

Unusual Machines Inc.

NYSE American - UMAC

April 4, 2025

Tariff Investment Opportunity – UMAC is a Major Beneficiary of Tariffs, While Shares Sell off with the Russell - Reiterating Buy Rating and \$20 Price Target

Analyst: Barry M. Sine, CFA, CMT

- In what we view as a major market inefficiency, UMAC shares sold off 8% yesterday along with the Russell 2000 and other small caps.
- In reality, Unusual Machines is a major beneficiary of tariffs as nearly 100% of the U.S. drone components market has been served by Chinese companies while UMAC is now racing to ramp manufacturing of its line of Pentagon-certified (Blue List) drone components.
- In addition to tariffs, there are a number of even stronger barriers to Chinese suppliers. T-Motor, which formerly controlled 70% of the global drone motor market, was suddenly and surprisingly placed on the US government banned list (OFAC SDN) in January. The Biden-era legislative ban on global drone leader DJI takes effect at year-end.
- Unusual Machines is the only pure-play U.S. drone components manufacturer. Drone demand is soaring with numerous applications, especially for the military. Whenever the Pentagon budget passes Congress (we think August or September) it should include large purchases of drones, with most contract winners likely to turn to UMAC for components, again because they are the only game in town.
- We reiterate our Buy rating and \$20 price target. Yesterday's sell-off is dead wrong, in our opinion, as UMAC is one of the major beneficiaries of tariffs, not a victim as the price action seems to imply.

Rating	Buy	Earnings Per Share	Normalized to exclude unusual items		
Target Price	\$20.00	FYE - December	2024	2025E	2026E
Ticker Symbol	UMAC	1Q - March	(\$0.11) A	(\$0.12)	(\$0.15)
Market	NASDAQ	2Q - June	(\$0.15) A	(\$0.10)	(\$0.06)
Stock Price	\$5.88	3Q - September	(\$0.10) A	(\$0.10)	\$0.01
52 wk High	\$23.62	4Q - December	(\$2.27)	(\$0.06)	\$0.10
52 wk Low	\$0.98	Year	(\$3.84)	(\$0.36)	(\$0.09)
Shares Outstanding:	16.8 M	Revenue (\$mm)	5.6	17.5	47.1
Public Market Float:	13.5 M	EV/Rev	18.8X	6.0X	2.2X
Avg. Daily Volume	1,283,348	EBITDA (\$mm)	(4.5)	(3.3)	2.9
Market Capitalization:	\$99.0 M	EV/EBITDA (pro forma)			36.4X
Institutional Holdings:	3.5%				
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.



