

Red Cat Holdings Inc.

RCAT: 4Q Review - Scaling Up for Growth

RCAT (NASDAQ)

Company & Market Data

Closing Price (as of 03/25/2026)	\$15.87
Rating:	BUY
Price Target:	\$20.00
52 Week Range:	\$4.60 - \$18.78
Avg Daily Volume (3 Mo.) (M):	15,966.1
Shares Outstanding (MM):	121.1
Market Capitalization (MM):	\$1,922
Enterprise Value (MM):	\$1,773
Fiscal Year End:	Dec

Estimates

EPS	2025A	2026E	2027E
1Q	\$(0.27)	\$(0.11)	—
2Q	\$(0.15)	\$(0.10)	—
3Q	\$(0.16)	\$(0.05)	—
4Q	\$(0.17)	\$(0.01)	—
Prior	\$(0.12)		
Full Year	\$(0.74)	\$(0.26)	\$(0.03)
Prior	\$(0.70)		
Revenue (M)	2025A	2026E	2027E
1Q	\$1,630	\$21,000	—
Prior		\$28,600	
2Q	\$3,219	\$28,967	—
3Q	\$9,646	\$43,891	—
4Q	\$26,235	\$56,406	—
Prior	\$22,755	\$48,924	
Full Year	\$37,249	\$150,264	\$226,009
Prior		\$150,382	

* Revenue (M):2024 Numbers are for 8 months as reported by the company

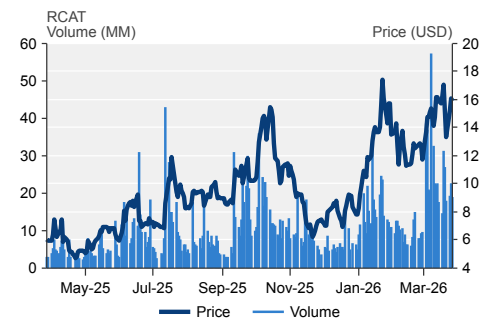


Chart data: Bloomberg

Red Cat reported a strong 4Q2025, with revenue of \$26.2 million exceeding our \$22.7mm estimate and underscoring what appears to be an important inflection point in the company's evolution. We view the quarter as evidence that Red Cat is moving beyond its earlier identity as a story driven small cap and becoming a scaled operating company capable of delivering against growing defense and government demand. Management's ability to support higher shipment volumes, execute on recent program wins, and broaden its operating footprint all reinforce our favorable long term view.

We maintain our 2026 revenue estimate of \$150mm and introduce our 2027 revenue estimate of \$226mm. We are adjusting the near term quarterly outlook more conservatively, with our 1Q26 estimate lowered to reflect what we believe to be a pull forward of some shipments into 4Q25, as well as the possibility that certain back end loaded 1Q deals could slip into the second quarter. We view this as a timing issue rather than a deterioration in the broader growth story. Management is expected to provide more formal guidance in May, which should improve visibility around the quarterly cadence.

From an operating standpoint, the quarter also highlighted the company's progress in scaling its manufacturing base. Gross margin was 4.2% in the quarter, which remains modest, but we believe this should be understood in the context of a company still ramping production, absorbing fixed costs, and managing product and customer mix variability. As Red Cat grows into its infrastructure, improves utilization, and potentially adds more software and higher value content, margin expansion is expected to follow.

For the full year 2025, Red Cat generated \$40.7mm in revenue. Operating expenses rose sharply to \$67.8mm from \$32.9mm in the prior year, reflecting platform growth. Headcount rose 85%, with resources directed toward engineering and corporate infrastructure to support a larger business. Research and development spending more than doubled to \$17.9mm, reflecting investments in core drone platforms, AI and machine learning capabilities, and interoperability across air, land, and maritime systems. The broader interpretation is that Red Cat is building ahead of anticipated demand.

