



Unusual Machines Inc.

NYSE - UMAC

February 27, 2025

Announcement of New Drone Motor Component Increases TAM by 50% - Reiterating Buy Rating and \$20 Price Target

Analyst: Barry M. Sine, CFA, CMT

- This week, the company announced a new drone motor product along with launch customer Red Cat (RCAT-NASDAQ).
- This announcement increases its total addressable market (TAM) by about 50% to \$1.9 billion.
- Based on comments by management, we expect two more component product announcements soon, an RX and VTX which would mean it can provide 86% of the components by value needed to build a mid-sized drone.
- These moves are timely as the Commerce Department has initiated an Advanced Notice of Proposed Rule Making (ANPRM) to ban imports of Chinese drone components. Currently, nearly all drone components are imported from China, with few U.S. suppliers, so UMAC is entering into a ripe market.
- The company is using third parties to design and manufacture its components, giving it tremendous scalability.
- It can also now utilize its own components for its roughly \$5 million Rotor Riot retail business, increasing its gross margin through vertical integration.
- As we note in this report, we see five upcoming catalysts relatively soon, including 4Q results in late March which should show strong retail sales and initial revenue from components.

Rating	Buy	Earnings Per Share	Normalized to exclude unusual items		
Target Price	\$20.00	FYE - December	2024E	2025E	2026E
Ticker Symbol	UMAC	1Q - March	(\$0.11) A	(\$0.15)	(\$0.19)
Market	NASDAQ	2Q - June	(\$0.16) A	(\$0.13)	(\$0.07)
Stock Price	\$7.96	3Q - September	\$0.01 A	(\$0.13)	\$0.02
52 wk High	\$23.62	4Q - December	(\$0.12)	(\$0.07)	\$0.14
52 wk Low	\$0.98	Year	(\$0.58)	(\$0.47)	(\$0.10)
Shares Outstanding:	13.9 M	Revenue (\$mm)	5.7	17.8	47.5
Public Market Float:	11.1 M	EV/Rev	24.6X	7.8X	2.9X
Avg. Daily Volume	5,172,143	EBITDA (\$mm)	(3.7)	(3.2)	3.0
Market Capitalization:	\$120.4 M	EV/EBITDA (pro forma)			47.0X
Institutional Holdings:	4.2%				
Dividend Yield:	0.0%				

Risks/Valuation

- The key risk factor is in execution. The company's strategy is to introduce drone components like motors and circuit boards and supply other drone manufacturers so it must successfully introduce and sell these components.
- It has already announced one acquisition, and we expect many more but the risk in acquisitions is in the integration.
- We value UMAC shares at 7x our 2026 revenue estimate of \$48 million or about twice that of comps. We note that with the recent rise in the share price the company is in the process of eliminating most debt and warrants, so we use a pro forma balance sheet in our valuation.

Company description: Unusual Machines presently is a retail drone and parts business operating under the Rotor Riot brand serving the \$100 million enthusiast market. Its target growth market is the multi-billion components market and it is already taking steps to introduce products and announce acquisitions.



Unusual Machines Inc.

NYSE - UMAC

Announcement of New Motor Product Increases TAM by Roughly 50%

This week Unusual Machines announced an order for drone motors from Red Cat (RCAT – NASDAQ). The company had not previously announced this product, and it is not yet on the Defense Department's Blue List of approved drone components for military use. With this announcement, the company's total addressable market in terms of announced components increases by 50% and it can now provide 64% of the components for a typical mid-sized drone, increasing its TAM by roughly 50%, from \$1.3 billion to \$1.9 billion. We also note that per a check of the Blue List website, a second Unusual Machines flight controller has now been added. Management has also been quoted in the press that it has radio receiver and video receiver components nearing introduction, which would increase its TAM another 30%. This would leave the frame, which is relatively low-tech, as the only major unannounced component required to build a drone.

