

UMAC Earnings Call Transcript

Date: 2025-08-14

Quarter: 2

Operator: Hello, everyone. Good afternoon, and welcome to Unusual Machines Second Quarter 2025 Earnings Conference Call and Webcast. With us today are Unusual Machines CEO, Allan Evans; and CFO, Brian Hoff. Following today's remarks, we will have a Q&A session. During this call, management will make forward-looking statements, including statements that address Unusual Machines expectations regarding the impact from tariffs, our ability to add more employees to our ranks, our factory expansions, our ability to increase our margins and revenues, our ability to achieve aggressive growth, our expectation that the marketplace will change in quarter 3 and quarter 4 of 2025, our plan of keeping our cash burn low, our ability to scale our motor and headset manufacturing capabilities, our ability to scale supply chains to meet our customer needs, our expectation that the first motors will be delivered in September of 2025, our expectation that we will close the Rotor Lab acquisition in quarter 3, our increase of our workforce to 50 employees by the end of 2025, receipt of orders from the U.S. Department of Defense, our ability to continue growing revenue and improving margins, our ability to become cash flow positive in 2026 and our expectation that the U.S. drone market will continue to explode. Forward-looking statements involve risks and other factors that may cause actual results to differ materially from those statements. For more information about these risks, please refer to the risk factors described in Unusual Machines most recently filed Form 10-Q, Form 10-K and prospectus supplement. Except as required by law, Unusual Machines disclaims any obligation to publicly update or revise any information to reflect events or circumstances that occur after this call. As a reminder, this call is being recorded, and a replay will be available on Unusual Machines website at www.unusualmachines.com. Now let me hand the call over to CEO, Allan Evans. Please go ahead, Allan.

Allan Thomas Evans: Goodness. It seems like that statement pretty much covered everything. Anyway, I am really excited about today's call. I'm going to be reading, so forgive me a little bit for that. We have some prepared remarks that we're covering our second quarter results, some of the subsequent events. And then after Brian and I finish, we're going to be really happy to take your questions in an open Q&A session. I really want to start by acknowledging how much work our small team puts in. This quarter was a lot of extra work because of the day-to-day changes in the tariff situation and the rates and the policies on what we could bring in. So everyone just keeps putting the work, and it's really awesome, and they're bringing energy and enthusiasm to these different challenges we face in a weird environment. And I just -- I'm still so excited because the culture and the quality of our workforce just have me really believing in what we can collectively achieve as we go forward and as we add people to what we're doing. So thank you, everyone. Speaking of being busy. So even with what I think I personally expected to be a second quarter to wall because of tariffs and consumer demand, it just doesn't seem to slow down for us. And this second quarter was yet again our highest revenue quarter of all time. This is the fifth consecutive quarter that's true. It's 51% growth over quarter 2 last year, which we're excited about. For the quarter, we generated \$2.12 million in sales. And really what's neat is we did that at a 37% gross margin. So this growth really coupled with the increase in enterprise sales, which climbed above 30% of our total sales, they overcame this quarter of weak consumer demand that was really caused by tariffs. And then on top of that, again, pushing margins to 37% without doing anything damaging on the pricing side is really us starting to move in the direction we

want to move in. So from my perspective, given that backdrop, I view this quarter as a really great quarter. It was a challenging market environment, and we still hit record revenues. We increased our B2B sales. We improved our margins, and we are now really accelerating our progress. So with all this going on, we'll talk about cash flow, operations and growth. So we started this quarter with \$5 million, and that may seem like a long time ago. As we finished the quarter with \$38.9 million, we raised another \$44.9 million after fees in quarter 3. So we have a cash position of more than \$80 million. We're very comfortable with it. And aside from some CapEx expenses for factory expansion, we plan on still keeping our cash burn low going forward. So now we're actively getting ready to aggressively grow, and we expect the marketplace and are actually starting to see indicators of it changing in quarter 3 and quarter 4. I'm sure most of you are on this call to actually hear about that. So I'll hand it off to Brian, while you're still a captive audience to cover our financial results in more detail. And I'll leave you waiting just a little bit longer for those forward-looking statements. With that, I'm going to hand it off to Brian.

