

Unusual Machines Inc.

NYSE American - UMAC

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Raising Revenue, EPS, and Price Target, but the Best Is Yet to Come

Analyst: Barry M. Sine, CFA, CMT

Unusual Machines has made a series of transformative moves over the past month, many of which we believe the market has yet to appreciate fully. As a result, we are significantly revising our outlook. We are raising our 3Q25 EPS estimate from a loss of -\$0.08 to a profit of \$0.13, increasing our 2026 revenue forecast from \$21 million to \$28 million, and raising our price target from \$20 to \$25.

- **Strategic Equity Investments:** UMAC has completed three strategic equity-method investments in leading drone ecosystem companies. We estimate a mark-to-market gain of approximately \$5 million in 3Q25 alone, which we now incorporate into our model. This accounts for the substantial upward revision of our 3Q25 EPS estimate. If each of these investments achieves consensus analyst targets, UMAC could realize an additional \$8 million in gains, though this is not included in our model.
- **Record Enterprise Orders:** UMAC recently announced a \$12.8 million order from Strategic Logix — nearly enough to meet our entire prior 2026 full-year enterprise revenue forecast. As a result, we are increasing our 2026 enterprise revenue estimate. More importantly, many of the major DoW Programs of Record have yet to be awarded. Once these programs begin, component suppliers such as UMAC stand to see significantly higher demand. In our view, this positions UMAC for exponential growth — as Frank Sinatra would say, *"the best is yet to come."*
- **Robust EPS Upside and Market Reaction:** Our updated model suggests a significant EPS beat for 3Q25 (consensus is -\$0.09), which should attract attention from the quantitative funds that dominate microcap trading. We expect this to drive meaningful upward momentum in the share price.

Rating	Buy	Earnings Per Share			Normalized to exclude unusual items		
Target Price	\$25.00	FYE - December			2024	2025E	2026E
Ticker Symbol	UMAC	1Q - March			(\$0.11)	(\$0.21) A	(\$0.05)
Market	NASDAQ	2Q - June			(\$0.15)	(\$0.32) A	(\$0.02)
Stock Price	\$14.86	3Q - September			(\$0.10)	\$0.13	(\$0.01)
52 wk High	\$23.62	4Q - December			(\$2.27)	(\$0.02)	\$0.01
52 wk Low	\$1.28	Year			(\$3.84)	(\$0.27)	(\$0.07)
Shares Outstanding:	30.4 M	Revenue (\$mm)			5.6	10.4	27.6
Public Market Float:	25.7 M	EV/Rev			70.0X	37.5X	14.1X
Avg. Daily Volume	3,869,527	EBITDA (\$mm)			(4.5)	(4.2)	(1.2)
Market Capitalization:	\$452.5 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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The Best is Yet to Come

We are making two key changes to our forecast:

1. **Mark-to-Market Gains:** We add \$5 million in other income to our 3Q25 model from mark-to-market gains on equity investments. This raises our EPS estimate to \$0.13, compared with consensus of -\$0.09. Our estimate also reflects an increase in the share count due to the July capital raise.
2. **Enterprise Revenue:** We raise our 2026 enterprise revenue estimate from \$13.5 million to \$20 million, increasing total revenue from \$21 million to \$28 million.

Strategic Equity Investments in Detail

In 3Q UMAC made strategic investments in three publicly traded drone ecosystem companies:

- SafePro (SPAI, Buy-rated)
- LightPath (LPTH, Not-rated)
- Kopin (KOPN, Not-rated)

The latest investment in Kopin — a developer of advanced display technology, including for drone operator headsets — is particularly notable. UMAC's Fat Shark division, previously a customer, benefits directly from this partnership. Kopin's planned U.S. manufacturing facility will allow UMAC to secure NDAA-compliant displays, strengthening its competitive positioning. Each of these three investments has appreciated significantly in a short time. Based on our analysis, UMAC should record a \$5 million mark-to-market gain in 3Q25, driving EPS to ~\$0.13, well above consensus expectations.