The company has been able to rapidly introduce new products this year as it is working with partners to design and manufacture the components. For example, Ewing Aerospace designed and manufactures its flight controllers and the motors announcement with Red Cat states that the companies will initially use a partnered production facility. UMAC only has 16 employees, so it is leveraging its workforce through effective use of third parties. But using contract manufacturers, it can rapidly ramp up production, with little cost and without the financial risk of taking on the fixed cost of building its own factories. We think it will in time have its own internal production capabilities, but only when it can reasonably assure itself that these facilities will be sufficiently utilized to at least cover fixed overhead expenses. It recently announced the hire of a manufacturing executive who worked at Tesla's Fremont factory during its production ramp. The other major positive is that the company's retail unit, Rotor Riot, can now vertically integrate sourcing components internally and significantly expand its gross margin.

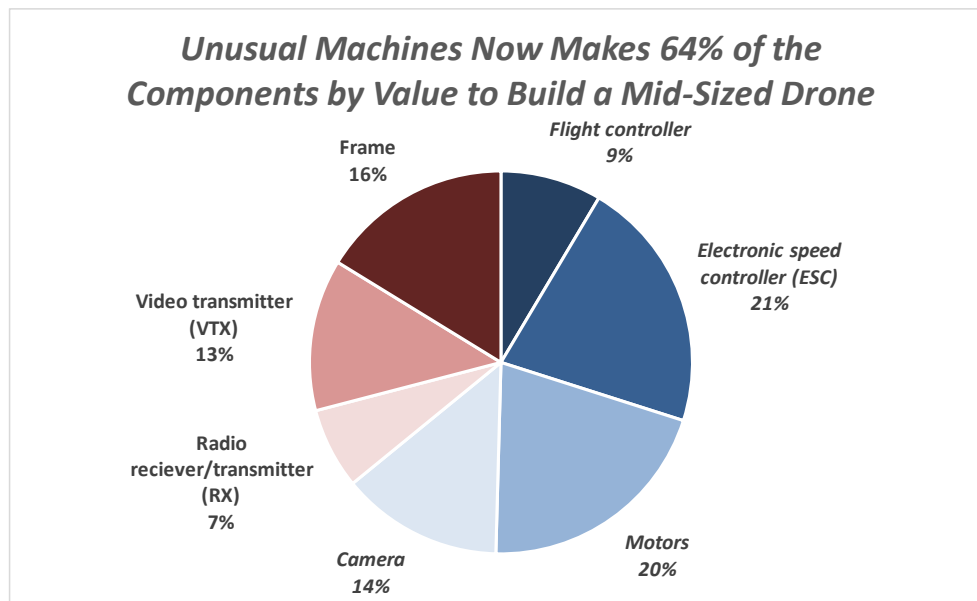
We reiterate our Buy rating and \$20 12-month price target as we see a number of upcoming catalysts:

1. Introduction of a radio receiver/transmitter (RX) product, further increasing its TAM.
2. Introduction of a video receiver/transmitter (VTX) product bringing its addressable market to 84% of the value of building mid-sized drones.
3. Blue List certification of its motors.
4. New customers and orders for components.
5. Q4 earnings in late March. We look for strong retail sales revenue, based the company's sales promotions (eg, a \$499 Pro Starter drone kit) and our visit to the Rotor Riot offices in December. Q4 should also show some initial, minimal orders for components as the company had announced its Brave 7 flight controller product and a major customer then. Our Q4 estimate calls for retail revenue of \$2 million and components revenue of \$100k, for total revenue of \$2.1 million. This would bring revenue for the year to \$5.7 million, ahead of loose guidance for at least \$5 million.