Brian Hoff: Thank you, Allan, and I appreciate everyone joining the call today. As Allan mentioned, we continue to have growth in top line revenue and overall gross margin. We hit \$2.1 million in revenue for the quarter with \$4.2 million year-to-date, which is a 65% increase as compared to the prior year pro forma revenue. This is also done with increasing our margins from 25% last year year-to-date to 31% year-to-date. And as Allan said, we kind of expected to have a drop in our total revenue and margins between Q1 and Q2 of this year from the tariffs and some of the uncertainties, but we didn't see that as we continue to grow our enterprise orders that also have higher margins. We did see an increase in our tariff costs during Q2. However, we were able to pass these costs on to both retail and enterprise deals. We're going to continue to closely monitor and adjust related to tariff changes moving forward. Our operating expenses increased this quarter as we incurred additional costs as we started setting up our motor factory. We're going to continue to see some operating expenses increase during Q3 and Q4 as we're hiring and have additional costs for both our motor facility and headset operations. However, we are going to continue to be cost conscious, as Allan mentioned. We also saw an increase in our G&A; costs. A lot of that was related to some non-recurring professional fees from some of the acquisition-related activities that we've been through and some of the transactional expenses, non-recurring investor relations and some non-cash and the large non-cash increase in our stock-based compensation, which was \$5.5 million during the quarter. As we noted in our shareholder letter that we just published about 30 minutes ago, our net loss was approximately \$6.9 million, which -- and including the \$6.1 million of non-recurring and non-cash costs. I did reference Table 2 in that shareholder letter to see kind of our normal operations and the breakdown there. It's very interesting to reflect on our balance sheet position over the past year. Last year, we had about \$2.2 million in cash and \$4 million in debt as of this time last year. This year, we're at -- we've reported about \$39 million in cash and no debt. And as Allan mentioned again, we just raised \$48.5 million in addition to put our cash balance over \$81 million, transformational for sure. We also with that large cash balance, we saw about \$200,000 of interest income during the second quarter and expect that to continue to increase during Q3 with the larger cash balance. We will -- we started purchasing our motor inventory and equipment, and we're going to continue additional purchase into Q3 and Q4. Our strong balance sheet is going to position us to take advantage of these growth opportunities quickly, which Allan will go into very shortly. Finally, I'd also like to welcome all our new hires to the team as we continue our growth and say a big thank you to the team for all their hard work and execution over the past quarter and look forward to closing out 2025 strong. I'll send it back over to you, Allan. Thanks.

Allan Thomas Evans: Thanks, Brian. And Brian, I'm sure, is particularly appreciative of the team as we added a controller. So thank you again for all the hard work, Brian, and now to your -- a couple of the members that help you out after a year of slogging through it yourself. So it should be obvious to everyone at this point that we're extremely excited about what's next for unusual Machines. We're really well positioned in the domestic and global political landscape. We generally have really favorable market conditions for the American drone subsegment. We also have the capital to execute. So I'm about to go into a lot more detail, but absolutely want everyone to take note that the rest of my comments from this point forward are forward-looking, and they're in no way guaranteed. So let's start with the \$80-plus million in cash we have. We have enough money to build out the motor and headset

production as well as scale supply chains to meet our customers' needs. We're keeping it in cash equivalents right now that are generating interest, and we plan on doing that for most of it through the end of October when we have a very clear understanding of what 2026 operating needs will be. And we're also starting to explore what a treasury strategy will be, and we'll have more news on that in the coming weeks. But the real key takeaway is that our growth is not resource constrained. We'll be able to rightsize our company and our speed of growth no matter how fast or how big the marketplace requires us to become. And I spoke at length about other ways we plan on leveraging our cash position last quarter. I won't go into too much more detail now, except to say that we don't plan on sitting on our hands. So update on motor production. We have received delivery of our low-volume production machinery. When we say low volume, it's not prototyping, it's tens of thousands a month rather than more. And we are installing and testing it even right now in our 17,000 square foot motor facility. We still expect the first motors to come out of that factory in September. So in some miracle of execution, we're still on time. That's a testament to the team. And I think Andrew and Brad and everybody doing the work to get that done. We also expect to close the purchase of Rotor Lab in Australia in quarter 3, maybe even as soon as by the end of this month as we met the final major closing condition, which was approval from the Australian government. So in regards to motors, everything remains on track, which is exciting and almost unusual in this world. So then many of you may know with [Avagon]and Fat Shark, I have a personal long history of developing and producing headsets and headsets for drones. So the opportunity has really come up for us to onshore this now. So we're going to start doing final assembly and production of Fat Shark headsets in a new Orlando facility. So we're just starting to look at the leasing and everything else, but I am super excited that we recently hired Tom Mercier to be our Vice President of headsets. And he's going to really oversee the initiative. And I just -- there aren't a whole lot of people that are as excellent as he is for this position. He comes from Google, and he was a key person in building out magically production lines also in Florida. So I'm excited to say as one of our new initiatives that we don't think it will be very long until they're made in USA Fat Shark headsets, and we're really excited that our customers have supported and encouraged us to do that. Speaking of hiring. So we ended the second quarter with 19 employees, which is why the work that they've done has been so impressive, and we started scaling. So we're already at 29 employees. We are going through this growth phase, and we expect to be at about 50 employees by the end of 2025. And that's just to continue in our scrappy way to meet the demand increase we expect to go through the second half of this quarter and quarter 4. So to everyone who's joined the team, I want to say welcome aboard. We're glad you're here with us. And I think for investors, while the addition of new employees like Tom or our new Controller, Tim, it can be really exciting. I can tell you that I am personally even more excited about the growth of some of our team members that we already have. For example, Stacy Wright, who is the President of Roto Riot, was promoted to the Executive Vice President of Revenue. She is just crushing it. She's a big part of why we have quarter-over-quarter-over-quarter revenue growth. And to see her and a whole bunch of other team members really bring the energy, the enthusiasm and the excellence to these positions just is really exciting. One thing that I very strongly believe is a company is only as good as the people that actually do the work. And I think if you look at us, that just makes us one heck of a company. So it gives me a chance to really think we've got something special. So I'm sure some of you at this point are thinking, well, that's a lot of growth all at once. And are we sure that now is the right time to turn on? I'd say those concerns are legitimate because scaling early is absolutely a real risk factor, and it's caused a lot of companies to get themselves into dangerous positions. We are very confident that the time is now. At a macro level, the catalysts are in place. The government finally passed a budget. They added more money for drones in the reconciliation phase. Secretary Hegseth issued a memo making drones easier to purchase by different groups of the DoD. Secretary Duffy recently opened up the BD loss rulemaking with a drone dominance inside the U.S., and it really enables more use cases for domestic drones. I strongly expect government orders to start any day now and then start to come quickly and in significant volumes. At the same time, at a micro level, our team has been working with a lot of different customers to understand their specific component needs and volume expectations. We're already seeing the B2B volume increase. We saw that in quarter 2 as it moved to over 600,000. And we're really getting guidance and initial orders and feedback that we're about to see much larger volumes, much larger orders being placed with us over

