

Unusual Machines Inc.

NYSE American - UMAC

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Building America's Drone Arsenal One Component at a Time

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- First quarter revenue exploded 296% year over year as UMAC struggles to keep up with demand for domestically produced drone components, now operating three shifts and weekends to expand production capacity.
- **War Chest Is Fueling The Scale Up:** The company raised \$150 million, ended the quarter with \$223 million in cash, and immediately deployed roughly \$75 million into raw materials inventory to lock up future supply and accelerate growth.
- **From Hobbyist Accessories To Strategic Supply Chain:** UMAC has evolved from a hobbyist drone accessories company into a strategic domestic drone supply chain platform spanning motors, batteries, flight controllers, and related powertrain components.
- **Battery Acquisition Could Become A Recurring Revenue Engine:** The pending Upgrade Energy acquisition positions the company for what could become a major recurring battery replacement business as commercial drone delivery and autonomous flight markets emerge over the next several years.
- **Automation Should Unlock The Next Leg Of Growth:** Automated manufacturing equipment arriving later this year should dramatically expand production output and support margin expansion as Unusual Machines scales toward what we believe should become a category leader valuation.

| | | | | | | |
|-------------------------|-----------|--|-----------------|-----------------|---------------|---------------|
| 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) | \$0.21 A | \$0.17 |
| Stock Price | \$16.20 | 2Q - June | (\$0.15) | (\$0.32) | \$0.32 | \$0.22 |
| 52 wk High | \$23.38 | 3Q - September | (\$0.10) | \$0.05 | (\$0.08) | \$0.26 |
| 52 wk Low | \$4.67 | 4Q - December | (\$2.27) | (\$0.35) | \$0.05 | \$0.30 |
| | | Year | (\$3.84) | (\$0.74) | \$0.68 | \$0.96 |
| Shares Outstanding: | 47.7 M | Revenue (\$mm) | 5.6 | 11.2 | 35.5 | 50.1 |
| Public Market Float: | 34.2 M | EV/Rev | 99.1X | 49.2X | 15.5X | 11.0X |
| Avg. Daily Volume | 4,405,651 | EBITDA (\$mm) | (4.5) | (9.4) | (3.8) | 10.0 |
| Market Capitalization: | \$774.3 M | | | | | |
| Institutional Holdings: | 52.0% | | | | | |
| 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 update our forecast and raise our estimates for Unusual Machines following significantly better-than-expected first-quarter 2026 results. The company reported \$8.1 million in revenue (+296% YoY, +65% QoQ) and \$10.3 million in net income — profitable even after backing out unrealized investment gains. We now expect \$35.6 million in revenue this year and \$50.1 million next year. We reiterate our Buy rating and \$25 price target.

Production is scaling faster than almost anyone expected. The company's plan to build a massive domestic drone components supplier is working so consistently that quarterly execution is beginning to look routine.

Q1 Operational Highlights:

- Revenue mix: ~90% enterprise, 10% retail.
- Gross margin: 32.8% — slightly below prior quarters but above internal expectations despite massive scaling.
- Headcount: Grew from 81 at year-end 2025 to 141 by end of Q1 and now ~200 employees.
- Production ramps: Motors approaching 30,000 units per month (three shifts + weekends, yields improving); FPV goggles ~2,000 units per month. RotorRiot.com retail site remains largely out of stock as supply is prioritized for enterprise and military customers.
- Shipped to ~30 customers; largest customer = 19% of revenue. Top product (camera system) = 12.7% of Q1 revenue.

The company raised \$150 million at \$17/share in March (net \$139 million), ending the quarter with \$223 million in cash, \$60 million in short-term investments, and total working capital of \$320 million. In April, it placed \$75 million in raw material orders to stay ahead of demand.

The Emerging Drone Supply Chain Leader

Unusual Machines is operating more like an industrial wartime supply chain integrator than a consumer accessories vendor. It is locking up raw materials, scaling labor, adding facilities, and positioning itself as a strategic domestic source of motors, batteries, and related systems.

Management is building what it calls a virtuous flywheel — and is emerging as the clear scale leader among U.S. drone component suppliers. As it builds larger scale than competitors, it can lower costs while maintaining attractive margins, making it increasingly difficult for others to match on price, delivery, or availability.