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Tariffic Opportunity

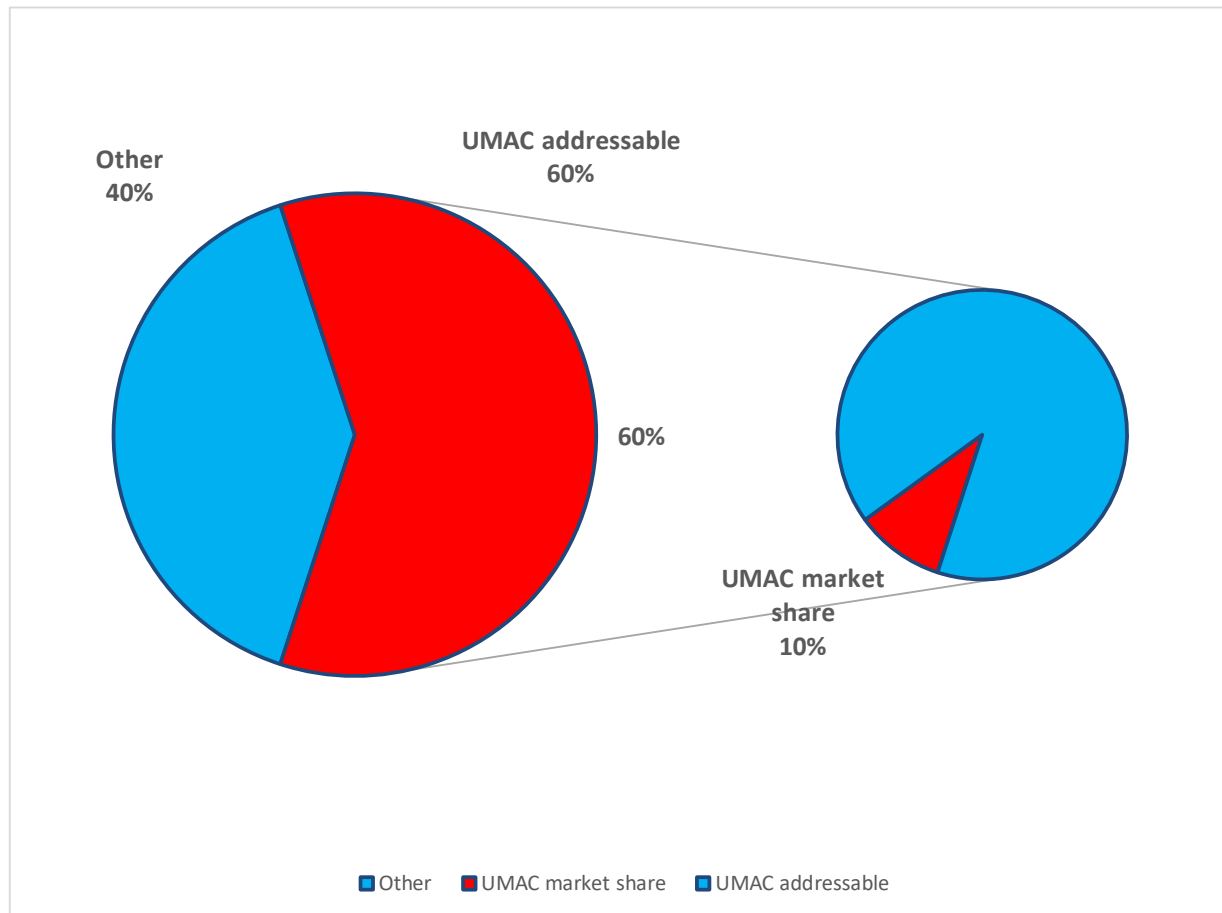
In what we view as a major market inefficiency, UMAC shares sold off 8% yesterday along with the Russell 2000 and other small caps. In reality, Unusual Machines is a major beneficiary of tariffs as nearly 100% of the U.S. drone components market has been served by Chinese companies while UMAC is now racing to roll ramp manufacturing of its line of Pentagon-certified (Blue List) drone components.

In our initiation report, dated February 19, 2025, we explained how UMAC can realistically get to \$15 in drone component revenue within a few years. Our 2026 estimate is \$47 million.

Back of the Envelope Math Suggests \$150 in UMAC Revenue in a Few Years

Target market: mid-sized drone components

	<u>Total</u>	<u>UMAC Addressable</u>	<u>Conservative Share</u>
Units	5,000,000	5,000,000	10%
Materials	500	300	
	\$2,500,000,000	\$1,500,000,000	\$150,000,000



Source: Litchfield Hills Research

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In addition to tariffs, there are a number of even stronger barriers to Chinese suppliers. T-Motor, which formerly controlled 70% of the global drone market, was suddenly and surprisingly placed on the US government banned list (Office of Foreign Assets Control – Specially Designated Nationals list) in January. According to the announcement, the company was caught supplying drone motors to the Russian military that were used in the war against Ukraine. Upon this announcement, it immediately became illegal for U.S. nationals – persons and companies – to buy their products. UMAC has hired a former Tesla manufacturing engineer and is scrambling to ramp up the capacity of its own drone motors. To our knowledge, it is the only U.S. manufacturer of many drone components including motors.

