LITCHFIELD HILLS RESEARCH

Unusual Machines Inc.

NYSE American - UMAC

June 16, 2025

UMAC Swaps Software for Synergy - Reiterating Buy Rating and $20 Price Target

Analyst: Barry M. Sine, CFA, CMT

- On Friday, UMAC announced it was terminating the previously announced acquisition of drone software company Aloft, and now plans to acquire its Australian drone motor partner Rotor Labs (RL).
- We view this positively as the Aloft deal was taking a long time to close, and Rotor Labs looks much more synergistic.
- The deal terms call for UMAC to issue $4 million in stock up front, and another $3 million over the next two years if RL can roughly triple revenue.
- UMAC has already hired an ex-Tesla manufacturing executive, leased factory space, and ordered production equipment and materials. Hiring and training of 10 to 15 new employees is expected to start soon.
- We view this deal very positively and consistent with management's long-articulated strategy to be a leader in the drone components market, as formerly dominant Chinese manufacturers are banned.
- We estimate that the new drone motor plant can ultimately produce as much as $60 million in revenue annually, which is far less than our 2026 estimate of $13.5 million for all drone components. UMAC just needs the customer orders, which should hopefully follow later this year once the new DoD budget is in place.
- We reiterate our Buy rating and $20 price target for Unusual Machines.

Rating	Buy	
Target Price	$20.00	
Ticker Symbol	UMAC	
Market	NASDAQ	
Stock Price	$8.45	
52 wk High	$23.62	
52 wk Low	$1.13	
Shares Outstanding:	25.0	M
Public Market Float:	19.9	M
Avg. Daily Volume	2,155,640	
Market Capitalization:	$209.8	M
Institutional Holdings:	4.6%	
Dividend Yield:	0.0%	

Earnings Per Share	**Normalized to exclude unusual items**		
FYE - December	**2024**	**2025E**	**2026E**
1Q - March	($0.11)	($0.21) A	($0.10)
2Q - June	($0.15)	($0.07)	($0.07)
3Q - September	($0.10)	($0.07)	($0.05)
4Q - December	($2.27)	($0.06)	($0.03)
Year	**($3.84)**	**($0.36)**	**($0.26)**
Revenue ($mm)	**5.6**	**10.4**	**21.3**
EV/Rev	26.5X	14.2X	6.9X
EBITDA ($mm)	**(4.5)**	**(3.9)**	**(2.1)**

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.

UMAC Swaps Software for Synergy: Rotor Labs Acquisition Accelerates Strategy

On Friday, Unusual Machines made a strategic pivot, announcing the termination of its previously proposed acquisition of drone software firm *Aloft* and, instead, the acquisition of Australia-based drone motor manufacturer *Rotor Labs* for $4 million in stock, plus a performance-based earnout of up to $3 million.

While the Aloft deal had been delayed and lacked strategic fit, given UMAC's core focus on drone hardware, we view the Rotor Labs transaction as not only far more synergistic but also as an accelerant to UMAC's operational roadmap by an estimated three to four months.

We are maintaining our estimates for now, pending deal closure (expected within a month, subject to FIRB approval), but we believe this move strengthens UMAC's positioning significantly.

Why Rotor Labs Matters

UMAC's foundational business has been in the FPV (first-person view) drone racing market. However, the company is now targeting a much larger and more lucrative opportunity: supplying components to commercial, public safety, and defense drone manufacturers.

To support this shift, UMAC has:

- Launched a proprietary line of drone components that represent most of a drone's bill of materials.
- Hired a senior operations executive with prior experience at Tesla during its critical production scale-up.
- Leased space for a manufacturing facility near its Orlando HQ.
- Collaborated with Rotor Labs on next-generation motor designs, making this acquisition a natural extension of their partnership.

CEO Allan Evans emphasized that this is not just a tuck-in deal. Rotor Labs' team, tech, and existing collaboration are directly aligned with UMAC's product roadmap and vertical integration strategy.

Key Deal Details & Strategic Impact

- **Financials:** Rotor Labs is a small private firm (~$1M in revs), so the deal is immaterial historically, but significant prospectively.
- **Earnout Terms:** Rotor Labs must scale to $3M in revenue over two years to unlock the additional $3M in equity, underscoring alignment and performance-driven incentives.
- **Regulatory Approval:** FIRB clearance in Australia is the only pending hurdle, with no issues expected.

Scaling for Demand: Manufacturing Outlook

UMAC's new Orlando facility is nearing operational readiness:

- Equipment and materials have been procured.
- Initial hiring (10–15 employees) is imminent; full automation is expected by next year.
- Production is set to begin in September, reaching full one-shift capacity (~50,000 drone motors/month) by January.
- At current ASPs (~$50/motor), this equates to $30M annual revenue, with the potential to scale to $60M under two shifts, well above our current 2026 estimate of $13.5M in *total* drone component revenue.

Important Note: Orders for this capacity are not yet in place. The pipeline depends on congressional passage of the FY2026 DoD budget, followed by order flows from top-tier drone integrators (e.g., former parent Red Cat), and then down to component suppliers like UMAC.

While timing is uncertain, we believe the demand environment, particularly from defense, is a matter of "when," not "if."

Strategic Redundancy and Vertical Integration

Rotor Labs' existing facility in Canberra will remain operational. This dual-factory setup offers built-in redundancy, especially critical given Orlando's hurricane risk, and supports global customer assurance.

Additionally, UMAC plans to use its manufacturing capacity to supply its own retail business, *Rotor Riot*, improving gross margins through vertical integration. While initial production has been consumed by early-stage testing from prospective large customers, we expect internal supply synergies and margin improvements to begin materializing by Q3 when Rotor Riot begins sourcing internal UMAC components.

Bottom Line

Friday's announcement is another strong signal that UMAC's management is delivering on the strategy outlined at IPO: focus on core hardware, vertically integrate, scale manufacturing, and target the emerging wave of institutional drone demand.

We remain confident in the team's execution and long-term vision.

Reiterate Buy | Price Target: $20

LITCHFIELD HILLS
RESEARCH

Unusual Machines Inc.

NYSE American - UMAC

Unusual Machines Income Forecast

	2024					2025E					2026E				
Fiscal years ended December 31	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%	72.2%	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

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.