

Unusual Machines Inc.

NYSE American - UMAC

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Christmas Eve in Orlando as Unusual Machines Awaits Massive Order Inflow- Reiterating Buy Rating and \$20 Price Target

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We believe that UMAC is approaching a transformative inflection point. With Q2 results in line and U.S. defense procurement ramping, the company is uniquely positioned to benefit from domestic drone supply chain realignment and the Pentagon's PBAS program. Strong cash reserves provide ample runway, while manufacturing scale-up supports significant top-line growth potential.

- Q2 Results: Revenue \$2.12M (in line). Gross margin expanded 1,000 bps YoY to 37.4%. Mix shift toward enterprise and in-house parts supports margin trajectory; 50% target appears achievable.
- Retail: Modest +3.9% YoY growth. Market remains niche (~\$100M TAM), but UMAC is strategically pivoting toward enterprise/defense. Competitors likely to source UMAC components post-China ban (Jan 2026).
- Defense Opportunity: Pentagon's PBAS program (10,000 expendable drones/month) represents a \$30M+ annual TAM for UMAC across controllers and motors alone. Vendor down-select expected late 2025; visibility by 3Q/4Q.
- Manufacturing Ramp:
 - Motors: New 17,000 sq. ft. Orlando facility begins production Sept. 2025; full scale by Jan. 2026.
 - Headsets: Repatriating Fat Shark headset production from China under industry veteran Tom Mercer.
- Balance Sheet: ~\$84M pro forma cash post-raises. Interest income funds burn. Management is evaluating higher-yield treasury strategy.

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	(\$0.11)
Market	NASDAQ	2Q - June	(\$0.15)	(\$0.32) A	(\$0.08)
Stock Price	\$10.05	3Q - September	(\$0.10)	(\$0.08)	(\$0.06)
52 wk High	\$23.62	4Q - December	(\$2.27)	(\$0.07)	(\$0.04)
52 wk Low	\$1.28	Year	(\$3.84)	(\$0.68)	(\$0.29)
Shares Outstanding:	30.4 M	Revenue (\$mm)	5.6	10.4	21.1
Public Market Float:	23.8 M	EV/Rev	39.9X	21.4X	10.5X
Avg. Daily Volume	4,579,843	EBITDA (\$mm)	(4.5)	(4.2)	(2.1)
Market Capitalization:	\$305.9 M				
Institutional Holdings:	12.2%				
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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Christmas Eve in Orlando as Unusual Machines Awaits Massive Order Inflow

Unusual Machines is entering what we view as a pivotal inflection point. With Q2 results in line, the company is now positioned to capture significant enterprise and defense-related demand as U.S. drone supply chains localize and military procurement accelerates. We reiterate our Buy rating and \$20 price target, reiterating our expectation of \$21.1 million in 2026 revenue and free cash flow breakeven by 4Q26. However, we believe visibility into new defense-related orders by 3Q/4Q could lead us to materially raise out-year estimates. The current environment is best characterized as “Christmas Eve” for both management and investors: the groundwork is in place, and we are simply awaiting the arrival of what could be transformational contracts.

Q2 Results: Solid Execution, Clearer Mix Shift

- **Revenue:** \$2.12M (in line with estimates), with 61% retail and 31% enterprise. Retail grew 3.9% YoY.
- **Margins:** Gross margin expanded 1,000 bps YoY to 37.4%, reflecting a favorable product mix (higher in-house parts sales, growing enterprise exposure, and disciplined pricing). Management’s 50% margin target looks achievable as enterprise becomes the dominant revenue driver.
- **Net Income:** The company reported a GAAP net loss of \$6.9 million, but excluding the one-time financing costs incurred in the quarter, the loss was just \$0.8 million. We expect similar results in 3Q as the company completed another capital raise in the quarter. Looking ahead, interest income from the ~ \$84 million in cash should offset operating losses, particularly once the company revamps its treasury strategy to earn higher yields on its cash.

Retail remains steady but secondary. The FPV hobbyist market is discretionary, niche, and relatively mature (~\$100M global TAM). While tariffs and rising price points have weighed on demand, this is consistent with management’s strategic pivot away from retail toward enterprise and defense. Notably, several retail competitors may ultimately become UMAC component customers as Chinese imports are phased out.

The Defense Opportunity: Massive, Recurring Demand Potential

The most compelling near-term catalyst lies in the Pentagon’s Purpose-Built Attributable Systems (PBAS) program. The initiative envisions procurement of ~10,000 low-cost drones per month, designed to be expendable and replenished continuously.

