

Unusual Machines Inc.

NYSE American - UMAC

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Wall Street Journal Article on U.S. Dependency on Chinese Drone Parts is Overstated: UMAC Already Scaling a Domestic Drone Stack

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- WSJ May 2 article outlines challenges in replacing Chinese drone components: Unusual Machines is already scaling domestic motor production, modeled to grow from 20,000 to 120,000 units per month with demand pulling capacity
- Integrated subsystem strategy reduces China dependence: NDAA-compliant motors, flight controllers, ESCs, and video systems are already being sold into enterprise and government channels
- Enterprise demand drives scaling and adoption: We estimate enterprise revenue ramps from \$27M in 2026 to \$46M in 2027 as capacity and automation come online
- Margin expansion tied to automation, not inputs: We forecast gross margins expanding from 35% in 2025 to 48% in 2027 as motor production scales and efficiencies are realized
- WSJ highlights constraints, UMAC demonstrates execution: Supply chain challenges are real, but we believe they are not preventing Unusual Machines from scaling production

| | | | | | | |
|-------------------------|-----------|--|-----------------|-----------------|---------------|---------------|
| 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 | \$14.19 | 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 | 48.7X | 24.2X | 8.5X | 5.3X |
| Avg. Daily Volume | 4,154,635 | EBITDA (\$mm) | (4.5) | (9.4) | (2.7) | 10.4 |
| Market Capitalization: | \$552.9 M | | | | | |
| Institutional Holdings: | 28.3% | | | | | |
| 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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Wall Street Journal Article on U.S. Dependency on Chinese Drone Parts is Overstated: UMAC Already Scaling a Domestic Drone Stack

Over the weekend, *The Wall Street Journal* carried a story titled, “The U.S. Wants to Break China’s Drone Dominance. Here’s Where It Will Struggle.” The article presents a part-by-part breakdown of key drone components and argues that U.S. companies will face significant challenges replacing Chinese supply chains. In our view, the WSJ describes the problem, and Unusual Machines is demonstrating the solution.

The article highlights five critical drone components and offers the reporters’ view on why U.S. companies will struggle to manufacture them at scale. It does not mention Unusual Machines, which already sells batteries and NDAA-compliant versions of the other four components.

The Journal is correct that standing up a high-volume U.S. drone component manufacturing business is difficult, but Unusual Machines is doing exactly that. The company has acquired an Australian motor manufacturer, hired key senior manufacturing executives, opened a production facility, and staffed it with dozens of workers. Today, it is producing headsets and motors at scale, with the motor factory running three shifts, including weekends, to produce approximately 20,000 motors per month. Production is expected to increase approximately sixfold by year-end as automated equipment is installed and brought online.

From a capital markets standpoint, the company has raised approximately \$310 million across several offerings in 2025 and 2026, providing the resources to build out production capacity, hire personnel, and establish a meaningful inventory base. As a result, the supply constraints highlighted in the Journal article are not preventing Unusual Machines from executing its production ramp.

Brushless motors

Role

Generate lift, speed and change of direction

Replacing China: Extremely difficult

High-performance motors rely on rare-earth magnets. China controls at least 90% of global production, while current U.S. production is negligible.

Source: *Wall Street Journal*

The “extremely difficult” characterization overstates the barrier and is directly contradicted by what is already occurring at Unusual Machines. The company’s core strategy is to onshore motor production at scale, not avoid it. Through acquisition, facility buildout in Orlando, and the hiring of experienced manufacturing leadership, Unusual Machines has established a domestic production platform that is already operating at meaningful volume.

Current production is approximately 20,000 motors per month, with capacity expected to increase to 120,000 units per month by year-end following automation installation. This represents a sixfold increase and positions the company to meet accelerating demand tied to Pentagon procurement and broader drone adoption.

Demand is already validating this ramp. A recently announced \$5 million-plus enterprise order for drone motors required the company to expand operations to include weekend shifts in addition to three daily shifts, indicating that capacity is being pulled by real orders rather than built speculatively.



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While rare-earth magnet supply remains a legitimate upstream constraint, it does not prevent domestic motor manufacturing. It impacts sourcing and cost, not feasibility. Unusual Machines is demonstrating that U.S.-based production is viable today and can scale rapidly when supported by demand.

For investors, the key distinction is that this is not a technology gap but an economic transition already underway. Motors are not a future opportunity for Unusual Machines—they are the primary revenue driver and the foundation of the company's near-term growth and margin expansion, with automation expected to drive gross margins from 35% in 2025 to 48% by 2027.