The balance sheet remains a major pillar of our thesis. Cash rose from \$9.2mm at year-end 2024 to \$167.9mm at year-end 2025, with no debt, giving the company flexibility to invest in inventory, facilities, production capacity, maritime initiatives, and strategic opportunities. We believe Red Cat's domestic manufacturing scale is increasingly a competitive advantage, particularly in an environment where government customers value trusted U.S. based suppliers capable of ramping output quickly. Maritime also remains a notable upside opportunity. Based on these factors, we reiterate our Buy rating and \$20 price target, derived from an 8x enterprise value to revenue multiple on our 2027 estimate.

Disclosures and Analyst Certifications can be found in Appendix A.

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RCAT reported its 4Q25 with revenues ahead of our estimate

Red Cat reported 4Q25 revenue of \$26.2mm, ahead of our \$22.7mm estimate, capping a transformational year for the company and reinforcing our constructive long term view. We are maintaining our 2026 revenue estimate at \$150mm and establishing our 2027 revenue estimate at \$226mm. We are conservatively revising our 1Q26 estimate lower to reflect a pull forward of shipments into the just reported quarter, along with a back end loaded 1Q26 where some shipments we believe could slip into the second quarter. Even with that timing adjustment, we believe Red Cat is well on its way to scaling its manufacturing footprint and operating capabilities to support rapid growth as demand increases. With roughly \$168mm of cash at year end, the company has the balance sheet to invest in production, inventory, facilities, maritime expansion, and strategic opportunities. We reiterate our Buy rating and \$20 price target.

We view the quarter as an important confirmation that Red Cat is transitioning from a story stock to a scaled operating company. The headline revenue beat matters, but more important in our view is what it suggests about execution. The company is now showing it can ship against meaningful government demand, absorb higher production volumes, and support a broader family of systems while simultaneously investing for the next leg of growth.

4Q revenue of \$26.2mm rose sharply both year over year and sequentially as deliveries accelerated. The result reflects stronger defense and government demand, the benefits of recent program wins, and the company's improving ability to scale production for mission critical requirements. On the margin side, gross margin was 4.2% in the quarter. Red Cat is still in the early phases of absorbing fixed costs, ramping manufacturing, and working through product and customer mix variability. As the company scales volume, improves utilization, and introduces higher value software or add on content, we continue to believe margin expansion should follow.

We are unchanged on our 2026 revenue estimate of \$150mm. We continue to think that number is achievable on the strength of existing programs and the continued ramp of the company's drone platforms, particularly as production and delivery cadence improves. We are also introducing a 2027 revenue estimate of \$226mm. In our view, that framework better reflects where the business can go if management continues to execute on manufacturing scale, captures follow on demand tied to current programs, and begins to layer in additional opportunities across adjacent domains. Management has indicated it hopes to provide formal guidance in May when visibility improves, which should help narrow the near term range of outcomes. Until then, we think a more conservative cadence assumption is appropriate.

For full year 2025, Red Cat reported revenue of \$40.7mm. Operating expenses for the year were \$67.8mm versus \$32.9mm in the prior year, reflecting a deliberate investment cycle rather than undisciplined spending, in our view. Management noted that headcount increased 85%, with hiring weighted toward engineering and corporate infrastructure needed to support a much larger business. R&D rose to \$17.9mm from \$8.1mm in the prior year, as the company invested in core platforms, AI and machine learning capabilities, and broader interoperability across air, land, and maritime systems. Red Cat is building ahead of demand, not merely reacting to it.

The balance sheet is a major part of the story. Cash increased from \$9.2 million at the end of 2024 to \$167.9 million at the end of 2025. Inventory also rose materially to support future shipments and supply chain readiness. We view this as strategically important. Red Cat is trying to position itself not just as a niche drone developer, but as a domestic manufacturer capable of scaling in a market where availability, responsiveness, and

trusted supply increasingly matter. That balance sheet gives the company unusual flexibility for a business at this stage.

We believe RCAT's domestic manufacturing scale itself is becoming a competitive differentiator as we believe the government favors domestic suppliers with real production capability that can scale during periods of elevated demand. That view aligns with what Red Cat has been building toward through facility expansion, inventory investment, and broader operating infrastructure. It also supports our thesis that the company's value should increasingly be framed around capacity, relevance, and optionality rather than only current period results.