Unusual Machines Inc. NYSE - UMAC

UMAC's Drone Announcement Increases its TAM by Roughly 50%

	Price Range		Avg.	Per drone	Per drone	
Bold indicates announced UMAC component						
1 Flight controller	\$40	- \$60	\$50	1	\$50	9%
2 Electronic speed controller (ESC)	\$100	- \$150	\$125	1	\$125	21%
3 Motors	\$25	- \$35	\$30	4	\$120	21%
4 Camera	\$60	- \$100	\$80	1	\$80	14%
5 Radio receiver/transmitter (RX)	\$30	- \$50	\$40	1	\$40	7%
6 Video transmitter (VTX)	\$50	- \$100	\$75	1	\$75	13%
7 Frame	\$70	- \$120	\$95	1	\$95	16%
Total	\$375	- \$615		10	\$585	100%



Pie slices in shades of red on the right indicate announced products, slices on the left in blue represents future potential product announcements.

Source: Company reports



Unusual Machines Inc.

NYSE - UMAC

Unusual Machines Income Forecast

Dollars in thousands, except per share data
Fiscal years ended December 31

	2024E					2025E					2026E				
	1QA	2QA	3QA	4Q	YEAR	1Q	2Q	3Q	4Q	YEAR	1Q	2Q	3Q	4Q	YEAR
Revenue															
Retail	618,915	1,411,124	1,531,264	2,000,000	5,561,303	1,361,613	1,552,236	1,684,390	2,200,000	6,798,240	1,497,774	1,707,460	1,852,829	2,420,000	7,478,064
						10.0%	10.0%	10.0%	10.0%	22.2%	10.0%	10.0%	10.0%	10.0%	10.0%
Components				100,000	100,000	500,000	2,500,000	3,500,000	4,500,000	11,000,000	5,000,000	8,000,000	12,000,000	15,000,000	40,000,000
									4400.0%	10900.0%	900.0%	220.0%	242.9%	233.3%	263.6%
Year-over-year growth	618,915	1,411,124	1,531,264	2,100,000	5,661,303	1,861,613	4,052,236	5,184,390	6,700,000	17,798,240	6,497,774	9,707,460	13,852,829	17,420,000	47,478,064
Sequential growth			8.5%	37.1%		200.8%	187.2%	238.6%	219.0%	214.4%	249.0%	139.6%	167.2%	160.0%	166.8%
						-11.4%	117.7%	27.9%	29.2%		-3.0%	49.4%	42.7%	25.8%	
Total cost of revenue	414,748	1,022,684	1,131,777	1,575,000	4,144,209	1,303,129	2,836,565	3,629,073	4,690,000	12,458,768	4,223,553	6,309,849	8,311,698	10,452,000	29,297,100
As a percent of revenue	67.0%	72.5%	73.9%	75.0%	73.2%	70.0%	70.0%	70.0%	70.0%	70.0%	65.0%	65.0%	60.0%	60.0%	61.7%
Gross margin	204,167	388,440	399,487	525,000	1,517,094	558,484	1,215,671	1,555,317	2,010,000	5,339,472	2,274,221	3,397,611	5,541,132	6,968,000	18,180,964
As a percent of revenue	33.0%	27.5%	26.1%	25.0%	26.8%	30.0%	30.0%	30.0%	30.0%	30.0%	35.0%	35.0%	40.0%	40.0%	38.3%
Operations	112,322	213,772	218,126	252,000	796,220	465,403	486,268	622,127	402,000	1,975,798	1,299,555	970,746	1,385,283	871,000	4,526,584
As a percent of revenue	18.1%	15.1%	14.2%	12.0%	14.1%	25.0%	12.0%	12.0%	6.0%	11.1%	20.0%	10.0%	10.0%	5.0%	9.5%
Research and development	16,796	10,282	15,000	21,000	63,078	18,616	40,522	51,844	67,000	177,982	64,978	97,075	138,528	174,200	474,781
As a percent of revenue	2.7%	0.7%	1.0%	1.0%	1.1%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%
Selling and marketing	157,058	386,332	252,253	294,000	1,089,643	465,403	567,313	725,815	536,000	2,294,531	1,299,555	1,164,895	1,662,340	2,090,400	6,217,190
As a percent of revenue	25.4%	27.4%	16.5%	14.0%	19.2%	25.0%	14.0%	14.0%	8.0%	12.9%	20.0%	12.0%	12.0%	12.0%	13.1%