the next 3 to 6 months. So given all of this, we absolutely believe the time is now. And we believe that it's going to be driven by U.S. government orders, which are just starting to happen. So we're just at the front end of this, and it's going. So really, when we look at Q2, I want to go back to say that our team's ability to continue to grow revenue and improve margins in what was a really macro challenging quarter with no government orders or anything else. For me, that makes the second quarter really stand out. And it's really exciting because now that we're well capitalized, we're growing the team and the facilities. These government orders are just starting to materialize for our customers, and we're starting to get guidance there. It's all coming together, and we haven't left pieces of it undone or behind as we scale. So we stated that our goal is cash flow positive, and we expect to need to be at \$20 million to \$30 million in revenue annually to get there. I firmly believe that's going to happen in 2026. And we're going to cross that \$5 million to \$8 million quarter. And that doesn't mean that I think we're going to stop there. But once we get there, we're going to be cash flow positive. And I think the major catalysts for that revenue in 2026 are starting right now. Unusual Machines is at the corner where the market is about to mature. Our business is capitalized, extremely healthy. We've demonstrated consistent execution, and now we are aggressively pursuing growth. The U.S. drone market is about to just explode, no pun intended. And we absolutely expect to fearlessly seize this opportunity that we have right now. I want to say thank you again to our staff, everybody new. I also want to say thank you to our shareholders. We're in this together, your owners in the company, and so we're all doing this collectively. So thank you. And then with that, I want to open up the call to questions.

Allan Thomas Evans: [Operator Instructions] So let me see what we got here. All right. Somebody is going to have to let me know if we have hands up. So I'll start with the first Q&A, and then I'll jump over to the hands that are in the air. Justin [indiscernible], can you expand upon the announcement new facility for headsets? And will you be working on a new headset that will be introduced to the market in the future? What does it mean new levels of interoperability across systems? Unusual Machine strategy to expand U.S.-based production of critical drone components will initially focus on assembling high-performance FPV goggles with new levels of operability across systems. Justin, thank you for the question. What we are going to start to do is final assembly of one of our Fat Shark product lines that we already have that is being ordered in large volumes by government users. So that way, we can get our whole team up to speed on how to manufacture. And then once we have that excellence in-house, we do expect to start to do more headset development and production in the U.S., sort of in the same slice stepwise function that we've always taken. So appreciate it. All right. We're going to go over to the call in, and we're going to say, John Roy, you got a question for us.

Unidentified Participant: So can you hear me now?

Allan Thomas Evans: I can hear you, John. What do you got?

Unidentified Participant: All right. So more legislation. Are you expecting to see anything new? I mean, obviously, we've had a lot. Do you, A, expect anything new? And B, do we need anything new?

Allan Thomas Evans: I don't have any real expectations of anything new except for the [BV loss] like the rules for domestic drones to go through the rule-making process. I think we're in a great spot of legislation-wise. I think it's really set to go forward. And now we just -- now it's that market full where the government will start to place orders, and we'll see where that lands.

Unidentified Participant: Yes. And as a quick follow-up on that, you gave us some color on the government drone demand. Can you give us some more color on -- are you guys selling a lot of parts into those? I mean, where is unusual play in that order?

Allan Thomas Evans: So a question that I have to answer a little bit delicately. All of our customers, like in a lot of cases, compete with each other. So we can't say anything until it's all the way done and all the way announced. So we are selling to a bunch of different folks. And I would say one big driver is a program called [PBAS] which is an FPV program by the government. There are 12 companies that are currently being looked at to be down selected, 4 of those will be down selected, and that's looking to be about a \$500 million total basket. And we have several companies that we are a supplier for that are competing in that as an example of a place where once that's finished, we'll get those revenue projections and really be able to understand what 2026 looks like. I think people are typing in the chat, but if you guys can type in the question space instead of the chat, it would be really appreciated. I'm going to go back to a Q&A; question. Rodrigo asked, good afternoon, as a young enthusiastic

shareholder, I'd love to go check out the factory in Orlando. Anyway, there can be tours or videos for all those looking to learn what happens behind the door. Rodrigo, I think it's a great suggestion. We do have a video team. Let me work with them and see what we can get out there because we want to share what's enthusiastic with everybody as it comes together. And appreciate you being a shareholder and wanting to be part of the journey. Thank you. All right. So now we're going to go back to somebody who wants to speak here. We're going to go to [Danny Ka]. All right, Danny, are you with us? I think you got on mute, sir. All right. What do you have?