Under the American Security Drone Act of 2023, the legislative ban on global drone leader DJI takes effect at year-end. DJI is a massive, multi-billion-dollar company dominating the global drone market. So its ban should prove to be massively positive for U.S. drone makers and we expect most to turn to UMAC for components. And UMAC is highly diversified with no customers making up even 5% of revenue in Q4. We expect it to agnostically serve all major U.S. drone manufacturers, so it is not at risk of which company wins contracts.

Unusual Machines is the only U.S. drone components manufacturer. Drone demand is soaring with numerous applications, especially for the military. Whenever the Pentagon budget passes Congress (we think August or September) it should include large purchases of drones, with most contract winners like to turn to UMAC, again because they are the only game in town.

The timing of Pentagon orders is a major uncertainty, however. As analysts, we always dread forecasting revenue of companies reliant on government contracts, even indirectly as in the case of Unusual Machines. We are highly certain that the Pentagon will place large orders for military drones with multiple U.S. drone manufacturers, and that UMAC will be a major supplier to them, but several things must happen first. The initial one is the passage of the DoD budget. While the U.S. government budget process is messy, generally the DoD spending bill is passed first with bipartisan support. Then, each branch of the service has to issue task orders before shipments can begin. UMAC should see revenue early in this process as its drone manufacturer customers will need to prime their supply chain with components as a first priority. This could happen early in the year, or even get pushed out to 2026, but we see 3Q as most likely.

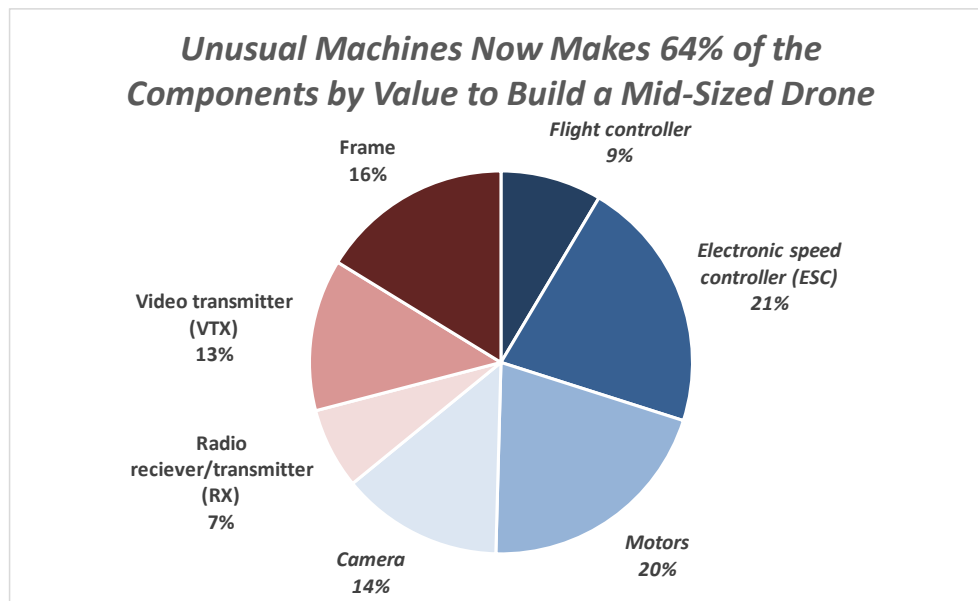
We were surprised that the CEO listed the company's retail business as its first priority in his recent letter to shareholders. We spoke to him yesterday and he explained that while B2B will likely overtake retail eventually, they don't want to upset their core revenue stream in the interim. This market is growing about 20% annually (we conservatively target just 10% growth) and there is really only one other sizable competitor serving the hobbyist FPV drone market (GetFPV.com). UMAC is already seeing synergies between its retail and B2B businesses. As it utilizes its own components to make drones for retail customers, there is upward pressure on margins. The www.rotorriot.com website also makes it easy to land new B2B customers. It has seen numerous small batch orders for its components from prospective customers of its drone components. These prospects can easily buy a dozen or so of any component UMAC makes, and use them in testing before negotiating a volume order. While large volume orders may carry lower margins, overall we think the company can get to a blended margin of around 40% versus 28% for 2024.

