

Unusual Machines Inc.

NYSE American - UMAC

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Building Momentum: First Profit, Expanding Backlog, and Strategic Scale-Up

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- UMAC's 3Q results beat consensus expectations on EPS with a five-cent GAAP profit despite light revenue, supported by \$5.8M in unrealized gains. Backlog now stands at \$16M through 2Q26, excluding retail strength we expect in 4Q.
- U.S. production is ramping sharply, with a new factory, 31 new hires, and automation coming mid-2026. Onshoring continues with goggles, and batteries are the next targeted component category.
- The federal shutdown has paused new defense orders, but management sees it as purely timing-related. A catch-up surge is expected post-reopening, benefiting primes and then UMAC.
- UMAC supplies every Tier-1 PBAS contender—Red Cat, Anduril, Skydio, and PDW— giving exposure to a \$200–\$300M Army program. The company also supplies numerous components for the 101st Airborne's ABE drone effort.
- Gross margin hit a record 39.4%, cutting EBITDA loss to \$1.6M. With \$133M cash and no debt, UMAC is positioned for \$21M in 2026 revenue and long-term scaling above \$100M.

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	(\$0.07)
Market	NYSE	2Q - June	(\$0.15)	(\$0.32) A	(\$0.04)
Stock Price	\$10.75	3Q - September	(\$0.10)	\$0.05 A	(\$0.04)
52 wk High	\$23.62	4Q - December	(\$2.27)	(\$0.05)	(\$0.01)
52 wk Low	\$1.89	Year	(\$3.84)	(\$0.40)	(\$0.16)
Shares Outstanding:	36.8 M	Revenue (\$mm)	5.6	9.8	20.9
Public Market Float:	28.8 M	EV/Rev	46.6X	26.6X	12.4X
Avg. Daily Volume	3,681,036	EBITDA (\$mm)	NM	NM	NM
Market Capitalization:	\$334.4 M				
Institutional Holdings:	10.3%				
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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Last night, Unusual Machines made headlines with one of its most substantive quarterly updates to date. Revenue came in light, but the company posted a five-cent GAAP profit due to \$5.8 million in unrealized gains from strategic investments made during the quarter. The most important revelation from the call, however, was management's disclosure that the company now holds roughly \$16 million in purchase orders scheduled for delivery through the second quarter of 2026. This figure exceeded expectations and does not include the retail business, which we believe is positioned for another strong holiday-driven fourth quarter. The CEO reiterated that Unusual Machines should reach cash-flow breakeven at approximately \$7.5 million in quarterly revenue, a level management believes could be achieved by the fourth quarter of 2026. Our own estimate is just under that figure.

Production Expansion and Onshoring Initiatives

The company is aggressively expanding its U.S. manufacturing footprint. Its new drone production facility is now active and capable of shipping thousands of units per month, supported by the onboarding of 31 workers this week dedicated to the ramp. By the middle of next year, automated high-volume production equipment is expected to be installed, further accelerating throughput and lowering unit costs. Unusual Machines is also pursuing significant onshoring initiatives: production of FPV goggles is being brought to the U.S., and the CEO specifically highlighted batteries as the next major component category the company may begin producing internally or through acquisition.

Government Shutdown: Near-Term Pause, Post-Shutdown Catalyst

As with nearly every defense-exposed company this quarter, the government shutdown played a central role in the discussion. Federal agencies cannot issue new contracts during the shutdown, leaving Tier-1 contractors temporarily unable to place orders with Unusual Machines. Management expects this to reverse as soon as the government reopens: contracting activity should first resume at the prime-contractor level and then cascade down to component suppliers such as UMAC. In other words, the shutdown represents a timing issue—not a demand issue—and could generate a meaningful catch-up cycle.

Defense Pipeline: PBAS Opportunity and Tier-1 Vendor Position

The CEO called out the U.S. Army's Purpose-Built Attritable Systems (PBAS) program, which aims to procure low-cost, sub-\$2,000 expendable drones intended for high-volume battlefield use, similar to ammunition. Industry estimates place the annual vendor opportunity at \$200–\$300 million beginning in 2026, with recurring characteristics as consumption-based drone replenishment becomes institutionalized. Unusual Machines supplies components to every Tier-1 competitor for PBAS, including Red Cat, Anduril, Skydio, and Performance Drone Works. As a component provider, Unusual Machines would capture only a share of system-level revenue, but its military-certified, NDAA-compliant portfolio gives it a strong competitive position across platforms. Additionally, the company has already announced component orders supporting the 101st Airborne Division's ABE expendable drone program, providing early validation of UMAC's U.S.-based manufacturing strategy.