Unidentified Participant: I'm just curious, what kind of collabor are you guys doing with Red Cat? I know that you and Jeff are pretty close. And what a coincidence that you're both doing a town hall the same day, time and hour. So I'm curious what you and Red Cat have going on together.

Allan Thomas Evans: Well, Jeff is a great guy. We obviously came out of Red Cat. They -- publicly, we're doing motors for them. So that's great. And I'd say the same time thing is just because there are rules on when earnings have to go out, and we're close to the deadline. So when you're busy, it's where you push it. But I can't go into more detail because, again, we don't talk about our customers. That's more for them to talk about, and we're happy to approve anything they want to share.

Unidentified Participant: Got it. Well done, and you're doing a great job. I'm a big shareholder of your company, and I'm super proud.

Allan Thomas Evans: Thanks. Really appreciate it, and thank you for joining us today. All right. We got a Q&A; in the type in. Jesse says, the goal of Unusual Machines is producing drones in the U.S. Can you please give us an update about that? What are the next steps toward this goal? Jesse, I'd say our goal right now is to produce parts, so other people can produce drones. There are a whole lot of great drone companies out there, and we don't want to directly compete with our customers. So the second we start doing that, I think we start to not service the entire industry. So now if in a few years, there's consolidation and things move around, that may change. But right now, we're just trying to get ahead of the component supply chain. All right. Let's see what we got next. By the way, I appreciate it, guys. Your questions, we're here to be as transparent as possible. So [Jason Yun] do you anticipate needing any additional equity raises this year? But considering the timing of expected orders and any supply chain prebuys, do you foresee a need to raise incremental capital? No, I don't think we'll need any more capital for operations. Now if there are strange circumstances or other things occur, there's the opportunity to make all our shareholders a bunch of money, we're going to explore it. We're not ever going to take anything all the way off the table. But our burn rate is really low. We're in a great position to execute on everything we need, and we don't have a requirement in any way around that. Compared to my interview in mid-July, are you seeing stronger demand from customers and a faster pace of orders today? Yes. It is turning on now. This is about to go. Among competitors, who else has comparable balance sheet strength? Do any peers have a cash position as strong as ours right now? I am unaware of any other parts vendor in our same situation. There are a couple of other parts vendors that don't sell into the value segment where we sell sort of competing with the Chinese. And I'd say like there are some great companies out there, examples are like ModalAI, a few others that sell sort of premium Aterian. Other companies that their parts may get mixed and matched with ours depending on our customers' objectives. But I don't think there's a parts company out there in our same position at this point. All right. We're going to go to [Joe Schicker]. Joe, are you with us? I think you're muted, Joe. All right, Joe. All right. We're going to have to get back to you, sir. All right. Dylan, huge fan of the company. Would love to know some insight into the new means of production, what scalability looks like in the current factory. Right now, we're producing tens of thousands of electronics components. We're producing tens of thousands of cameras. We're lining up to be able to produce tens of thousands of motors. We have enough motor material in to do tens of thousands already in the supply chain. It might be some teething efforts. There might be some supply chain hiccups that's a little early. So tens of thousands is what we're looking at with a supply chain that's ready to go pretty much across everything. If we have to scale to hundreds of thousands, you're really looking at a 6-month window with a ramp into it to build out the supply chain. And that varies depending on the component. But if you use it as a rule of thumb, you'd get a really good idea of where it's at. Larry Walsh, where do you see the company in 10 years? Honestly, Larry, we're either one of the 2 or 3 major drone companies left or we've lost. And I see us being 1 of the 2 or 3 major drone companies left. And I see us being a monster

