

Unusual Machines Inc.

NYSE American - UMAC

June 9, 2025

Unleashing American Drone Dominance - Reiterating Buy Rating and \$20 Price Target

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- On Friday, President Trump signed a wide-ranging Executive Order to support the American Drone industry.
- We see this order as significantly improving the prospects for Unusual Machines' business.
- The wide-ranging provisions include:
 - Accelerating integration of drones into the U.S. airspace
 - Accelerating domestic commercialization of drones
 - Strengthening the domestic drone manufacturing base for domestic use and export.
- Notably, it also orders the Export-Import Bank to assist in the export of U.S. drone products, including loans, loan guarantees, equity financing, political risk insurance, and credit guarantees. We would expect UMAC to avail itself of some of these tools to increase its export orders.
- Its Rotor Riot retail business has now announced the dates for its highly popular Rampage event to be held in October at a former nuclear plant in South Carolina. We expect this event to cement its leading position with enthusiasts and lead to a surge in revenue ahead of the holiday shopping season.
- We reiterate our Buy rating and \$20 price target for Unusual Machines.

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)	(\$0.21) A	(\$0.10)
Market	NASDAQ	2Q - June			(\$0.15)	(\$0.07)	(\$0.07)
Stock Price	\$9.20	3Q - September			(\$0.10)	(\$0.07)	(\$0.05)
52 wk High	\$23.62	4Q - December			(\$2.27)	(\$0.06)	(\$0.03)
52 wk Low	\$1.13	Year			(\$3.84)	(\$0.36)	(\$0.26)
Shares Outstanding:	25.0 M	Revenue (\$mm)			5.6	10.4	21.3
Public Market Float:	19.9 M	EV/Rev			28.7X	15.4X	7.5X
Avg. Daily Volume	1,628,121	EBITDA (\$mm)			(4.5)	(3.9)	(2.1)
Market Capitalization:	\$228.4 M						
Institutional Holdings:	4.6%						
Dividend Yield:	0.0%						

Risks/Valuation

- Execution Risk:** The primary risk for Unusual Machines centers on the execution of its growth strategy. The company is focused on introducing key drone components, such as motors and circuit boards, to supply other drone manufacturers. Success hinges on its ability to effectively develop, market, and sell these components to a growing customer base. Any delays or challenges in production, distribution, or customer adoption could negatively impact its growth trajectory.
- Valuation Premium:** We currently value UMAC shares at approximately two times the average multiple of its industry peers, reflecting the company's strong growth prospects and strategic positioning within the defense and drone sectors. However, this premium is based on the assumption that execution risks are managed effectively and that acquisitions contribute to long-term growth.

Company description: Unusual Machines operates primarily as a retail drone business under the Rotor Riot brand, catering to the \$100 million enthusiast market. The company's strategic growth focus is on expanding into the multi-billion-dollar drone component market. Introducing new products.

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Unleashing American Drone Dominance

On Friday, President Trump signed an Executive Order with specific instructions to the secretaries of Transportation, Commerce, Defense, State, Energy, Homeland Security, and Justice to take specific steps, with delineated timelines to increase the use of unmanned aerial systems (UAS) or drones in the U.S. economy. It specifically requires the use of U.S. drones and drone parts and sets forth a detailed framework to support the export of U.S.-manufactured drones and related systems. In a separate announcement, UMAC announced that it has signed a lease for 17,000 square feet of manufacturing space in the industrial complex housing its headquarters. Recall that in January, UMAC hired Brad Mello, an engineer who was instrumental in getting Tesla to volume manufacturing as Vice President of manufacturing.

The U.S. is rapidly moving from a drone and drone components industry almost entirely dominated by Chinese producers to one dominated by U.S. manufacturers. Unusual Machines has made the launch of a new drone components manufacturing business its key priority and has already introduced component products that collectively comprise the majority of the components by value to manufacture a small to mid-sized drone, including electronics and motors. This transition is still in the very early stages, but Unusual Machines has a first-mover advantage, funded by its IPO and recent secondary offering. While some Trump administration Executive Orders have faced pushback, support for the U.S. drone industry started in the Biden administration, with legislation receiving votes from the majority of Senators and congresspeople from both parties.