General and administrative	998,874	1,349,587	1,374,989	1,470,000	5,193,450	1,500,000	1,600,000	1,700,000	1,800,000	6,600,000	2,000,000	2,000,000	2,000,000	2,000,000	8,000,000
As a percent of revenue	161.4%	95.6%	89.8%	70.0%	91.7%	80.6%	39.5%	32.8%	26.9%	37.1%	30.8%	20.6%	14.4%	11.5%	16.8%
Depreciation and amortization	5,470	171	171	171	5,983	171	171	171	171	684	171	171	171	171	684
Operating income	(1,086,353)	(1,571,704)	(1,461,052)	(1,512,171)	(5,631,280)	(1,891,110)	(1,478,604)	(1,544,639)	(795,171)	(5,709,524)	(2,390,037)	(835,276)	354,810	1,832,229	(1,038,274)
Operating margin	-175.5%	-111.4%	-95.4%	-72.0%	-99.5%	-101.6%	-36.5%	-29.8%	-11.9%	-32.1%	-36.8%	-8.6%	2.6%	10.5%	-2.2%
Interest income			(180)		(180)					-					-
Interest expense	19,649	40,534	41,465	41,465	143,113	41,465	41,465	41,465	41,465	165,860	41,465	41,465	41,465	41,465	165,860
Loss on extinguishment of debt			685,151		685,151					-					-
Change in fair value of derivatives			(43,238)		(43,238)					-					-
Pretax Income	(1,106,002)	(1,612,238)	(1,502,517)	(1,553,636)	(5,774,393)	(1,932,575)	(1,520,069)	(1,586,104)	(836,636)	(5,875,384)	(2,431,502)	(876,741)	313,345	1,790,764	(1,204,134)
Taxes	-	15,828	-	-	15,828	-	-	-	-	-	-	-	-	-	-
Tax rate	0.0%	-1.0%	0.0%	0.0%	-0.3%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Net income to common	(1,106,002)	(1,628,066)	41,465	(1,553,636)	(5,790,221)	(1,932,575)	(1,520,069)	(1,586,104)	(836,636)	(5,875,384)	(2,431,502)	(876,741)	313,345	1,790,764	(1,204,134)
Net income margin	-178.7%	-115.4%	2.7%	-74.0%	-102.3%	-103.8%	-37.5%	-30.6%	-12.5%	-33.0%	-37.4%	-9.0%	2.3%	10.3%	-2.5%
Diluted shares outstanding	10,000,000	10,040,741	7,147,866	12,600,000	9,947,152	12,600,000	12,600,000	12,600,000	12,600,000	12,600,000	12,600,000	12,600,000	12,600,000	12,600,000	12,600,000
Seq change			(2,892,875)												
EPS diluted - continuing	(\$0.11)	(\$0.16)	\$0.01	(\$0.12)	(\$0.58)	(\$0.15)	(\$0.12)	(\$0.13)	(\$0.07)	(\$0.47)	(\$0.19)	(\$0.07)	\$0.02	\$0.14	(\$0.10)
EBITDA															
Operating income	(1,086,353)	(1,571,704)	(1,461,052)	(1,512,171)	(5,631,280)	(1,891,110)	(1,478,604)	(1,544,639)	(795,171)	(5,709,524)	(2,390,037)	(835,276)	354,810	1,832,229	(1,038,274)
Addback:															
Depreciation and amortization	5,470	171	171	171	5,983	171	171	171	171	684	171	171	171	171	684
Share-based compensation	64,344	425,767	398,240	400,000	1,288,351	500,000	600,000	700,000	700,000	2,500,000	1,000,000	1,000,000	1,000,000	1,000,000	4,000,000
Unusual items	-	-	641,913	-	641,913	-	-	-	-	-	-	-	-	-	-
EBITDA	(1,016,539)	(1,145,766)	(420,728)	(1,112,000)	(3,695,033)	(1,390,939)	(878,433)	(844,468)	(95,000)	(3,208,840)	(1,389,866)	164,895	1,354,981	2,832,400	2,962,410

Source: Company reports and Litchfield Hills Research



Unusual Machines, Inc. NYSE - UMAC

Disclosures:

Analyst Certification

We, the Litchfield Hills Research Department, hereby certify that the views expressed in this research report accurately reflect our personal views about the subject company and the underlying securities.