in what is an emerging logistics category. That's what our entire objective is, and we won't quit until we get there. So the exact steps to get there, exactly what that looks like. I think we're going to have a drone future. And I think once we get and start to win with drones, then you're going to see our parts used with other robotics companies. And I see that as our long-term expansion. Now we got to win these first steps, and we got to focus on them or we'll never get there, but I think we're taking it one step at a time and not losing sight of the long-term goal. Austin. Congrats on the solid results in the tough environment. Thank you. It's all credit to the team. They crushed it. How should we think about gross margin in the second half? We're really constantly striving to always say minimum 30% gross margin with a long-term goal of 50% gross margin, 37% might be a little bit of an overshoot. It might ring back down, but I think you're going to see us keep staircasing this up. And I would expect 35% and if volumes are higher, us to keep figuring out ways to improve margins. Now we're going to see blended margins drop a little as we turn on a motor factory because when you do something knew your margins because you're doing returns and replacements for customers and stuff. But I still think as we do this, we're going to manage to start to take those margin gains that are going to be required for us to be a sustained business. Next question. Are we expecting to grow revenue sequentially in the second half 2025 in quarter 3 and quarter 4? Well, every quarter has been our highest revenue quarter to date, and we expect the market to turn on. So yes, I mean, I think if it would take a real anomaly for that not to be true. So yes, I expect revenues to continue to grow. And I expect to have to repeat that same opening line several more times in a row. I almost -- if you're going to sit at home and play Allen Bingo, you'd probably make it your bingo center square for a while here if you were listening to these. How big should enterprise sales account for total revenues in 2025? It's a little bit uncertain. It depends on the timing of the orders and what they order and delivery. I think we're seeing 30% of where we're at. I think we'll probably hold there. We might see an uptick depending on if they want delivery in 2025 or early 2026. But I think our move to 30%, our long-term goal is to have enterprise be more than 50%. But you got to remember, Christmas is our biggest consumer season, and we have a lot of stuff there. So the 2 parts are kind of racing each other to see how it goes. But I'd say the 30% to 40% that we were able to demonstrate in Q2 feels like where I would minimally expect it and it could be a lot bigger than that if some of our customers want earlier delivery. [Chris Pok] how much of the production is based on assembly of third-party components and how much is vertically integrated? Chris, truth is, it depends how far down you go down the chain, right? If you think about Apple phones, they don't do any manufacturing. I mean they still maintain the whole supply chain and do it all. And then if you look at like our motors, we make all the motor components, but we don't make the rare earth magnets. But then if you look at the people who assemble the rare earth magnets, they don't mine the magnetic material. So at some level, it's all us. At some level, it's none of us. It just depends on how many slices you want to go. Do we have stamping and powder coating lines for cores and housings going live or soon to be? We have some of that in Australia with our acquisition of Rotor Lab. We do some of the mechanical components over there. Otherwise, we haven't put that in place yet just because there's a lot more of those services domestically than there are some of the other things. And we're still just trying to prioritize the things that nobody else really has good alternatives for. I mean I wish we could do everything all at once, but we can't, and our COO, Andrew Camden, would probably fit out of being overwhelmed. So I really appreciate the questions. Kelly Roman, what's the possible best case revenue for 2026, i.e., if the customers you work would land the vast majority of expected drone-related contracts? Okay, wildly speculative. It depends on the government placing stuff, depends on everything else. Let's take [PBAS] which is a \$500 million contract. You expect the whole collection of customers probably to take 50% margins. So \$250 million in drone parts or in drones, let's call it half of that parts, \$125 million. I mean, I think if you're looking at like best case scenario in numbers, somewhere in there. That's also probably about as fast as we could scale to fulfill. I mean if somebody came and said we needed to do \$1 billion in parts next year, I'd look at them and be like, okay, 18 months because you require a ramp and you require a supply chain and a lot of other stuff. But I think if you look at what's out there publicly and you do some back of the envelope math, you'd be in the low hundreds of millions for absolute best case. What do I see as the best edge and biggest mountain for the future? I'm a backpacker, so I'm not sure about the mountain. I could get literal, and I don't think that's the question you're asking, [Derek] I think our best edge is the aggressiveness that we've taken in terms of getting

ahead of making it in the U.S. and then also just working with our customers, like we -- they're very much about solving their problem. And it's not about, hey, here's what it should be. It's like what are you trying to do and how can we be helpful? And then compared to some of the other parts guys, we have scale. So if you look, for instance, for our VTX, there's a chip in there made by a Taiwanese company, Richwave. Where because of the conflict in Ukraine, you can't even order them unless you're going to place an order for \$40,000. They just won't talk to you. You'd have to go to brokers or whatever else. So we're big enough and we move enough that we can go have those direct relationships. And that gives us cost, supply chain surety, reliability. And then having that stuff in stock at a competitive price, not only lets our customers -- our consumer customers get a great deal, but it lets our government customers get a great deal, too. And I see those as the biggest edges. The biggest mountain is honestly government purchase processing. So okay, the government said they're going to do all this. When do they execute this? And then our customers have to place their orders. And so that creates a lot of timing uncertainty. And that's a big part of why we raised the money is to mitigate that uncertainty, so we didn't have to guess. Anonymous attendee. Has the coast guard purchased any drone components? Or is it mainly the Army? I'm not -- I don't know the exact answer of all the people that have purchased components because a lot of them come through the store directly, but we've had most of the branches and a lot of different folks in the government buy different parts of components at different scale. So I think the Army and the Marines right now are the ones the most forward in terms of budgets for drones. And so we probably see it weighted to those 2 groups more than others, but everybody has really started to make purchases and explore. [WHBBBB] what role does Trump Jr. play at UMAC and how are we getting value out of that relationship? He's an adviser. I talked to him. He is able to do business introductions. But right now, we're not in a position where we need much. So when we get back to those elements, we engage and we ask. But we're just trying to scale. We're trying to drive sales. So that's what we see. So very happy to have them as an adviser. I think the folks that support the company, everybody are really excited and helpful in the ways they see it being helpful. Justin, does the company have ambitions of manufacturing some digital components in the future for the drone industry like you have for analog? Justin, if you look at the history, when I was at Fat Shark, we were the first ones to partner with HDZero to introduce HDZero digital product to the market, and then we were the first ones to partner with [indiscernible] to introduce [indiscernible] products to the market. If you go back in time when I was at Avegant, we integrated the Avegant Glyph with DJI's Lightbridge, and we were the first headset DJI ever used. So if you look at the history of integrations that we've done and where interest in things I have led has driven us, you would absolutely bet that we are interested in digital components. We're not there yet. We're focused more on the airframe because right now, there's 20 or 100 drones for every ground station and the drones are the really sensitive part. So we're trying to solve the drone segment prior to getting to the ground station, but we absolutely do have ambitions for that. DC, do we see the possibility of buying back shares once enough capital has meant revenues begin to ramp up? Or will funds be generated mainly to R&D? DC, we actually are also looking at a treasury strategy that we'll bring to the market here in a few weeks to see where that lands. And then we're very open-minded to maximize shareholder value. And so I think that's a dynamic question that we can't answer yet because we don't know where the marketplace is going to take us or what opportunities are there, but we're not close-minded to anything either. Francisco, do you guys expect an increase in your average total cost of headset production with its move to the U.S. We actually expect the cost of production to be slightly higher, but lower than the cost of overseas production with tariffs. So we expect our net cost, if you include tariffs in COGS to be lower with onshore production. And that's even just right out of the gate. Anonymous. At what percent does the usual machines cover the TAM for components of FPV drones? No idea. The TAM is wild because there's 4 million or 5 million drones being built in Russia, in Ukraine. So it depends if you're talking globally, if you're talking domestically. I think if we can capture 20% to 30% of the TAM in this government cycle along with consumer TAM that we're doing a great job because you're going to see these -- some of these companies do some of their own components in-house. And so I think really, there's probably only 70% of the TAM that's accessible. Jason, I may have misheard when you mentioned a treasury strategy, were you referring to a crypto treasury strategy? No. But it's more a strategy with what to do with our capital. And again, we're finalizing it, and we'll get updates for you

