

Unusual Machines Inc.

NYSE American - UMAC

July 11, 2025

New Pentagon Drone Policy Unlocks Massive Market Opportunity- Reiterating Buy and \$20 Target

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- The Pentagon just transformed the drone market — and UMAC is positioned to win.
- **What happened:** After the close yesterday, Defense Secretary Pete Hegseth announced that the Pentagon will now classify small drones as ammunition rather than aircraft, enabling combat units to purchase them directly, bypassing the slow acquisition process. Military credit cards can now be used to buy drones, and each service branch must stand up active-duty drone formations by September 1, with full integration into combat training by 2026. UMAC shares jumped 10% after hours on the news.
- **Why it matters:** Russia's relentless use of swarms of low-cost armed drones in Ukraine has redefined modern warfare. The U.S. is responding in kind, and the scale will be enormous. For context, the Pentagon already buys 1.5 billion rounds of ammunition annually and stockpiles much more. At ~\$500 per Group 1 drone (covered under this new order), demand could be staggering.
- **Why UMAC:** UMAC is the *Intel Inside* of drones — supplying ~\$300 worth of critical components (motors, controller boards, etc.) in each \$500 unit. While UMAC may not book end-drone sales, its customers will, driving substantial component orders to UMAC. As with Intel during the PC boom, UMAC's upside lies in being embedded in many of the units sold.
- This policy shift accelerates U.S. drone adoption well ahead of the budget cycle we previously expected to unlock sales. We now anticipate a meaningful financial impact by year-end 2025.
- **We reiterate our Buy rating and \$20 price target.**

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	\$8.69	3Q - September	(\$0.10)	(\$0.07)	(\$0.05)
52 wk High	\$23.62	4Q - December	(\$2.27)	(\$0.06)	(\$0.03)
52 wk Low	\$1.28	Year	(\$3.84)	(\$0.36)	(\$0.26)
Shares Outstanding:	25.0 M	Revenue (\$mm)	5.6	10.4	21.3
Public Market Float:	19.4 M	EV/Rev	27.2X	14.6X	7.1X
Avg. Daily Volume	3,010,611	EBITDA (\$mm)	(4.5)	(3.9)	(2.1)
Market Capitalization:	\$215.8 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.
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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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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%	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



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