FINRA Compliant Research Report

We, the Litchfield Hills Research Department, hereby certify that this report is compliant with FINRA research rules 2241, 3110.

MiFID II Compliant Research Report

Our research is classified as minor non-monetary benefit under MiFID II. This applies to all forms of transmission, including email, website, and financial platforms such as Bloomberg, FactSet, S&P Global, Refinitiv and 13 others. We do not seek payment from the asset management community and do not have any execution function. Investors can continue to receive our research under the MiFID II regime without the need for a contract for services to be put in place. This applies to all forms of transmission, including email, website, and financial platforms.

Litchfield Hills Research LLC Rating System

BUY: We expect the stock to provide a total return of 15% or more within a 12-month period.

HOLD: We expect the stock to provide a total return of negative 15% to positive 15% within a 12-month period.

SELL: We expect the stock to have a negative total return of more than 15% within a 12-month period.

Total return is defined as price appreciation plus dividend yield.

Other Disclosures

Litchfield Hills Research, LLC ("LHR") is not a U.S. broker-dealer registered with the U.S. Securities and Exchange Commission nor a member of Financial Industry Regulatory Authority. This report is not directed to, or intended for distribution to or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction where such distribution, publication, availability or use would be contrary to law or regulation or which would subject LHR or any divisions, subsidiaries or affiliates to any registration or licensing requirement within such jurisdiction.

All material presented in this report, unless specifically indicated otherwise, is under copyright to LHR and the subject company. None of the material, nor its content, nor any copy of it, may be altered in any way, transmitted to, copied, or distributed to any other party, without the prior express written permission of LHR or the subject company. All trademarks, service marks and logos used in this report are trademarks, service marks, registered trademarks, or service marks of LHR or its affiliates. The information, tools and material presented in this report are provided to you for information purposes only and are not to be used or considered as an offer or the solicitation of an offer to sell or to buy or subscribe for securities or other financial instruments. LHR may not have taken any steps to ensure that the securities referred to in this report are suitable for any particular investor. The investments or services contained or referred to in this report may not be suitable for you and it is recommended that you consult an independent investment advisor if you are in doubt about such investments or investment services. Nothing in this report constitutes investment, legal, accounting or tax advice or a representation that any investment or strategy is suitable, appropriate to your individual circumstances, or otherwise constitutes a personal recommendation to you. LHR does not offer advice on the tax consequences of investment, and you are advised to contact an independent tax adviser. LHR believes the information and opinions in the Disclosure Appendix of this report are accurate and complete. Information and opinions presented in this report were obtained or derived from sources LHR believes are reliable, but LHR makes no representations as to their accuracy or completeness.

Ownership and Material Conflicts of Interest

The analyst owns no shares of the subject company. The analyst and his family have no known material conflicts of interest in authoring this report.

Investment Banking and Fees for Services

Litchfield Hills Research has not received compensation for advisory or investment banking services from the Company in the past 12 months. Litchfield Hills Research LLC has received compensation from the subject company for distribution and investor targeting services.

Market Making

Litchfield Hills Research, LLC does not make a market in the subject company's securities.

Additional information is available upon request. LHR accepts no liability for loss arising from the use of the material presented in this report, except that this exclusion of liability does not apply to the extent that liability arises under specific statutes or regulations applicable to LHR. This report is not to be relied upon in substitution for the exercise of independent judgment.