We would also note that maritime remains a meaningful upside lever. Management has previously outlined a substantial build out plan for Blue Ops, and even modest success in uncrewed surface vessels could become meaningful given the much higher average selling prices in that business. We are not relying heavily on that opportunity in our base case, but it remains an important source of upside to our estimates over time.

We continue to rate RCAT Buy with a \$20 price target. Our constructive stance reflects the combination of a rapidly growing top line, a strengthened balance sheet, improving manufacturing readiness, exposure to large defense and security programs, and multiple sources of upside that are not yet fully reflected in quarterly reported numbers. We think the stock should increasingly be valued on forward revenue power and strategic positioning, particularly as investors gain confidence in the company's capacity to support meaningfully larger volumes through 2026 and into 2027. Near term quarterly variability may create noise, but it does not alter our broader view that Red Cat is building toward a much larger enterprise. Our \$20 price target based on an EV/revenue framework applied to our forward outlook. We use a 8x multiple on our 2027 revenue estimate to derive our target, reflecting the company's expected growth profile, the strategic value of a program-of-record position in U.S.-manufactured sUAS, and the potential for mix-driven margin expansion as software content increases.

Highlights from the company's recent Innovation Day

The central narrative of Innovation Day was that Red Cat is moving from a single-program, single-customer posture to a broader demand environment supported by higher U.S. and allied urgency around attritable drones, ISR, counter-UAS, and maritime robotics. Management's emphasis was less about incremental product updates and more about readiness for scale, with the company positioning factory capacity, modularity, and partner integration as the gating factors to capturing a step-up in orders as procurement accelerates across theaters. The company also leaned into the argument that battlefield learning cycles, particularly from Eastern Europe, are compressing requirements and shortening refresh cycles, which favors manufacturers that can iterate rapidly and deliver in volume.

Operationally, the most substantive datapoints were around capacity and process maturity. In Salt Lake City, management described current Black Widow production capacity of roughly 50 drones per day, or about 1,000 units per month, on a single shift in a relatively small manufacturing footprint, with a second shift available when demand warrants. They outlined a facility reconfiguration that relocates engineering and corporate functions to adjacent suites and frees up manufacturing space, with the longer-term ability to materially expand throughput as needed. A key nuance is that management characterized those outputs as Black Widow capacity, and suggested FPV drones are

significantly easier and faster to build, implying higher unit throughput potential once programs scale.

At FlightWave in Torrance, California, management described a larger footprint that supports Edge 130 production today and provides meaningful headroom for additional products and vertical integration activities as programs mature. For Blue Ops, the company highlighted a 155,000-square-foot facility in Valdosta, Georgia, previously used for crewing-oriented recreational boat output, arguing that the absence of human accommodations in USVs should simplify production and enable a higher run-rate once tooling is fully delivered and ramped.

On supply chain, management emphasized two themes: NDAA compliance and resilience at scale. The team described efforts to reduce China exposure and multi-source key components, with specific focus on historically constrained categories like batteries and motors, and highlighted active redesign choices to substitute rare or long-lead chips for more readily available components to compress lead times. On the corporate side, they spoke to maturity milestones that matter for defense credibility and institutional investors, including steps toward tighter controls, SOX readiness for 2027, and a path to CMMC compliance on a 2026 timeline. This “stable partner” messaging reflects a deliberate shift from startup execution to scaled defense supplier expectations.

The Chief Revenue Officer’s remarks were consistent with a market that is accelerating across multiple platforms and mission sets, with emphasis on defense near-term while retaining dual-use optionality longer term. Red Cat framed SRR and Black Widow as the current anchor, but spent meaningful time discussing adjacent opportunities, including attributable FPV-style programs and expanding international interest, especially across INDOPACOM where disclosure may remain limited. Management also offered a detailed explanation of government buying mechanics that reinforces the timing volatility investors should expect: program dollars versus O&M versus RDT&E, the impact of continuing resolutions, and the late-fiscal-year “sweeps” dynamic that can pull forward spend for vendors able to deliver quickly.

Blue Ops was positioned as the most visible new capability, extending Red Cat’s all-domain footprint from air to maritime and enabling launch and mission coverage across a significantly larger portion of the globe. The USV-7 was presented as a long-range, high-endurance, open-architecture platform designed to accept a variety of payloads and effects, with management repeatedly using an “app store” analogy: build a reliable base hull and integrate best-of-breed third-party technologies rather than attempt to own every subsystem.