guys in the next few weeks on where we expect to go with it. John, how complex are headsets? Will you need to start spending significantly on R&D? So they are complex, which is why we're starting with the manufacturing side because the manufacturing of headsets is complex in terms of how you calibrate them and test them, et cetera. Luckily, we have a long history of making headsets. So we don't need to start spending on R&D; right away, and we'll start moving toward development when we see what that needs to be. But once we have manufacturing up and running, then the bridge to introducing it as a product will lower those R&D; expenses. And again, really, really excited to work with Tom. He's done this several times. I've done it a couple of times. It's my career as an engineer. And so this is one of the few places where I think from a leadership perspective, we have a really solid handle on it, and it's -- we're just going to have to block and tackle. Paolo, without providing details on specific government projects in the pipeline, can you share how many government projects are expected by the end of the year? My guess is that in the categories where we're selling stuff, probably a total of \$750 million worth of contracts. That's my guess. So I mean, a real big opportunity. Chris, also, what other production is housed in the main facility? Do you have an SMD line operational? We don't do SMD in-house. We do final assembly and fulfillment in one center, and then we have a place right next door, which is the motor facility, and then we have a place right next to that, which is going to be the headset production facility, which we haven't leased yet. So we'll continue to look and manage our space as we need to. And any time we see an opportunity to gain margin expansion and get high utilization for production, we're going to go ahead and do it. Danny, are Chinese parts for drones officially banned? Not yet. Some of them are for some government stuff, but the American Securities Drone Act doesn't go into effect until January, which is the ban on elements for the U.S. government and the American -- not the Americans. The Section 1709 of the NDAA, which is the FCC ban on DJI and Autel also doesn't go into effect until January. But because everybody knows that it's going to be in effect, it's -- people are treating it like it's official. Jason? same question. So we'll just delete that. A different Jason. Hey, thank you for your time. Have you structured your production and supply chain, including any planned expansions to not only rapidly fulfill initial orders once contracts are awarded, but also scale to meet potential demand volumes if they exceed current projections. Jason, yes. That's what we're in the process of doing right now. So we're not building for orders we've already gotten. We're building for orders that we expect to get. And on top of that, I think a lot of customers are going to get orders from the government. They're going to go to their suppliers and some of their suppliers are going to fall down. And when they fall down, we want to be able to be there and be sure that they are able to still get motors and other components. So we're always happy to be a second source. And then if we have to step in and be a primary source, we will, and we can only do that if we're really in a position to build stuff in a timely fashion. John, are you still expecting to park \$30 million in the bank to be more -- able to more readily do deals? John, that update is coming in a couple of weeks. Appreciate it, sir. Danny, where can we buy [some] hats? Danny, love hats, love the energy. I keep asking our team to put them in the store. One of these days, it will bubble up the priority list high enough to go in the store. But I'm a hat guy. So I'll keep working on that. Greg, what are your plans for when the China ban happens? Will it affect revenue? Greg, maybe. we're in a position where we pretty much have one of every component for our customers is NDAA-compliant. So we're in a really good spot. So I think if it happens and other people then can't source, we're going to be a second source. So I do think the impact on revenue would be positive if it occurs and other people haven't addressed the problem and they shift over to us. Anonymous. If Chinese drone band falls through, are you still optimistic about growth? Yes. I am actually. Most people aren't. Like I would say DGI, the Chinese company does an amazing job. They're an amazing company. Just -- but there's still this real interest globally because of some of the regionalism and some of the tariffs to have diversified supply chains. And I think the U.S. government, particularly as a customer is still going to really prioritize buying domestically. And I think the tariffs are still going to be in place. And with the tariffs, we're actually cheaper than importing, because we've structured to be cost competitive. So I think our company is in a really good spot to be competitive even in that regard. Joe, can you get magnets from Australia for your motors? Joe, we're sourcing magnets from 3 or 4 different places to see which ones work. At least one of them is not Chinese. So we're going to be able to right that. What production run rate do we foresee? Can UMAC produce tens of thousands of units in the short term? And which parts do you see a huge demand for? We can produce small