The Executive Order contains several specific instructions, with short timelines, for government departments:

Expanding Commercial Unmanned Aircraft Systems Operations – this section outlines four steps, with timelines, that the Secretary of Transportation must take to allow for the use of beyond visual line of sight (BVLOS) drones for commercial and public safety. This is a needed change as currently, drones are largely limited to line-of-sight applications, limiting services such as e-commerce delivery. We believe that many of the drones used in these applications will be built using components manufactured by Unusual Machines.

Further Unmanned Aircraft Systems Integration into the National Airspace System – this is another necessary order so that drones can safely interoperate in the same airspace as commercial and government aviation.

Establishment of an Electric Vertical Takeoff and Landing Pilot Program – this provision is relevant in supporting electric vertical take-off and landing (eVTOL) aircraft. This industry is developing larger vehicles capable of transporting people.

Strengthening the American Drone Industrial Base – this provision orders all agencies to prioritize the integration of drones manufactured in the U.S. over those made abroad. Historically, most drones were made in China from Chinese components and imported into the U.S. Now, U.S. agency drones will be made in the U.S. from components made in the U.S., and Unusual Machines is a leader in the components industry.

Promoting the Export of American-Made Civil Unmanned Aircraft Systems - we view this as the most relevant for Unusual Machines, as it directs making the export of U.S.-manufactured drones a priority. It also directs the Defense Secretary and the Export-Import Bank to utilize seven key tools to support exports. These include loans and loan guarantees, equity investments, and co-financing. We would expect UMAC to use some of these financial tools to support large export orders.

Delivering Drones to Our Warfighters - this provision specifically calls for the military to use low-cost, high-performing drones of the type that have been used so successfully by both sides in the Ukraine war. Given the success of these tactics, we expect drones to revolutionize warfare with massive adoption by militaries across the world. UMAC is perfectly positioned to provide the components to build these drones.



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Unusual Machines Income Forecast