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Third-Quarter Performance

Third-quarter revenue was essentially flat compared to the prior quarter but rose 39 percent year-over-year. Enterprise revenue reached \$1.1 million, up from zero in the prior year, as the first shipments of previously announced component orders began contributing to results. We believe the majority of this revenue came from electronic components such as controllers, as the company's motor factory has only recently begun meaningful production. Retail revenue declined both sequentially and year-over-year, consistent with typical third-quarter seasonality. However, a dedicated executive is now overseeing the retail business, and if promotional activity mirrors last year's pattern, retail revenue should rebound materially in the fourth quarter. Over the long term, we continue to model retail as a 10 percent annual grower.

Margins, EBITDA, and Cash Flow

Gross margin reached a record 39.4 percent, though management cautioned that margins may soften in the near term due to the costs of scaling operations. The company's leased production space has expanded tenfold over the past year, and both management-level and production-level hiring have increased significantly. We expect the introduction of automated high-volume production equipment by mid-2026, combined with a rising backlog, to be a pivotal point for margin expansion.

Despite higher operating costs associated with scaling, the company's strong gross margin narrowed the EBITDA loss to roughly \$1.1 million. Capital expenditures totaled \$1.3 million during the quarter, resulting in negative free cash flow of \$2.9 million. GAAP EPS came in positive, as expected, due to \$5.8 million in unrealized gains on three strategic investments in public companies. Absent further appreciation in these holdings, EPS will likely remain negative through at least 2026. Analyst target prices on the portfolio imply potential for an additional \$7.3 million in gains, though we exclude this from our model.

Balance Sheet Strength and Acquisition Capacity

The balance sheet continued to improve during and after the quarter through the company's at-the-market equity program. Unusual Machines now holds approximately \$133 million in cash, has no debt, and has 36.8 million shares outstanding. With IPO activity halted across the defense technology sector due to the shutdown, capital-constrained competitors may be more inclined to consider strategic alternatives. We therefore expect Unusual Machines to remain acquisitive, particularly in component categories where it currently lacks an offering, such as batteries.

Long-Term Outlook

The long-term discussion on the call was extensive, particularly regarding whether growth can continue accelerating after 2026. Near-term visibility is strong: a robust holiday season for retail and early shipments of announced enterprise orders support our fourth-quarter revenue estimate of \$3.5 million. For 2026, the CEO reiterated the potential to reach a \$7.5 million quarterly revenue run-rate by year-end, and if revenue ramps steadily, our full-year estimate of \$21 million follows naturally. Longer term, the CEO agreed that a \$100 million annual revenue level is feasible, and we concur.

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Several structural drivers support this view.

- First, without an approved FY26 budget, the Pentagon has not yet issued the large-scale drone orders that are expected under several programs of record. Such programs tend to last many years—sometimes decades—once fully funded, and should generate sustained order flow.
- Second, the drones being planned today are attritable, meaning they are consumed in combat like ammunition. The Pentagon's FY25 ammunition procurement budget is \$4.7 billion; if expendable drones replace even a portion of this spend, the market could expand dramatically. If Unusual Machines continues to strengthen its position in drone components, revenue could exceed the \$100 million level discussed by management.
- The company's acquisition strategy also becomes more meaningful in this environment. The government shutdown has temporarily prevented the SEC from approving new public offerings, which could push privately held drone-component firms toward acquisition rather than attempted IPOs. Batteries were specifically highlighted by the CEO as an area where the company does not yet have an offering and could accelerate its capability through M&A.
- Today, the Pentagon is working to deploy small numbers of drones to units, with many early orders designated for training. However, the U.S. Army and Marine Corps remain far behind Ukrainian and Russian forces in drone deployment density. Over the next several years, the U.S. military will need to rapidly scale procurement simply to complete the initial equipping of units, and because expendable drones are consumed in use, this should evolve into recurring purchases akin to today's ammunition budgets.
- Finally, while investor discussions often focus almost entirely on military applications, the commercial market represents significant additional upside. Companies such as Amazon are exploring last-mile delivery via drones, and the technologies currently being refined in Ukraine—such as drone swarms and cybersecurity defense measures—are directly applicable to commercial operations. As these technologies mature, commercial demand could form the second major leg of Unusual Machines' long-term growth story.

In our opinion, Unusual Machines approaches 2026 with a clear pathway to scale. The combination of a record \$16 million backlog, expanding U.S. production capacity, and confirmed participation across multiple Tier-1 defense vendors positions the company at the center of the accelerating shift toward low-cost, expendable unmanned systems. While near-term revenue volatility remains tied to the government shutdown and the cadence of defense contracting, we view these as timing issues rather than structural concerns. The company's liquidity—\$133 million in cash with no debt—provides exceptional flexibility to support working capital, absorb growth-related inefficiencies, and opportunistically pursue acquisitions at a moment when industry competitors face capital constraints.

