

Unusual Machines Inc.

NYSE American - UMAC

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Orders Validate the Ramp, Setting Up an Earnings Inflection

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- **Orders validating the production ramp:** A newly announced \$5 million plus enterprise order supports near-term revenue visibility and signals that demand is keeping up with, and close to exceeding, rapidly increasing capacity.
- **Capacity expansion drives step-function growth:** Current output of 20,000 motors per month is set to increase to 120,000 per month by year-end with automation, positioning the company to meet rising end customer Pentagon demand.
- **Margin expansion follows automation:** Gross margin of 35% in 2025 is expected to expand to 41% in 2026 and 48% in 2027 as automated production scales, with 2027 representing the first full year of optimized operations.
- **Consensus appears behind the earnings curve:** Investment gains do not appear to be reflected in current estimates, setting up the potential for positive EPS and near-term upside surprises.
- **Reiterating Buy and \$25 price target:** We see meaningful upside driven by revenue growth, margin expansion, and earnings visibility as the business transitions from buildout to scaled execution.

Rating	Buy	Earnings Per Share				
Target Price	\$25.00	Normalized to exclude unusual items				
Ticker Symbol	UMAC	FYE - December	2024	2025	2026E	2027E
Market	NYSE	1Q - March	(\$0.11)	(\$0.21)	\$0.36	\$0.05
Stock Price	\$16.45	2Q - June	(\$0.15)	(\$0.32)	\$0.10	\$0.05
52 wk High	\$23.38	3Q - September	(\$0.10)	\$0.05	(\$0.02)	\$0.06
52 wk Low	\$4.67	4Q - December	(\$2.27)	(\$0.35)	\$0.01	\$0.07
		Year	(\$3.84)	(\$0.74)	\$0.40	\$0.24
Shares Outstanding:	47.7 M	Revenue (\$mm)	5.6	11.2	31.8	51.3
Public Market Float:	34.2 M	EV/Rev	64.5X	32.0X	11.3X	7.0X
Avg. Daily Volume	4,231,826	EBITDA (\$mm)	(4.5)	(9.4)	(2.7)	10.4
Market Capitalization:	\$640.9 M					
Institutional Holdings:	27.8%					
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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We recently caught up with Unusual Machines CEO Allan Evans. The company's drone parts business has scaled dramatically but remains in the early stages of this ramp. The company is currently capable of producing 20,000 motors per month and 2,000 headsets, while also selling other products through a sizable retail operation. In the second half of this year, following installation of automated equipment, motor production capacity is expected to reach 120,000 units per month. The company also announced a new \$5 million plus order to be shipped in the second quarter. As a result, we raise our revenue estimates to \$31.8 million for 2026 and \$51.3 million for 2027.

Gross margin was 35% in 2025, and we expect meaningful expansion, particularly in 2027, which should represent the first full year of the automated motor facility operating at scale. Another major driver of earnings is expected to be gains on investments. We calculate these gains at \$13.3 million in 1Q26 and approximately \$5.0 million quarter-to-date in 2Q26. As a result, we look for positive EPS in the first two quarters and for full-year 2026 and 2027. Consensus estimates do not appear to reflect these gains and still call for sizable losses in both years. As such, UMAC should deliver a significant positive surprise in 1Q, with potential for continued upside in subsequent quarters if consensus does not adjust.

The company has recently made several major announcements. On March 20, it announced a \$150 million public offering, raising net proceeds of approximately \$139 million through the issuance of 8.8 million shares at \$17 per share. Following this transaction, we estimate cash and short-term investments at approximately \$282 million and shares outstanding at roughly 47.7 million, implying a market capitalization of \$641 million and an enterprise value of \$359 million. Despite the increase in both metrics due to share price appreciation and opportunistic capital raises, revenue growth appears to be tracking alongside valuation, as our 2027 revenue estimate implies an EV/revenue multiple of 7.0x.

On March 21, the company announced a \$5 million plus order for drone motors from PowerUS, a privately held manufacturer of counter-UAS systems—drones designed to intercept and disable hostile drones. These systems are lightweight, as they carry no payload and are designed to be expendable. Similar systems were deployed in Operation Epic Fury, particularly against Iran's widely used Shahed drones. To fulfill this order on an accelerated timeline, the company is adding weekend shifts, having previously operated three shifts per day, five days per week. Weekends were typically reserved for maintenance, but management is making an exception to meet this demand. Our prior 2Q enterprise/B2B revenue estimate was \$3 million, which we conservatively raise to \$7 million. With the transition to automation, we estimate 3Q and 4Q enterprise revenue at \$8 million and \$9 million, respectively, and project 2027 enterprise revenue of \$46 million.