Valuation: The stock trades at ~15.5x our 2026 revenue estimate and 11.0x our 2027 estimate. These are premium multiples, but appropriate for a category leader in what is becoming a major long-term industrial and defense market. We continue to see upside to our forecasts, particularly with the pending Upgrade Energy acquisition and automated production equipment arrival.

The Battery Strategy Could Be Bigger Than Investors Realize

In a transformative move, UMAC signed a definitive agreement to acquire Upgrade Energy for \$52 million (roughly 50/50 cash/stock + earnout, closing expected Q3). Upgrade generated ~\$6 million in revenue in 2025 (unaudited) and recently moved into a new 18,000 sq ft facility in Torrance, CA. UMAC also plans battery production in Orlando.

This gives Unusual Machines the full drone powertrain (batteries, motors, ESCs, flight controllers). Batteries are expected to become a recurring revenue business: defense drones use 1–2 batteries each, while future commercial delivery drones (food delivery first) could require 10 batteries per drone due to high utilization with 500-cycle lifespans.



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Automation & Margin Expansion Ahead

Automated motor production equipment is on order and expected in Q4. Combined with the \$75 million inventory build, component availability should not be a gating factor. Management expects gross margins to stabilize in the low-30% range near-term and expand toward 40%+ in 2027 as new hires gain experience, yields improve, and automation ramps.

Addressing the Wall Street Journal Article

Despite recent negative coverage on the challenges of onshoring drone manufacturing, UMAC is scaling effectively. On rare earths: magnets are sourced from Japan, and UMAC's needs are far smaller than EV makers. On batteries: management sees no major constraints, citing suppliers such as Amprius, Molicel, and Panasonic. The Upgrade Energy deal further de-risks the battery supply chain.

First Quarter Results – Strong Beat

Revenue of \$8.1 million was up nearly 300% YoY and marked the eighth consecutive record quarter. Retail revenue declined 42.5% as the company prioritized higher-value enterprise/defense demand. Operating loss was modest (\$1.5–1.6 million ex-equity comp). Investment portfolio activity contributed \$7.3 million realized gains and \$9.5 million unrealized gains.

We expect another profitable quarter in Q2 and for the company to become solidly profitable on a recurring basis in 2027, with our model calling for \$0.96 EPS and ~\$10 million EBITDA.

Outlook & Risks

Management expects sequential quarterly revenue growth to continue through 2026 and into 2027. Demand significantly outstrips supply, driven primarily by DoD programs (Drone Dominance Gauntlet and others), with counter-drone and commercial markets as major incremental opportunities.

Key Risks: Rapid scaling execution, near-term gross margin pressure, DoD program timing, investment portfolio volatility, and FAA Part 108 regulatory timing.

Bottom line: Unusual Machines is executing at a high level, building durable competitive advantages, and is strongly capitalized to capture a generational opportunity in domestic drone components. Reiterate Buy and \$25 price target.



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Unusual Machines Income Forecast