We expect this strong performance to draw the attention of quantitative trading models, which dominate microcap trading volume. Quant models typically react only after actual results are published in a company's 10-Q in XBRL format — likely mid-November. This suggests strong potential for accelerated buying activity when results are released.

UMAC Saw \$5M in Equity Gains in 3Q, \$8M to Come Based on Consensus Targets

Date	Ticker	Company	Basis	Shares	Value	Current	P&L	Return	Target	Addl. P&L @target
8/22/25	SPAI warrants	Safe Pro Group, Inc.	\$4.00 \$6.00	500,000 500,000	\$2,000,000	\$7.02 \$7.02	\$1,510,000 \$510,000	101.0%	\$12.00	2,490,000 2,490,000
9/15/25	LPTH	LightPath Technologies,	\$5.00	800,000	\$4,000,000	\$7.93	\$2,344,000	58.6%	\$9.00	856,000
9/29/25	KOPN	Kopin Corporation	\$2.10	2,380,952	\$5,000,000	\$2.43	\$773,810	15.5%	\$3.33	2,154,762
					\$11,000,000		\$5,137,810	46.7%		\$7,990,762

Source: Company reports

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UMAC Announces Record Order, But the Best is Yet to Come

Earlier this week, UMAC announced a record \$12.8 million order from Strategic Logix for 160,000 Unusual Machines components. Strategic Logix's RSSL platform is a highly customizable drone platform that starts at just \$800 and can be configured for more expensive autonomous or fiber optic-controlled configurations. Recall that in July, War Department Secretary Pete Hegseth issued a series of orders to comply with the administration's hyper-aggressive drone strategy. Among the points, he called for each unit to start buying drones by September and allowed individual units to bypass the lethargic Pentagon acquisition process and directly buy their own drones with military credit cards.

Strategic Logix is a privately-held Buford, Georgia, drone manufacturer and was not on the radar screen of investors thinking about potential sources of new orders for UMAC. And there are many more such vendors across the country. With UMAC's agnostic approach, it is ready to supply them. But the major Programs of Record that should see billions of dollars in orders are waiting for the passage of the War Department budget by Congress, which should then trigger orders to the major drone manufacturers who would then turn to UMAC for the components, such as motors, cameras, or controllers, necessary to build their drones. While we today increase our enterprise revenue estimate for 2026 to \$20 million, this process could see \$50 million in enterprise revenue in 2026 and \$100 million in 2027. UMAC has a massive balance sheet with around \$70 million in cash, and it is using this to add people, factory spaces, production equipment, and raw materials to be ready for such orders. It also outsources many of its components, such as printed circuit boards, so we think it can meet this type of demand. The following table is a summary of the major drone programs of record and where they currently stand.

The Major War Department Programs of Record Have Largely Not Yet Been Awarded

Program (Acronym)	Branch of Service	Date / Announcement	Estimated Value	Vendors / Platforms	Timeline / Status	Strategic Implication
Replicator-1	DoD (Multi-Branch, led by OSD/DIU)	Aug-23	\$1B (FY24-25)	AeroVironment Switchblade 600, others	Fielding by Aug 2025; initial tranche underway	Massive small-drone deployment capacity
Replicator-2	DoD (Multi-Branch, led by OSD/DIU)	Sep-24	Included in FY26 request	C-sUAS focus verticals	Expected within 24 months	Enhanced counter-drone saturation
SRR	U.S. Army	Ongoing	~\$600-700M	Skydio X10D, Teal Black Widow	Second tranche production; LRIP in FY26	Ground ISR unmanned saturation
OPF-L	U.S. Marine Corps	Apr-24	Up to \$249M	AeroVironment, Teledyne FLIR, Anduril	First delivery Jan 2026; field by 2027	Squad-level loitering precision fires
GOPSS 0A	U.S. Special Operations Command (SOCOM)	Public 2024	N/A	Teledyne FLIR Rogue 1	Testing since 2022; micro prototype fieldable	SOCOM precision loitering strike
Launched Effects	U.S. Army (DoD initiative, Army lead)	Demo Mar 2025	N/A	AEVEX Atlas, Anduril Altius 600, RTX Coyote B3	Demonstrations underway; fielding by 2026	Multi-domain launched autonomous effects
LRT UAS	U.S. Navy / U.S. Marine Corps (PMA-263)	RFI Jun 2023; Demo mid-July 2025	N/A	AeroVironment P550, others	Demo complete; procurement in pipeline	Long-range VTOL recon/strike