We have closely followed announcements from the White House and the Pentagon regarding military drone strategy and procurement plans. Based on these developments, it is conceivable that revenue could ultimately exceed our current estimates. We also note that UMAC now cites industry estimates for drone accessories of \$17.5 billion in 2026, growing to \$115 billion by 2032. While this includes components beyond UMAC's current product portfolio, it underscores the magnitude of the addressable market. Management noted that once the current motor assembly facility is fully optimized and automated, with the supply chain also optimized, the company could scale capacity further by leasing additional nearby space and build a second production facility at its Orlando location to meet incremental demand.

Separately, the company's investment portfolio of four publicly traded UAS stocks was up 41.3% in 1Q26 (\$13.3 million on \$32.2 million cost) with an additional \$85.6 million of upside to consensus analyst price targets, driven primarily by leveraged exposure to XTIA warrants; reported short-term investments were \$39.2 million at December 31.



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Unusual Machines Income Forecast

Fiscal years ended December 31	2025					2026E					2027E				
	1Q	2Q	3Q	4Q	YEAR	1Q	2Q	3Q	4Q	YEAR	1Q	2Q	3Q	4Q	YEAR
Revenue															
Retail	1,409,187	1,104,464	917,873	930,688	4,362,212	1,550,106	1,214,911	1,009,660	1,023,757	4,798,434	1,705,116	1,336,402	1,110,626	1,126,133	5,278,277
percent of total	69.0%	52.0%	43.0%	19.0%	39.0%	34.1%	14.8%	11.2%	10.2%	15.1%	14.6%	10.8%	8.5%	8.0%	10.3%
YoY growth	127.7%	-21.7%	-40.1%	-45.4%	-17.1%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%
Enterprise	633,113	1,019,506	1,216,715	3,967,671	6,837,005	3,000,000	7,000,000	8,000,000	9,000,000	27,000,000	10,000,000	11,000,000	12,000,000	13,000,000	46,000,000
percent of total	31.0%	48.0%	57.0%	81.0%	61.0%	65.9%	85.2%	88.8%	89.8%	84.9%	85.4%	89.2%	91.5%	92.0%	89.7%
YoY growth				1219.9%	2174.4%	373.8%	586.6%	557.5%	126.8%	294.9%	233.3%	57.1%	50.0%	44.4%	70.4%
	2,042,300	2,123,970	2,134,588	4,898,359	11,199,217	4,550,106	8,214,911	9,009,660	10,023,757	31,798,434	11,705,116	12,336,402	13,110,626	14,126,133	51,278,277
Year-over-year growth	230.0%	50.5%	39.4%	144.4%	101.2%	122.8%	286.8%	322.1%	104.6%	183.9%	157.2%	50.2%	45.5%	40.9%	61.3%
Sequential growth	1.9%	-61.8%	0.5%	129.5%		-7.1%	80.5%	9.7%	11.3%		16.8%	5.4%	6.3%	7.7%	
Total cost of revenue	1,545,493	1,329,291	1,294,200	3,123,386	7,292,370	2,821,066	5,093,245	5,405,796	5,513,066	18,833,173	6,320,763	6,538,293	6,817,526	7,204,328	26,880,909
As a percent of revenue	75.7%	62.6%	60.6%	63.8%	65.1%	62.0%	62.0%	60.0%	55.0%	59.2%	54.0%	53.0%	52.0%	51.0%	52.4%
Gross margin	496,807	794,679	840,388	1,774,973	3,906,847	1,729,040	3,121,666	3,603,864	4,510,691	12,965,261	5,384,353	5,798,109	6,293,101	6,921,805	24,397,368
As a percent of revenue	24.3%	37.4%	38.4%	36.2%	34.9%	38.0%	38.0%	40.0%	45.0%	40.8%	46.0%	47.0%	48.0%	49.0%	47.6%
Operations	302,602	404,277	636,705	1,891,122	3,234,706	910,021	821,491	900,966	501,188	3,133,666	585,256	616,820	655,531	706,307	2,563,914
As a percent of revenue	14.8%	19.0%	29.8%	38.6%	28.9%	20.0%	10.0%	10.0%	5.0%	9.9%	5.0%	5.0%	5.0%	5.0%	5.0%