We reiterate our Buy rating and \$20 price target. Yesterday's sell-off is dead wrong, in our opinion, as UMAC is one of the major beneficiaries of tariffs.

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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



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Unusual Machines Income Forecast

Fiscal years ended December 31	2024					2025E					2026E				
	1Q	2Q	3Q	4Q	YEAR	1Q	2Q	3Q	4Q	YEAR	1Q	2Q	3Q	4Q	YEAR
Revenue															
Retail	618,915	1,411,124	1,531,264	1,703,414	5,264,717	1,361,613	1,552,236	1,684,390	1,873,755	6,471,995	1,497,774	1,707,460	1,852,829	2,061,130	7,119,194
percent of total				85.0%	94.6%	73.1%	38.3%	32.5%	29.4%	37.0%	23.1%	17.6%	13.4%	12.1%	15.1%
YoY growth						10.0%	10.0%	10.0%	10.0%	22.9%	10.0%	10.0%	10.0%	10.0%	10.0%
B2B				300,602	300,602	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
percent of total				15.0%	5.4%	26.9%	61.7%	67.5%	70.6%	63.0%	76.9%	82.4%	86.6%	87.9%	84.9%
Year-over-year growth	618,915	1,411,124	1,531,264	2,004,016	5,565,319	1,861,613	4,052,236	5,184,390	6,373,755	17,471,995	6,497,774	9,707,460	13,852,829	17,061,130	47,119,194
Sequential growth			8.5%	30.9%	177.7%	-7.1%	117.7%	27.9%	22.9%	213.9%	1.9%	49.4%	42.7%	23.2%	169.7%
Total cost of revenue	414,748	1,022,684	1,131,777	1,449,859	4,019,068	1,303,129	2,836,565	3,629,073	4,461,628	12,230,396	4,223,553	6,309,849	8,311,698	10,236,678	29,081,778
As a percent of revenue	67.0%	72.5%	73.9%	72.3%	72.2%	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	554,157	1,546,251	558,484	1,215,671	1,555,317	1,912,126	5,241,598	2,274,221	3,397,611	5,541,132	6,824,452	18,037,416
As a percent of revenue	33.0%	27.5%	26.1%	27.7%	27.8%	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	415,520	959,740	465,403	486,268	622,127	382,425	1,956,224	1,299,555	970,746	1,385,283	853,057	4,508,640
As a percent of revenue	18.1%	15.1%	14.2%	12.0%	17.2%	25.0%	12.0%	12.0%	6.0%	11.2%	20.0%	10.0%	10.0%	5.0%	9.6%
Research and development	16,796	10,282	15,000	48,506	90,584	18,616	40,522	51,844	63,738	174,720	64,978	97,075	138,528	170,611	471,192
As a percent of revenue	2.7%	0.7%	1.0%	1.0%	1.6%	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	295,625	1,091,268	465,403	567,313	725,815	509,900	2,268,431	1,299,555	1,164,895	1,662,340	2,047,336	6,174,125
As a percent of revenue	25.4%	27.4%	16.5%	14.0%	19.6%	25.0%	14.0%	14.0%	8.0%	13.0%	20.0%	12.0%	12.0%	12.0%	13.1%
General and administrative	998,874	1,349,587	1,374,989	2,527,489	6,250,939	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%	112.3%	80.6%	39.5%	32.8%	28.2%	37.8%	30.8%	20.6%	14.4%	11.7%	17.0%
Depreciation and amortization	5,470	171	171	66,349	72,161	65,000	65,000	65,000	65,000	260,000	65,000	65,000	65,000	65,000	260,000
Loss on impairment of goodwill				10,073,326	10,073,326										
Operating Income	(1,086,353)	(1,571,704)	(1,461,052)	(12,872,658)	(16,991,767)	(1,955,939)	(1,543,433)	(1,609,468)	(908,937)	(6,017,777)	(2,454,866)	(900,105)	289,981	1,688,449	(1,376,542)