| Fiscal years ended December 31 | 2025 | | | | | 2026E | | | | | 2027E | | | | |
|---------------------------------|--------------------|--------------------|--------------------|---------------------|---------------------|--------------------|--------------------|--------------------|------------------|---------------------|-------------------|-------------------|-------------------|-------------------|-------------------|
| | 1Q | 2Q | 3Q | 4Q | YEAR | 1QA | 2Q | 3Q | 4Q | YEAR | 1Q | 2Q | 3Q | 4Q | YEAR |
| Revenue | | | | | | | | | | | | | | | |
| Retail | 1,409,187 | 1,104,464 | 917,873 | 930,688 | 4,362,212 | 809,584 | 1,104,464 | 917,873 | 930,688 | 3,762,609 | 890,542 | 1,214,911 | 1,009,660 | 1,023,757 | 4,138,870 |
| percent of total | 69.0% | 52.0% | 43.0% | 19.0% | 39.0% | 10.0% | 12.8% | 10.3% | 9.4% | 10.6% | 8.2% | 9.9% | 7.8% | 7.3% | 8.3% |
| YoY growth | 127.7% | -21.7% | -40.1% | -45.4% | -17.1% | -42.5% | 0.0% | 0.0% | 0.0% | -13.7% | 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 | 7,286,252 | 7,500,000 | 8,000,000 | 9,000,000 | 31,786,252 | 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% | 90.0% | 87.2% | 89.7% | 90.6% | 89.4% | 91.8% | 90.1% | 92.2% | 92.7% | 91.7% |
| YoY growth | | | | 1219.9% | 2174.4% | | 635.7% | 557.5% | 126.8% | 364.9% | 37.2% | 46.7% | 50.0% | 44.4% | 44.7% |
| | 2,042,300 | 2,123,970 | 2,134,588 | 4,898,359 | 11,199,217 | 8,095,836 | 8,604,464 | 8,917,873 | 9,930,688 | 35,548,861 | 10,890,542 | 12,214,911 | 13,009,660 | 14,023,757 | 50,138,870 |
| Year-over-year growth | 230.0% | 50.5% | 39.4% | 144.4% | 101.2% | 296.4% | 305.1% | 317.8% | 102.7% | 217.4% | 34.5% | 42.0% | 45.9% | 41.2% | 41.0% |
| Sequential growth | 1.9% | -61.8% | 0.5% | 129.5% | | 65.3% | 6.3% | 3.6% | 11.4% | | 9.7% | 12.2% | 6.5% | 7.8% | |
| Total cost of revenue | 1,545,493 | 1,329,291 | 1,294,200 | 3,123,386 | 7,292,370 | 5,441,729 | 5,334,768 | 5,350,724 | 5,461,879 | 21,589,099 | 5,880,893 | 6,473,903 | 6,765,023 | 7,152,116 | 26,271,935 |
| As a percent of revenue | 75.7% | 62.6% | 60.6% | 63.8% | 65.1% | 67.2% | 62.0% | 60.0% | 55.0% | 60.7% | 54.0% | 53.0% | 52.0% | 51.0% | 52.4% |
| Gross margin | 496,807 | 794,679 | 840,388 | 1,774,973 | 3,906,847 | 2,654,107 | 3,269,696 | 3,567,149 | 4,468,810 | 13,959,762 | 5,009,649 | 5,741,008 | 6,244,637 | 6,871,641 | 23,866,935 |
| As a percent of revenue | 24.3% | 37.4% | 39.4% | 36.2% | 34.9% | 32.8% | 38.0% | 40.0% | 45.0% | 39.3% | 46.0% | 47.0% | 48.0% | 49.0% | 47.6% |
| Operations | 302,602 | 404,277 | 636,705 | 1,891,122 | 3,234,706 | 1,948,899 | 860,446 | 891,787 | 496,534 | 4,197,667 | 544,527 | 610,746 | 650,483 | 701,188 | 2,506,943 |
| As a percent of revenue | 14.8% | 19.0% | 29.8% | 38.6% | 28.9% | 24.1% | 10.0% | 10.0% | 5.0% | 11.8% | 5.0% | 5.0% | 5.0% | 5.0% | 5.0% |
| Research and development | 7,903 | 62,731 | 39,369 | 92,582 | 202,585 | 91,143 | 86,045 | 89,179 | 99,307 | 365,673 | 108,905 | 122,149 | 130,097 | 140,238 | 501,389 |
| As a percent of revenue | 0.4% | 3.0% | 1.8% | 1.9% | 1.8% | 1.1% | 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 | 580,039 | 1,032,536 | 1,070,145 | 1,191,683 | 3,874,402 | 1,306,865 | 1,465,789 | 1,561,159 | 1,682,851 | 6,016,664 |
| As a percent of revenue | 10.2% | 14.2% | 17.5% | 14.3% | 14.1% | 7.2% | 12.0% | 12.0% | 12.0% | 10.9% | 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 | 7,228,200 | 3,000,000 | 3,000,000 | 3,000,000 | 16,228,200 | 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% | 89.3% | 34.9% | 33.6% | 30.2% | 45.7% | 20.2% | 18.0% | 16.9% | 15.7% | 17.6% |