Fiscal years ended December 31	2024					2025E					2026E				
	1Q	2Q	3Q	4Q	YEAR	1QA	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	1,735,955	1,622,793	1,760,954	1,958,926	7,078,627	1,909,551	1,785,072	1,937,049	2,154,818	7,786,490
percent of total				85.0%	94.6%	85.0%	76.4%	63.8%	56.6%	68.2%	48.8%	41.7%	32.6%	30.1%	36.6%
YoY growth						180.5%	15.0%	15.0%	15.0%	34.5%	10.0%	10.0%	10.0%	10.0%	10.0%
B2B				300,602	300,602	306,345	500,000	1,000,000	1,500,000	3,306,345	2,000,000	2,500,000	4,000,000	5,000,000	13,500,000
percent of total				15.0%	5.4%	15.0%	23.6%	36.2%	43.4%	31.8%	51.2%	58.3%	67.4%	69.9%	63.4%
	618,915	1,411,124	1,531,264	2,004,016	5,565,319	2,042,300	2,122,793	2,760,954	3,458,926	10,384,972	3,909,551	4,285,072	5,937,049	7,154,818	21,286,490
Year-over-year growth						230.0%	50.4%	80.3%	72.6%	86.6%	91.4%	101.9%	115.0%	106.9%	105.0%
Sequential growth			8.5%	30.9%	177.7%	1.9%	3.9%	30.1%	25.3%		13.0%	9.6%	38.6%	20.5%	
Total cost of revenue	414,748	1,022,684	1,131,777	1,449,859	4,019,068	1,545,493	1,613,322	2,070,715	2,594,194	7,823,725	2,736,685	2,913,849	3,859,082	4,650,632	14,160,248
As a percent of revenue	67.0%	72.5%	73.9%	72.3%		75.7%	76.0%	75.0%	75.0%	75.3%	70.0%	68.0%	65.0%	65.0%	66.5%
Gross margin	204,167	388,440	399,487	554,157	1,546,251	496,807	509,470	690,238	864,731	2,561,247	1,172,865	1,371,223	2,077,967	2,504,186	7,126,242
As a percent of revenue	33.0%	27.5%	26.1%	27.7%	27.8%	24.3%	24.0%	25.0%	25.0%	24.7%	30.0%	32.0%	35.0%	35.0%	33.5%
Operations	112,322	213,772	218,126	415,520	959,740	302,602	254,735	331,314	207,536	1,096,187	781,910	428,507	593,705	357,741	2,161,863
As a percent of revenue	18.1%	15.1%	14.2%	12.0%	17.2%	14.8%	12.0%	12.0%	6.0%	10.6%	20.0%	10.0%	10.0%	5.0%	10.2%
Research and development	16,796	10,282	15,000	48,506	90,584	7,903	21,228	27,610	34,589	91,330	39,096	42,851	59,370	71,548	212,865
As a percent of revenue	2.7%	0.7%	1.0%	1.0%	1.6%	0.4%	1.0%	1.0%	1.0%	0.9%	1.0%	1.0%	1.0%	1.0%	1.0%
Selling and marketing	157,058	386,332	252,253	295,625	1,091,268	207,616	297,191	386,534	276,714	1,168,055	781,910	514,209	712,446	858,578	2,867,143
As a percent of revenue	25.4%	27.4%	16.5%	14.0%	19.6%	10.2%	14.0%	14.0%	8.0%	11.2%	20.0%	12.0%	12.0%	12.0%	13.5%
General and administrative	998,874	1,349,587	1,374,989	2,527,489	6,250,939	3,225,904	1,600,000	1,700,000	1,800,000	8,325,904	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%	158.0%	75.4%	61.6%	52.0%	80.2%	51.2%	46.7%	33.7%	28.0%	37.6%
Depreciation and amortization	5,470	171	171	66,349	72,161	20,593	21,000	21,000	21,000	83,593	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)	(3,267,811)	(1,684,684)	(1,776,219)	(1,475,107)	(8,203,821)	(2,495,051)	(1,679,344)	(1,352,554)	(848,681)	(6,375,629)
Operating margin	-175.5%	-111.4%	-95.4%	-642.3%	-305.3%	-160.0%	-79.4%	-64.3%	-42.6%	-79.0%	-63.8%	-39.2%	-22.8%	-11.9%	-30.0%
Interest income			(180)	1,326	1,146	1,532	6,000	6,000	6,000	19,532	6,000	6,000	6,000	6,000	24,000
Interest expense	19,649	40,534	41,465	(218,629)	(116,981)	-	-	-	-	-	-	-	-	-	-
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)	(3,266,279)	(1,684,684)	(1,776,219)	(1,475,107)	(8,203,821)	(2,495,051)	(1,679,344)	(1,352,554)	(848,681)	(6,375,629)
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)	(3,266,279)	(1,684,684)	(1,776,219)	(1,475,107)	(8,203,821)	(2,495,051)	(1,679,344)	(1,352,554)	(848,681)	(6,375,629)
Net income margin	-172.4%	-109.6%	-44.6%	-1426.6%	-574.6%	-159.9%	-79.4%	-64.3%	-42.6%	-79.0%	-63.8%	-39.2%	-22.8%	-11.9%	-30.0%
Diluted shares outstanding	10,000,000	10,040,741	7,147,866	12,600,000	8,325,128	15,902,473	25,000,000	25,000,000	25,000,000	22,725,618	25,000,000	25,000,000	25,000,000	25,000,000	25,000,000
Seq change			(2,892,875)	-	(4,274,872)	15,902,473									
EPS diluted - continuing	(\$0.11)	(\$0.15)	(\$0.10)	(\$2.27)	(\$3.84)	(\$0.21)	(\$0.07)	(\$0.07)	(\$0.06)	(\$0.36)	(\$0.10)	(\$0.07)	(\$0.05)	(\$0.03)	(\$0.26)
EBITDA															
Operating income	(1,086,353)	(1,571,704)	(1,461,052)	(12,872,658)	(16,991,767)	(3,267,811)	(1,684,684)	(1,776,219)	(1,475,107)	(8,203,821)	(2,495,051)	(1,679,344)	(1,352,554)	(848,681)	(6,375,629)
Addback:															
Depreciation and amortization	5,470	171	171	66,349	72,161	20,593	21,000	21,000	21,000	83,593	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	1,906,373	600,000	700,000	700,000	3,906,373	1,000,000	1,000,000	1,000,000	1,000,000	4,000,000
Other	-	-	641,913	10,073,326	10,073,326	300,000	-	-	-	300,000	-	-	-	-	-
EBITDA	(1,016,539)	(1,145,766)	(420,728)	(1,301,128)	(4,526,074)	(1,040,845)	(1,063,684)	(1,055,219)	(754,107)	(3,913,855)	(901,898)	(614,344)	(287,554)	216,319	(2,115,629)

Source: Company reports and Litchfield Hills Research



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