numbers of tens of thousands. We expect by January to be able to be low tens of thousands. We're doing thousands of parts a month right now. And I think if we saw hundreds of thousands, it'd be able to work scaling into it, but mid-tens of thousands, no problem. That's what we're building to expect in the short term. The parts we see the biggest demand for are our first part that we put out there, which was our flight controller, a lot of interest in that because it's been out there the longest. A lot of demand for our cameras. And then otherwise, pretty even across the board. I mean we're in the process of manufacturing in the tens of thousands and shipping it. I mean, not all at once, but it's been good, surprising and more than we expected. Chris, sorry, all my questions are production related. I think production is the most important question. Are we winding in-house? What does the transition from low volume to high volume look like to you? Are there constraints to adding additional cells rapidly? Yes, we're doing winding in-house. We have a bunch of winding machines. I think we have 4 or 5 cells to start. So we'll be able to add cells. Low-volume production means high thousands, low tens of thousands and high volume is just more automation. So we can always scale production by adding people and some of the same redundant machines that we have faster. But if we have really large orders, we can move to high-volume production machine, which actually lowers our COGS because it requires less touch time from people, which is why we're doing it. So we'll be in a position to meet capacity demands. And the turning on is always a little -- you run into unexpected hiccups -- and so we anticipate that, and we're excited about the Rotor Lab acquisition because they've already gone through running into a lot of hiccups. So they'll be like, oh, let's not do that and I think really speed up our time to running effectively there. DC, do we plan on partnering with domestic material supply companies for lithium batteries, magnets, et cetera? We do now. So we partner with domestic companies for batteries and for other stuff. We're a very big believer in the domestic ecosystem and prefer to support domestic companies if all things are equal. All right. What is our process for deciding what new positions will be added at UMAC? It's actually pretty complicated. So we take bringing people on really seriously. And what it is, the whole leadership team meets. We say, okay, where are our pain points? Who -- how do we figure this out? How do we want to hire? What are our initiatives? What are we trying to do? And then we all agree on it. We talk about it and then we go through a pretty robust vetting process. And then we have a pretty engaged interview in HR process to be sure that the people we bring in that they want to work with us and we want to work with them. But it's definitely not arbitrary. We spend probably more time than anyone else but me likes on the process because I'm particular in being sure that we keep what makes us magical, which is the people. Where do we see the share price and market cap end of year? I appreciate WHBBBBB I can't answer those questions like I'm not allowed to speculate on that. So I'll leave that for everyone on this call to guess and then decide if we're a good buy right now or not based on what you independently determine. Joe, are we looking at more acquisitions, especially software? Joe, we're always talking to different companies. So I think you're going to see consolidation in the marketplace. Right now is a quiet period as everybody is going through the sales cycle. So I think those discussions will really turn on again late October when we get through what this government interaction moment is where everybody is distracted. So right now, things are quiet. Everybody is focused on sales, partnerships, driving outcomes. And -- but we're always open to talking to people because we think good teams, good products makes sense. Silvio, what percentage of sales do you expect to be domestic and what percentage is international? I think 95% domestic. We're not focused on international sales right now. We do have some, but we're not focused on it. And then Danny, do you have any NATO or international government customers? Yes, we have a few. I mean we sell over some stuff over into Europe, but it's not our focus for sales, particularly with the tariffs and I'd say the regionalization in the marketplace, we really see with our limited team, our best sales opportunity domestically right now, and that's where the market is really turning on. All right. Goodness. Are there other questions? Because that was awesome. I really appreciate the questions. All right, Chris, you got another one. I appreciate it. Then we'll wrap up here pretty quick. If you were asked to tax your motor production tomorrow morning, what would be your first constraint you'd be encounter? Supply chain for magnets. So right now, lead time for magnets is 6 months long. Silvio, do you build only to order? Also do you build inventory for your most common components? Silvio, we build ahead of time. Like we have a really pretty good idea of what's popular and what's not. And so we definitely build in front of demand. And that actually is something that