- **Content Opportunity:** Each drone requires 1 controller (\$58) and 4–5 motors (\$50 each). At ~\$250 per drone in addressable content, PBAS represents a \$30M+ annual TAM for UMAC across just two components.
- **Vendor Selection:** The Pentagon has shortlisted 12 vendors, expected to down-select to four. UMAC is not a prime contractor but is positioned as a critical supplier. Outcomes range from modest exposure to a material share of TAM.

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- **Timing:** While final vendor decisions are nominally set for September, we believe year-end is more realistic. Either way, visibility should improve by 3Q/4Q, with potential 2026 revenue well above our current \$21M estimate in a bullish case.

Manufacturing Ramp: Domestic Supply Chain in Motion

UMAC is rapidly scaling U.S.-based production ahead of the January ban on Chinese drone components:

- **Motor Production:** A new 17,000 sq. ft. Orlando facility begins commercial runs in September, with full-scale output expected by January 2026.
- **Headset Manufacturing:** U.S. production of Fat Shark headsets will be repatriated from China under new leadership (Tom Mercer, ex-Magic Leap, Google, Broadcom). This both strengthens U.S. supply chain independence and positions UMAC as the preferred domestic supplier in a constrained market.

Balance Sheet Strength: \$84M in Dry Powder

Following two equity offerings in 2025, UMAC now holds ~\$84M pro forma cash against a ~ 30.4M share count. Importantly, interest income is expected to fund near-term cash burn, insulating the company as it scales. Management indicated an updated treasury strategy is forthcoming (excluding crypto), which could modestly enhance returns on idle capital.

The share base has expanded from 6.2M a year ago, but investors have tolerated dilution given the substantial capital now available for manufacturing ramp-up and potential acquisitions. Execution in deploying this capital into value-accretive initiatives is the next key milestone.

Forecast and Valuation

We make no changes to our near-term estimates, given Q2 was in line and visibility into defense contracts is still pending. Our 2026 revenue estimate remains \$21.1M with free cash flow breakeven by 4Q26. However, we see substantial upside to both 2026 and 2027 if PBAS or similar programs flow through to UMAC's supply chain.

At current levels, UMAC trades at a compelling risk/reward. With its balance sheet fortified, domestic manufacturing advantage, and exposure to defense procurement tailwinds, we believe UMAC offers asymmetric upside as order visibility improves in the coming quarters.

Conclusion:

We believe that Unusual Machines is standing at the threshold of a major order cycle. Execution on defense supply chain integration, combined with domestic production scale-up, could rapidly transform the company's revenue trajectory and margin profile. We reiterate our Buy rating and \$20 price target, with a bias toward upward revisions as visibility on PBAS participation solidifies.