Operating margin	-175.5%	-111.4%	-95.4%	-642.3%	-305.3%	-105.1%	-38.1%	-31.0%	-14.3%	-34.4%	-37.8%	-9.3%	2.1%	9.9%	-2.9%
Interest income			(180)	1,326	1,146										
Interest expense	19,649	40,534	41,465	(218,629)	(116,981)	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	574,828	1,259,979										
Change in fair value of derivatives			(43,238)	(16,102,967)	(16,146,205)										
Pretax Income	(1,066,704)	(1,531,170)	(777,854)	(28,618,100)	(31,993,828)	(1,997,404)	(1,584,898)	(1,650,933)	(950,402)	(6,183,637)	(2,496,331)	(941,570)	248,516	1,646,984	(1,542,402)
Taxes		15,828		(29,188)	(13,360)										
Tax rate	0.0%	-1.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Net income to common	(1,066,704)	(1,546,998)	(683,198)	(28,588,912)	(31,980,468)	(1,997,404)	(1,584,898)	(1,650,933)	(950,402)	(6,183,637)	(2,496,331)	(941,570)	248,516	1,646,984	(1,542,402)
Net income margin	-172.4%	-109.6%	-44.6%	-1426.6%	-574.6%	-107.3%	-39.1%	-31.8%	-14.9%	-35.4%	-38.4%	-9.7%	1.8%	9.7%	-3.3%
Diluted shares outstanding	10,000,000	10,040,741	7,147,866	12,600,000	8,325,128	16,830,170	17,000,000	17,000,000	17,000,000	16,957,543	17,000,000	17,000,000	17,000,000	17,000,000	17,000,000
Seq change			(2,892,875)		(4,274,872)										
EPS diluted - continuing	(\$0.11)	(\$0.15)	(\$0.10)	(\$2.27)	(\$3.84)	(\$0.12)	(\$0.09)	(\$0.10)	(\$0.06)	(\$0.36)	(\$0.15)	(\$0.06)	\$0.01	\$0.10	(\$0.09)
EBITDA															
Operating income	(1,086,353)	(1,571,704)	(1,461,052)	(12,872,658)	(16,991,767)	(1,955,939)	(1,543,433)	(1,609,468)	(908,937)	(6,017,777)	(2,454,866)	(900,105)	289,981	1,688,449	(1,376,542)
Addback:															
Depreciation and amortization	5,470	171	171	66,349	72,161	65,000	65,000	65,000	65,000	260,000	65,000	65,000	65,000	65,000	260,000
Share-based compensation	64,344	425,767	398,240	1,431,855	2,320,206	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
Charges	-	-	641,913	10,073,326	10,073,326	-	-	-	-	-	-	-	-	-	-
EBITDA	(1,016,539)	(1,145,766)	(420,728)	(1,301,128)	(4,526,074)	(1,390,939)	(878,433)	(844,468)	(143,937)	(3,257,777)	(1,389,866)	164,895	1,354,981	2,753,449	2,883,458
Net Income Normalization															
Add: change in fair value of derivatives					16,146,205										
Less: gain on debt extinguishment					(1,259,979)										
Subtotal: non-cash other expenses					14,886,226										
Interest expense					130,341	(41,465)	(41,465)	(41,465)	(41,465)	(165,860)	(41,465)	(41,465)	(41,465)	(41,465)	(165,860)
Add: goodwill impairment					10,073,326										
Add: non-cash stock compensation expense					2,320,206	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
Normalized loss from operations					(4,570,369)	(1,538,869)	(1,026,363)	(992,398)	(291,867)	(3,849,497)	(1,537,796)	16,965	1,207,051	2,605,519	2,291,738

Source: Company reports and Litchfield Hills Research



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