Source: Company reports

Raising Price from \$20 to \$25

Given these developments — especially the 3Q25 EPS beat, mark-to-market gains, record orders, and robust pipeline — we raise our price target from \$20 to \$25. We view UMAC as a company poised for meaningful upside, driven by both short-term catalysts and longer-term structural growth in the drone ecosystem.



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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%	28.7%	24.4%	21.2%	27.6%
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	4,000,000	6,000,000	8,000,000	20,000,000
percent of total				15.0%	5.4%	15.0%	31.0%	36.2%	43.4%	33.4%	51.2%	71.3%	75.6%	78.8%	72.4%
YoY growth									399.0%	1052.6%	552.9%	507.5%	500.0%	433.3%	477.2%
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	5,612,093	7,937,049	10,154,818	27,613,511
Sequential growth			8.5%	30.9%	177.7%	1.9%	-61.8%	30.0%	25.3%		13.0%	43.5%	41.4%	27.9%	165.9%
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	3,816,223	5,159,082	6,600,632	18,312,622
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%	66.3%
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	1,795,870	2,777,967	3,554,186	9,300,888
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%	33.7%
Operations	112,322	213,772	218,126	415,520	959,740	302,602	404,277	331,314	207,536	1,245,729	781,910	561,209	793,705	507,741	2,644,565
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%	9.6%
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	56,121	79,370	101,548	276,135
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	673,451	952,446	1,218,578	3,626,385
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%	13.1%
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%	35.6%	25.2%	19.7%	29.0%
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)	(1,559,912)	(1,112,554)	(338,681)	(5,506,197)
Operating margin	-175.5%	-111.4%	-95.4%	-642.3%	-305.3%	-160.0%	-338.5%	-64.3%	-42.6%	-132.0%	-63.8%	-27.8%	-14.0%	-3.3%	-19.9%
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			(43,238)	(16,102,967)	(16,146,205)	-	-	5,000,000	-	5,000,000	-	-	-	-	-
Pretax income	(1,066,704)	(1,531,170)	(777,854)	(28,618,100)	(31,993,828)	(3,266,279)	(6,964,739)	4,024,188	(674,700)	(6,881,531)	(1,695,051)	(759,912)	(312,554)	461,319	(2,306,197)
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)	4,024,188	(674,700)	(6,881,531)	(1,695,051)	(759,912)	(312,554)	461,319	(2,306,197)
Net income margin	-172.4%	-109.6%	-44.6%	-1426.6%	-574.6%	-159.9%	-327.9%	145.8%	-19.5%	-66.3%	-43.4%	-13.5%	-3.9%	4.5%	-8.4%
Diluted shares outstanding	10,000,000	10,040,741	7,147,866	12,600,000	8,325,128	15,902,473	21,771,954	31,771,954	32,771,954	25,554,584	32,871,954	32,971,954	33,071,954	33,171,954	33,021,954
Seq change			(2,892,875)	-	(4,274,872)	15,902,473	5,869,481	10,000,000	1,000,000		100,000	100,000	100,000	100,000	
EPS diluted - continuing	(\$0.11)	(\$0.15)	(\$0.10)	(\$2.27)	(\$3.84)	(\$0.21)	(\$0.32)	\$0.13	(\$0.02)	(\$0.27)	(\$0.05)	(\$0.02)	(\$0.01)	\$0.01	(\$0.07)
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)	(1,559,912)	(1,112,554)	(338,681)	(5,506,197)
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)	(542,466)	(494,912)	(47,554)	726,319	(1,246,197)
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)	(642,466)	(594,912)	(147,554)	626,319	(1,646,197)

Source: Company reports and Litchfield Hills Research



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