Research and development	7,903	62,731	39,369	92,582	202,585	45,501	82,149	90,097	100,238	317,984	117,051	123,364	131,106	141,261	512,783
As a percent of revenue	0.4%	3.0%	1.8%	1.9%	1.8%	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	698,203	1,581,716	910,021	985,789	1,081,159	1,202,851	4,179,820	1,404,614	1,480,368	1,573,275	1,695,136	6,153,393
As a percent of revenue	10.2%	14.2%	17.5%	14.3%	14.1%	20.0%	12.0%	12.0%	12.0%	13.1%	12.0%	12.0%	12.0%	12.0%	12.0%
General and administrative	3,225,904	7,195,193	4,730,063	8,747,473	23,898,633	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%	70.0%	213.4%	65.9%	36.5%	33.3%	29.9%	37.7%	18.8%	17.8%	16.8%	15.6%	17.2%
Depreciation and amortization	20,593	20,593	22,449	77,632	141,267	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)	(9,732,039)	(25,152,060)	(3,201,503)	(1,832,763)	(1,533,358)	(358,586)	(6,926,210)	1,002,433	1,302,557	1,658,188	2,104,101	6,067,278
Operating margin	-160.0%	-338.5%	-232.4%	-198.7%	-224.6%	-70.4%	-22.3%	-17.0%	-3.6%	-21.8%	8.6%	10.6%	12.6%	14.9%	11.8%
Interest income	1,532	225,734	715,489	888,189	1,830,944	800,000	800,000	800,000	800,000	3,200,000	800,000	800,000	800,000	800,000	3,200,000
Interest expense	-	-	-	(519)	(519)	-	-	-	-	-	-	-	-	-	-
Loss on extinguishment of debt	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Gains / (losses)	-	-	5,849,713	(1,757,947)	4,091,766	13,307,171	5,025,031	-	-	18,332,201	-	-	-	-	-
Change in fair value	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Pretax income	(3,266,279)	(6,964,739)	1,603,465	(10,602,316)	(19,229,869)	10,905,667	3,992,267	(733,358)	441,414	14,605,991	1,802,433	2,102,557	2,458,188	2,904,101	9,267,278
Taxes				(36,252)	(36,252)	-	-	-	-	-	-	-	-	-	-
Tax rate	0.0%	0.0%	0.0%	0.0%	0.2%	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	(10,566,064)	(19,193,617)	10,905,667	3,992,267	(733,358)	441,414	14,605,991	1,802,433	2,102,557	2,458,188	2,904,101	9,267,278
Net income margin	-159.9%	-327.9%	75.1%	-215.7%	-171.4%	239.7%	48.6%	-8.1%	4.4%	45.9%	15.4%	17.0%	18.7%	20.6%	18.1%
Diluted shares outstanding	15,902,473	21,771,954	30,002,179	30,002,179	26,015,541	30,198,297	38,825,708	38,925,708	39,025,708	36,743,855	39,125,708	39,225,708	39,325,708	39,425,708	39,275,708
Seq change	15,902,473	5,869,481	8,230,225	-	(3,986,838)	196,118	8,627,411	100,000	100,000	-	100,000	100,000	100,000	100,000	-
EPS diluted - continuing	(\$0.21)	(\$0.32)	\$0.05	(\$0.35)	(\$0.74)	\$0.36	\$0.10	(\$0.02)	\$0.01	\$0.40	\$0.05	\$0.05	\$0.06	\$0.07	\$0.24
EBITDA															
Operating income	(3,267,811)	(7,190,473)	(4,961,737)	(9,732,039)	(25,152,060)	(3,201,503)	(1,832,763)	(1,533,358)	(358,586)	(6,926,210)	1,002,433	1,302,557	1,658,188	2,104,101	6,067,278
Addback:															
Depreciation and amortization	20,593	20,593	22,449	77,632	141,267	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	6,097,668	15,619,929	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	-	-	-	-	-	-	-	-	-	-	-	-
EBITDA	(1,040,845)	(1,356,552)	(1,636,728)	(3,556,739)	(9,390,864)	(1,236,121)	(767,763)	(468,358)	706,414	(2,666,210)	5,110,744	2,377,557	2,733,188	3,179,101	10,367,278

Source: Company reports and Litchfield Hills Research



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