degree of investment risk, and valuation make the stock attractive relative to the general market or comparable stocks.

Speculative Buy – Long-term prospects of the company are promising but investment risk is significantly higher than it is in our BUY-rated stocks. Risk-reward considerations justify purchase mainly by high risk-tolerant accounts. In the short run, the stock may be subject to high volatility and could continue to trade at a discount to its market.

Neutral – Based on our outlook the stock is adequately valued. If investment risks are within acceptable parameters, this equity could remain a holding if already owned.

Sell – Based on our outlook the stock is significantly overvalued. A weak company or sector outlook and a high degree of investment risk make it likely that the stock will underperform relative to the general market.

Dropping Coverage – Research coverage discontinued due to the acquisition of the company, termination of research services, non-payment for such services, diminished investor interest, or departure of the analyst.

Some notable Risks within the Microcap Market

Stocks in the Microcap segment of the market have many risks that are not as prevalent in Large-cap, Blue Chips or even Small-cap stocks. Often it is these risks that cause Microcap stocks to trade at discounts to their peers. The most common of these risks is liquidity risk, which is typically caused by small trading floats and very low trading volume which can lead to large spreads and high volatility in stock price. In addition, Microcaps tend to have significant company specific risks that contribute to lower valuations. Investors need to be aware of the higher probability of financial default and higher degree of financial distress inherent in the microcap segment of the market.

From time to time our analysts may choose to withhold or suspend a rating on a company. We continue to publish informational reports on such companies; however, they have no ratings or price targets. In general, we will not rate any company that has too much business or financial uncertainty for our analysts to form an investment conclusion, or that is currently in the process of being acquired.