Our 2026 revenue estimate of \$21 million and modeled approach toward the \$7.5 million quarterly breakeven threshold by year-end reflect both the early visibility provided by the existing purchase-order pipeline and the operating leverage inherent in the manufacturing footprint now being put in place. Longer term, the CEO's acknowledgment that a \$100 million revenue level is attainable is consistent with the emerging demand landscape for attritable drones, the PBAS program, and other directed-requirements pathways coming out of the Pentagon. In our view, Unusual Machines is structurally advantaged by its



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NDAA-compliant product line, its relationships with Red Cat, Anduril, Skydio, and Performance Drone Works, and its growing presence in programs such as the 101st Airborne's ABE initiative.

Taken together, we believe these elements support a favorable multi-year risk/reward profile. As program awards resume post-shutdown, as automation equipment comes online, and as the company demonstrates progress toward cash-flow breakeven, we expect the market to re-rate the shares in line with a higher-growth, defense-technology peer set. Unusual Machines is still in the early innings of its scale-up, but the direction of travel is clear: rising visibility, improving margins, deepening strategic relevance, and a long runway of demand as expendable drones become a recurring procurement category across the U.S. military and, eventually, the commercial sector.



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Unusual Machines Income Forecast

Fiscal years ended December 31	2025E					2026E					2027E				
	1QA	2QA	3QA	4Q	YEAR	1Q	2Q	3Q	4Q	YEAR	1Q	2Q	3Q	4Q	YEAR
Revenue															
Retail	1,735,955	1,465,539	1,067,294	1,958,926	6,227,714	1,909,551	1,612,093	1,174,023	2,154,818	6,850,485	2,100,506	1,773,303	1,291,426	2,370,300	7,535,534
percent of total	85.0%	69.0%	50.0%	56.6%	63.8%	48.8%	35.0%	22.7%	30.1%	32.9%	20.8%	18.1%	13.9%	19.2%	18.1%
YoY growth	180.5%	3.9%	-30.3%	15.0%	18.3%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%
Enterprise	306,345	658,431	1,067,294	1,500,000	3,532,070	2,000,000	3,000,000	4,000,000	5,000,000	14,000,000	8,000,000	8,000,000	8,000,000	10,000,000	34,000,000
percent of total	15.0%	31.0%	50.0%	43.4%	36.2%	51.2%	65.0%	77.3%	69.9%	67.1%	79.2%	81.9%	86.1%	80.8%	81.9%
YoY growth				399.0%	1075.0%	552.9%	355.6%	274.8%	233.3%	296.4%	300.0%	166.7%	100.0%	100.0%	142.9%
Year-over-year growth	2,042,300	2,123,970	2,134,588	3,458,926	9,759,784	3,909,551	4,612,093	5,174,023	7,154,818	20,850,485	10,100,506	9,773,303	9,291,426	12,370,300	41,535,534
Sequential growth	1.9%	-61.8%	0.5%	62.0%	75.4%	13.0%	18.0%	12.2%	38.3%	113.6%	41.2%	-3.2%	-4.9%	33.1%	99.2%
Total cost of revenue	1,545,493	1,329,291	1,294,200	2,144,534	6,313,518	2,423,921	2,859,498	3,104,414	3,935,150	12,322,983	5,454,273	5,179,850	4,831,541	6,308,853	21,774,518
As a percent of revenue	75.7%	62.6%	60.6%	62.0%	64.7%	62.0%	62.0%	60.0%	55.0%	59.1%	54.0%	53.0%	52.0%	51.0%	52.4%
Gross margin	496,807	794,679	840,388	1,314,392	3,446,266	1,485,629	1,752,595	2,069,609	3,219,668	8,527,502	4,646,233	4,593,452	4,459,884	6,061,447	19,761,016
As a percent of revenue	24.3%	37.4%	39.4%	38.0%	35.3%	38.0%	38.0%	40.0%	45.0%	40.9%	46.0%	47.0%	48.0%	49.0%	47.6%
Operations	302,602	404,277	636,705	207,536	1,551,120	781,910	461,209	517,402	357,741	2,118,263	505,025	488,665	464,571	618,515	2,076,777
As a percent of revenue	14.8%	19.0%	29.8%	6.0%	15.9%	20.0%	10.0%	10.0%	5.0%	10.2%	5.0%	5.0%	5.0%	5.0%	5.0%
Research and development	7,903	62,731	39,369	34,589	144,592	39,096	46,121	51,740	71,548	208,505	101,005	97,733	92,914	123,703	415,355
As a percent of revenue	0.4%	3.0%	1.8%	1.0%	1.5%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%