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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	1,735,955	1,465,539	1,760,954	1,958,926	6,921,374	1,909,551	1,612,093	1,937,049	2,154,818	7,613,511
percent of total				85.0%	94.6%	85.0%	69.0%	63.8%	56.6%	66.6%	48.8%	39.2%	32.6%	30.1%	36.1%
YoY growth						180.5%	3.9%	15.0%	15.0%	31.5%	10.0%	10.0%	10.0%	10.0%	10.0%
Enterprise				300,602	300,602	306,345	658,431	1,000,000	1,500,000	3,464,776	2,000,000	2,500,000	4,000,000	5,000,000	13,500,000
percent of total				15.0%	5.4%	15.0%	31.0%	36.2%	43.4%	33.4%	51.2%	60.8%	67.4%	69.9%	63.9%
Year-over-year growth	618,915	1,411,124	1,531,264	2,004,016	5,565,319	2,042,300	2,123,970	2,760,954	3,458,926	10,386,149	3,909,551	4,112,093	5,937,049	7,154,818	21,113,511
Sequential growth			8.5%	30.9%	177.7%	230.0%	50.5%	80.3%	72.6%	86.6%	91.4%	93.6%	115.0%	106.9%	103.3%
						1.9%	-61.8%	30.0%	25.3%		13.0%	5.2%	44.4%	20.5%	
Total cost of revenue	414,748	1,022,684	1,131,777	1,449,859	4,019,068	1,545,493	1,329,291	2,070,715	2,594,194	7,539,693	2,736,685	2,796,223	3,859,082	4,650,632	14,042,622
As a percent of revenue	67.0%	72.5%	73.9%	72.3%	72.2%	75.7%	62.6%	75.0%	75.0%	72.6%	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	794,679	690,238	864,731	2,846,456	1,172,865	1,315,870	2,077,967	2,504,186	7,070,888
As a percent of revenue	33.0%	27.5%	26.1%	27.7%	27.8%	24.3%	37.4%	25.0%	25.0%	27.4%	30.0%	32.0%	35.0%	35.0%	33.5%
Operations	112,322	213,772	218,126	415,520	959,740	302,602	404,277	331,314	207,536	1,245,729	781,910	411,209	593,705	357,741	2,144,565
As a percent of revenue	18.1%	15.1%	14.2%	12.0%	17.2%	14.8%	19.0%	12.0%	6.0%	12.0%	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	62,731	27,610	34,589	132,833	39,096	41,121	59,370	71,548	211,135
As a percent of revenue	2.7%	0.7%	1.0%	1.0%	1.6%	0.4%	3.0%	1.0%	1.0%	1.3%	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	302,358	386,534	276,714	1,173,222	781,910	493,451	712,446	858,578	2,846,385
As a percent of revenue	25.4%	27.4%	16.5%	14.0%	19.6%	10.2%	14.2%	14.0%	8.0%	11.3%	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	7,195,193	1,700,000	1,800,000	13,921,097	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%	338.8%	61.6%	52.0%	134.0%	51.2%	48.6%	33.7%	28.0%	37.9%
Depreciation and amortization	5,470	171	171	66,349	72,161	20,593	20,593	20,593	20,593	82,372	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)	(7,190,473)	(1,775,812)	(1,474,700)	(13,708,797)	(2,495,051)	(1,694,912)	(1,352,554)	(848,681)	(6,391,197)
Operating margin	-175.5%	-111.4%	-95.4%	-642.3%	-305.3%	-160.0%	-338.5%	-64.3%	-42.6%	-132.0%	-63.8%	-41.2%	-22.8%	-11.9%	-30.3%
Interest income			(180)	1,326	1,146	1,532	225,734	800,000	800,000	1,827,266	800,000	800,000	800,000	800,000	3,200,000
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)	(6,964,739)	(1,775,812)	(1,474,700)	(13,708,797)	(2,495,051)	(1,694,912)	(1,352,554)	(848,681)	(6,391,197)
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)	(6,964,739)	(1,775,812)	(1,474,700)	(13,708,797)	(2,495,051)	(1,694,912)	(1,352,554)	(848,681)	(6,391,197)
Net income margin	-172.4%	-109.6%	-44.6%	-1426.6%	-574.6%	-159.9%	-327.9%	-64.3%	-42.6%	-132.0%	-63.8%	-41.2%	-22.8%	-11.9%	-30.3%
Diluted shares outstanding	10,000,000	10,040,741	7,147,866	12,600,000	8,325,128	15,902,473	21,771,954	21,771,954	21,771,954	20,304,584	21,771,954	21,771,954	21,771,954	21,771,954	21,771,954
Seq change			(2,892,875)	-	(4,274,872)	15,902,473	5,869,481	-	-	-	-	-	-	-	-
EPS diluted - continuing	(\$0.11)	(\$0.15)	(\$0.10)	(\$2.27)	(\$3.84)	(\$0.21)	(\$0.32)	(\$0.08)	(\$0.07)	(\$0.68)	(\$0.11)	(\$0.08)	(\$0.06)	(\$0.04)	(\$0.29)
EBITDA															
Operating income	(1,086,353)	(1,571,704)	(1,461,052)	(12,872,658)	(16,991,767)	(3,267,811)	(7,190,473)	(1,775,812)	(1,474,700)	(13,708,797)	(2,495,051)	(1,694,912)	(1,352,554)	(848,681)	(6,391,197)
Addback:															
Depreciation and amortization	5,470	171	171	66,349	72,161	20,593	20,593	20,593	20,593	82,372	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	5,513,328	700,000	700,000	8,819,701	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	-	-	600,000	-	-	-	-	-
EBITDA	(1,016,539)	(1,145,766)	(420,728)	(1,301,128)	(4,526,074)	(1,040,845)	(1,356,552)	(1,055,219)	(754,107)	(4,206,724)	(917,466)	(629,912)	(287,554)	216,319	(2,131,197)
Capital expenditures	-	-	-	-	-	-	262,751	300,000	300,000	862,751	100,000	100,000	100,000	100,000	400,000
Free cash flow	(1,040,845)	(1,619,303)	(1,355,219)	(1,054,107)	(5,069,475)	(1,040,845)	(1,619,303)	(1,355,219)	(1,054,107)	(5,069,475)	(1,017,466)	(729,912)	(387,554)	116,319	(2,531,197)

Source: Company reports and Litchfield Hills Research



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