captures a lot of customers because a lot of other groups only build to order and then their backlog 6 months where people call us up and we're like we need to do that in a week. And so us looking out for our customers that way because a lot of them don't know what's going to happen has been really effective for us as a business. Greg, I appreciate the transparency and very excited about the shares I hold out for this. Greg, I appreciate you as a shareholder. I appreciate your time. And thank you. It's the questions you guys ask. Again, we're all on this together. So glad we can share the journey with you. Anonymous, why do we choose Orlando for the new facility? Are we looking to expand elsewhere? When you build physical things, people got to come to the office, people got to touch stuff. And so we found that Orlando is really great logistics, really great workforce. It's right in that stretch between Tampa and the Space Coast where there's a lot of engineering. There's a lot of drone interest. And so we're going to consolidate to Orlando. It's just -- there's something intangible, hard for Brian to measure. So people always bring this up and I tell them, we don't have a choice. I'll figure out how to measure it if I have to justify it of having people kind of all be able to interact and share expertise across the board and have those interactions. And so our plan is to really build out in Orlando, and we've been able to find really good talent and especially a little diatribe. One of the things that's really cool is we're entering that phase where people in the industry or people that are really savvy start to look at it, and they can start to tell that it's really turning on and they've seen wins before. And so the people that are reaching out to us now are amazing talent, and they just want to come join and come build. And we're really starting to get that energy of a place where things are going to happen, and that's a snowball. And that's the snowball where if you track kind of where people start to matriculate or go and where they come from and who they are, you can really get a good read on sort of almost the intuition that people have been really successful have. And there -- we're really excited that they want to come join the team. And everybody is a great fit. That, coupled with how awesome our current employees are just growing into roles and really taking on new responsibilities is has me even more excited about Orlando actually. Tim, can I elaborate on any more robotics in the future? Tim, we get some ancillary orders. Some people doing like robotic cars want to buy motors, some of the other things. So I think as you see industries really expand and saturate with a component, it gets picked up by other stuff, right? So if you go in and use the touchscreen when you order stuff at a place, right, that's all Samsung or iPads because they're already used in sort of the mobile industry and they just got brought over. Or if you look in the DoD, like all the controllers are almost all Samsung phone-based because that quality component is at scale, it's reliable, people know it. And so drones are one aspect of robots, and I think it's really the one in high demand. But as we scale into that, I think we're going to start to see people pick off some of our stuff for other robotics. And I'm always excited to see what our customers do because I'm an engineer, but nobody let me touch any engineering tools because it's not my job. And so when customers have these really need applications, I just get excited. Bill? Okay. So when will we see the stock split? I'm looking forward to this being the next big thing. Bill, this is the next big thing, it doesn't need to split. I mean, that's a choice we have to look at making it in the future depending on what we want to do. But one does not require the other, sir, and I appreciate the energy. All right. Anybody else got questions?

Operator: Something in the chat from Marvel Pegers. Would you like me to read it?

Allan Thomas Evans: Yes, I get it out there.

Operator: How much of the \$40 million and \$48.5 million offerings are going to be spent on the motor factory? And how much is left off after the in-house manufacturing? What are the next major components that UMAC attempts to mass manufacture in-house after the motors?

Allan Thomas Evans: So we expect to have about \$80 million left after all the CapEx for the motor factory. We're still burning under \$1 million in cash a month, and that will be mostly offset by interest from the money even at the current rate. And then we plan on moving to set up a headset final assembly line, which will be significantly less expensive and move to revenue sooner. So we expect to be sitting to actively have for funds under management between \$70 million and \$80 million through 2026, depending on how fast we grow and return. So we feel really comfortable with that, and we're really excited about having kept our cash burn rate low so that we can be in a position to do this without creating tertiary or cash risks. Okay. So Chris, I can't comment on direct targets, but can we get a feel for M&A; activity ahead? Chris, right now, I think there are a lot of interesting drone parts companies

out there, et cetera. And everybody right now thinks they're going to get the government contract. So if you're talking to anyone right now, they're like, "Oh, I'm going to get this a huge contract. We're going to crush it." And it will really be who are the really solid teams that maybe didn't get selected for a government contract or whatever else that we can add in and really build something robust because we're not here to overpay. And we're, again, very particular about who we want to integrate because integration is a real headache. And it's personality driven and is it a good fit in the company and everything else. So I think we're -- again, we talk to everybody. We're a supplier to everybody. We do a really good job there, but we're not -- there's nothing like real spicy or anything. And I think we'll -- again, we might see what it really looks like, and there might be a lot of opportunity, but it won't be until late October until people know who won and lost. All right. I know, right? Do we got anything else? I mean I'm pretty excited about it.

Operator: We have one last comment from Bill McCammon. I'm enjoying the Q&A; and just hearing more.

Allan Thomas Evans: Thanks, Bill. I really appreciate your time, sir. And I appreciate everyone's time. I mean, still there's like 80 who listened to me for this long. So hopefully, you recorded it and you can play it at night and the Veritone will put you to sleep, so you can get 2 uses out of it. But otherwise, again, I want to say thank you to everyone for your time for being shareholders, being interested in the company and really supporting what we're trying to do in terms of bringing supply chains for critical technologies back to the U.S. So thank you, everyone. I hope you guys have a wonderful day and really appreciate your time.