Selling and marketing	207,616	302,358	373,539	518,839	1,402,352	781,910	553,451	620,883	858,578	2,814,822	1,212,061	1,172,796	1,114,971	1,484,436	4,984,264
As a percent of revenue	10.2%	14.2%	17.5%	15.0%	14.4%	20.0%	12.0%	12.0%	12.0%	13.5%	12.0%	12.0%	12.0%	12.0%	12.0%
General and administrative	3,225,904	7,195,193	4,730,063	3,000,000	18,151,160	3,000,000	3,000,000	3,000,000	3,000,000	12,000,000	2,200,000	2,200,000	2,200,000	2,200,000	8,800,000
As a percent of revenue	158.0%	338.8%	221.6%	86.7%	186.0%	76.7%	65.0%	58.0%	41.9%	57.6%	21.8%	22.5%	23.7%	17.8%	21.2%
Depreciation and amortization	20,593	20,593	22,449	30,000	93,635	65,000	65,000	65,000	65,000	260,000	75,000	75,000	75,000	75,000	300,000
Loss on impairment of goodwill															
Operating Income	(3,267,811)	(7,190,473)	(4,961,737)	(2,476,572)	(17,896,593)	(3,182,287)	(2,373,186)	(2,185,416)	(1,133,199)	(8,874,088)	553,142	559,258	512,428	1,559,793	3,184,620
Operating margin	-160.0%	-338.5%	-232.4%	-71.6%	-183.4%	-81.4%	-51.5%	-42.2%	-15.8%	-42.6%	5.5%	5.7%	5.5%	12.6%	7.7%
Interest income	1,532	225,734	715,489	800,000	1,742,755	800,000	800,000	800,000	800,000	3,200,000	800,000	800,000	800,000	800,000	3,200,000
Interest expense	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Loss on extinguishment of debt	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Unrealized gain	-	-	5,849,713	-	5,849,713	-	-	-	-	-	-	-	-	-	-
Change in fair value	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Pretax Income	(3,266,279)	(6,964,739)	1,603,465	(1,676,572)	(10,304,125)	(2,382,287)	(1,573,186)	(1,385,416)	(333,199)	(5,674,088)	1,353,142	1,359,258	1,312,428	2,359,793	6,384,620
Taxes															
Tax rate	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%	0.0%	0.0%
Net income to common	(3,266,279)	(6,964,739)	1,603,465	(1,676,572)	(10,304,125)	(2,382,287)	(1,573,186)	(1,385,416)	(333,199)	(5,674,088)	1,353,142	1,359,258	1,312,428	2,359,793	6,384,620
Net income margin	-159.9%	-327.9%	75.1%	-48.5%	-105.6%	-60.9%	-34.1%	-26.8%	-4.7%	-27.2%	13.4%	13.9%	14.1%	19.1%	15.4%
Diluted shares outstanding	15,902,473	21,771,954	30,002,179	35,002,179	25,669,696	35,102,179	35,202,179	35,302,179	35,402,179	35,252,179	35,502,179	35,602,179	35,702,179	35,802,179	35,652,179
Seq change	15,902,473	5,869,481	8,230,225	5,000,000		100,000	100,000	100,000	100,000		100,000	100,000	100,000	100,000	
EPS diluted - continuing	(\$0.21)	(\$0.32)	\$0.05	(\$0.05)	(\$0.40)	(\$0.07)	(\$0.04)	(\$0.04)	(\$0.01)	(\$0.16)	\$0.04	\$0.04	\$0.04	\$0.07	\$0.18
EBITDA															
Operating income	(3,267,811)	(7,190,473)	(4,961,737)	(2,476,572)	(17,896,593)	(3,182,287)	(2,373,186)	(2,185,416)	(1,133,199)	(8,874,088)	553,142	559,258	512,428	1,559,793	3,184,620
Addback:															
Depreciation and amortization	20,593	20,593	22,449	30,000	93,635	65,000	65,000	65,000	65,000	260,000	75,000	75,000	75,000	75,000	300,000
Share-based compensation	1,906,373	5,513,328	2,102,560	1,000,000	10,522,261	1,000,000	1,000,000	1,000,000	1,000,000	4,000,000	1,000,000	1,000,000	1,000,000	1,000,000	4,000,000
Other	300,000	300,000	1,200,000	-	1,800,000	-	-	-	-	-	-	-	-	-	-
EBITDA	(1,040,845)	(1,356,552)	(1,636,728)	(1,446,572)	(5,480,697)	(2,428,602)	(1,308,186)	(1,120,416)	(68,199)	(4,614,088)	3,221,685	1,634,258	1,587,428	2,634,793	7,484,620
Capital expenditures	-	262,751	1,287,936	500,000	2,050,687	500,000	500,000	500,000	500,000	2,000,000	500,000	500,000	500,000	500,000	2,000,000
Free cash flow	(1,040,845)	(1,619,303)	(2,924,664)	(1,946,572)	(7,531,384)	(2,928,602)	(1,808,186)	(1,620,416)	(568,199)	(6,614,088)	2,721,685	1,134,258	1,087,428	2,134,793	5,484,620

Source: Company reports and Litchfield Hills Research



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