| Depreciation and amortization | 20,593 | 20,593 | 22,449 | 77,632 | 141,267 | 64,813 | 64,813 | 64,813 | 64,813 | 259,252 | 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) | (7,258,987) | (1,774,143) | (1,548,775) | (383,527) | (10,965,432) | 774,352 | 1,267,324 | 1,627,898 | 2,072,365 | 5,741,939 |
| Operating margin | -160.0% | -338.5% | -232.4% | -198.7% | -224.6% | -89.7% | -20.6% | -17.4% | -3.9% | -30.8% | 7.1% | 10.4% | 12.5% | 14.8% | 11.5% |
| Interest income | 1,532 | 225,734 | 715,489 | 888,189 | 1,830,944 | 792,078 | 800,000 | 800,000 | 800,000 | 3,192,078 | 800,000 | 800,000 | 800,000 | 800,000 | 3,200,000 |
| Interest expense | - | - | - | (519) | (519) | (368) | - | - | - | (368) | - | - | - | - | - |
| Loss on extinguishment of debt | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Gains / (losses) | - | - | 5,849,713 | (1,757,947) | 4,091,766 | 16,756,819 | 3,773,513 | - | - | 20,530,332 | - | - | - | - | - |
| FX gain loss | - | - | - | - | - | (6,548) | - | - | - | (6,548) | - | - | - | - | - |
| Pretax Income | (3,266,279) | (6,964,739) | 1,603,465 | (10,602,316) | (19,229,869) | 10,282,994 | 2,799,370 | (748,775) | 416,473 | 12,750,062 | 1,574,352 | 2,067,324 | 2,427,898 | 2,872,365 | 8,941,939 |
| 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) | 10,282,994 | 2,799,370 | (748,775) | 416,473 | 12,750,062 | 1,574,352 | 2,067,324 | 2,427,898 | 2,872,365 | 8,941,939 |
| Net income margin | -159.9% | -327.9% | 75.1% | -215.7% | -171.4% | 127.0% | 32.5% | -8.4% | 4.2% | 35.9% | 14.5% | 16.9% | 18.7% | 20.5% | 17.8% |
| Diluted shares outstanding | 15,902,473 | 21,771,954 | 30,002,179 | 30,002,179 | 26,015,541 | 48,134,348 | 8,823,529 | 8,923,529 | 9,023,529 | 18,726,234 | 9,123,529 | 9,223,529 | 9,323,529 | 9,423,529 | 9,273,529 |
| Seq change | 15,902,473 | 5,869,481 | 8,230,225 | - | (3,986,638) | 48,134,348 | (39,310,819) | 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 | (\$0.35) | (\$0.74) | \$0.21 | \$0.32 | (\$0.08) | \$0.05 | \$0.68 | \$0.17 | \$0.22 | \$0.26 | \$0.30 | \$0.96 |
| EBITDA | | | | | | | | | | | | | | | |
| Operating income | (3,267,811) | (7,190,473) | (4,961,737) | (9,732,039) | (25,152,060) | (7,258,987) | (1,774,143) | (1,548,775) | (383,527) | (10,965,432) | 774,352 | 1,267,324 | 1,627,898 | 2,072,365 | 5,741,939 |
| Addback: | | | | | | | | | | | | | | | |
| Depreciation and amortization | 20,593 | 20,593 | 22,449 | 77,632 | 141,267 | 64,813 | 64,813 | 64,813 | 64,813 | 259,252 | 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 | 3,939,979 | 1,000,000 | 1,000,000 | 1,000,000 | 6,939,979 | 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) | (3,254,195) | (709,330) | (483,962) | 681,286 | (3,766,201) | 5,045,222 | 2,342,324 | 2,702,898 | 3,147,365 | 10,041,939 |
| Capital expenditures | - | 262,751 | 1,287,936 | 511,494 | 2,062,181 | 698,237 | 500,000 | 500,000 | 500,000 | 2,198,237 | 500,000 | 500,000 | 500,000 | 500,000 | 2,000,000 |
| Free cash flow | (1,040,845) | (1,619,303) | (2,924,664) | (4,068,233) | (11,453,045) | (3,952,432) | (1,209,330) | (983,962) | 181,286 | (5,964,438) | 4,545,222 | 1,842,324 | 2,202,898 | 2,647,365 | 8,041,939 |

Source: Company reports and Litchfield Hills Research



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Disclosures:

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