Antenna

Role

Sends and receives wireless signals

Replacing China: Moderately difficult

Non-Chinese alternatives are available but at a premium. Communication protocols for sending data to drones are typically designed to work with cheaper Chinese electronics.

Source: Wall Street Journal

The “moderately difficult” characterization again confuses cost with capability and ignores how Unusual Machines is actually monetizing this segment. Through Rotor Riot, the company is already distributing NDAA-compliant communication components, including video transmitters and RF systems, into both enthusiast and enterprise channels.

More importantly, antennas and communication modules are not a standalone bottleneck in the value chain. They are part of an integrated subsystem where compatibility is defined by the flight controller, ESC, and video stack. As Unusual Machines expands its NDAA-compliant ecosystem, it effectively pulls the communication layer along with it, reducing dependence on Chinese-origin protocols.

For investors, the relevant point is that this category does not require a technological breakthrough—only scale. As enterprise revenue ramps from \$27 million in 2026 to \$46 million in 2027, purchasing leverage and product standardization should compress the current cost premium.

The constraint is therefore temporary and economic, not structural, and Unusual Machines is already positioned on the right side of that transition as a distributor and integrator of compliant systems.

Camera

Role

Provides live video feed to pilot

Replacing China: Difficult

Japan and the U.S. are strong manufacturers of image sensors, but assembly happens almost entirely in China. Making precision lenses in large numbers is challenging.

Source: Wall Street Journal

This analysis misframes the problem by focusing on assembly rather than value capture. Unusual Machines participates in the higher-value portions of the video stack through its Fat Shark product line and integrated FPV ecosystem, where

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performance is defined by latency, transmission reliability, and system compatibility—not simply camera module assembly. In practical terms, the company is already selling complete video solutions, including cameras, transmitters, and goggles, into both retail and enterprise channels. These products are embedded in the same enterprise ramp driving motor demand, meaning the video stack scales alongside the broader subsystem offering.

The key investor takeaway is that Unusual Machines is not competing in commoditized camera assembly. It is monetizing integrated video systems, where differentiation and margin reside. As with other components, assembly location is a cost issue that can be diversified over time, but it does not represent a barrier to commercialization or growth.

Battery

Role

Provides power to motors and onboard electronics

Replacing China: Extremely difficult

Drone batteries rely on lithium polymers that can provide energy quickly. China dominates the entire supply chain.

Source: Wall Street Journal

This is the most credible constraint, but even here the conclusion is overly static. Rotor Riot's battery catalog demonstrates that Unusual Machines is already sourcing and selling standardized lithium polymer (LiPo) batteries across multiple specifications, indicating access to a diversified supplier base at the commercial level.

Batteries are fundamentally a commoditized input. While China currently dominates upstream processing, the relevant question for Unusual Machines is not where cells are produced, but whether it can reliably source and integrate them into its systems. The answer today is yes.

Importantly, battery content is not the primary driver of the company's margin expansion. That expansion is tied to motor automation and scale, which are expected to lift gross margins from 35% in 2025 to 48% in 2027 . Batteries therefore represent a pass-through cost rather than a core value driver.

For investors, this means that while supply chain diversification will take time at the industry level, it does not impair Unusual Machines' ability to execute its growth strategy or achieve its earnings inflection.

Flight stack (controllers, ESCs, software)

Role

The "brain" of the drone. Manages stability, navigation and motor output based on data from sensors and user instructions.

Replacing China: Moderately difficult

Similar to antennas, the technical barriers are low, but U.S. suppliers don't have the demand to compete on price.

Source: Wall Street Journal

This is the weakest claim in the framework and is directly contradicted by Unusual Machines' product strategy. The company already offers NDAA-compliant flight controllers and ESC systems through Rotor Riot, forming the core of its integrated subsystem approach. Since there are ample third-party circuit board manufacturers in the U.S., UMAC outsources production giving it near limitless ability to scale.



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The flight stack is not constrained by manufacturing complexity but by ecosystem adoption. As Unusual Machines scales its enterprise business—from \$27 million in 2026 to \$46 million in 2027—it effectively creates its own demand base for compliant flight systems. This eliminates the “lack of demand” argument and replaces it with a vertically integrated growth loop.

From an investment perspective, the flight stack is a strategic control point. It dictates compatibility across motors, communication systems, and video components, allowing Unusual Machines to capture value across the entire subsystem.

Rather than a constraint, the flight stack is a force multiplier for the company’s growth strategy and a key enabler of its transition from retail distribution to enterprise component supplier.



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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 | 15,619,829 | 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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