A recurring strategic point was that partnerships are not a substitute for M&A but often the front end of it. Management described strategic partners as capability multipliers today and a get-to-know-you acquisition pipeline over time, especially where cultural fit and operational tempo are proven in real deployments. The company also framed modular open systems architecture as essential to stay ahead of rapidly evolving battlefield needs, and argued swarming is the enabling layer that reduces operator burden and unlocks scale across both air and sea domains.

Against that Iranian backdrop, Red Cat’s Innovation Day messaging appears timely. The company’s portfolio maps to several mission needs that tend to be emphasized when conflict intensity rises: ISR and targeting support via Black Widow and related systems, low-cost attributable options via FPV, and expanded launch and persistence via Blue Ops USVs that can help distribute risk and extend operational reach without putting personnel in harm’s way. The demonstration emphasis on swarming and reduced operator burden is also directionally aligned with the operational requirement to scale mass without scaling headcount. We view the combination of open integration, multi-domain platforms, and

manufacturing readiness as a constructive setup if procurement urgency accelerates faster than traditional cycles.

Risks

Risks to our rating and price target include but are not limited to the following:

The company has incurred net losses since inception and may need additional capital to fund its expanding operations until it reaches profitability. Lack of long-term purchase orders and commitments from customers may lead to a rapid decline in sales. The company's products require a continuing investment in research and development and may experience technical problems or delays, which could lead the business to fail.

Product quality issues and a higher-than-expected number of warranty claims or returns could harm the company's business and operating results. The company's products will likely experience declining unit prices, and the company may not be able to offset that decline with production cost decreases or higher unit sales.

The company's operating results may be adversely impacted by worldwide political, economic, and public health uncertainties and specific conditions in the markets the company addresses. Acquisitions and divestitures could divert the attention of key personnel, be difficult to integrate, dilute the company's existing shareholders, and adversely impact the company's financial results. The company's failure to effectively manage growth could harm the company's business. The company's products are subject to lengthy development cycles. The company's operations may be adversely affected if the company loses its rights under third-party technology licenses.

The company could lose the services of key management personnel of the companies that the company has acquired, which could adversely impact the company's ability to operate and execute its subsidiaries effectively. The company's facilities and information systems and those of the company's key suppliers could be damaged as a result of disasters or unpredictable events, which could have an adverse effect on the company's business operations.

The company relies on third-party suppliers, some of which are sole-source suppliers, to provide components for the company's products, which may lead to supply shortages, long lead times for components, and supply changes, any of which could disrupt the company's supply chain, increase the company's costs, and adversely impact the company's operating results.

The company faces competition from larger companies that have substantially greater resources, which challenges the company's ability to establish market share, grow its business segments, and reach profitability. The company may not be able to keep pace with technological advances in the drone industry. Cybersecurity risks could adversely affect the company's business and disrupt the company's operations. U.S. government contracts are generally not fully funded at inception and may include provisions that are not favorable to the company, which could adversely impact the company's cash flows and results of operations.

A decline in U.S. government budgets, changes in spending priorities, or delays in contract awards could adversely affect the revenues of the company's Teal subsidiary. The company's work for the U.S. government could expose the company to security risks. The company is subject to extensive government regulation, and the company's failure to comply with these regulations could subject the company to penalties that may adversely impact the company's ability to operate its business. The company's management has

voting control of the company. The company's failure to maintain effective internal controls over financial reporting could have an adverse impact on the company. The company has never paid dividends, and the company does not expect to pay dividends for the foreseeable future. The company's Board of Directors may authorize and issue shares of new classes of stock that could adversely affect current holders of the company's common stock. The market price of the company's shares of common stock is subject to fluctuation.

The drone industry is subject to various laws and government regulations, which could complicate and delay the company's ability to introduce products, maintain compliance, and avoid violations, which could negatively impact the company's financial condition and results of operations. The company's results of operations may suffer if the company is not able to successfully manage its exposure to foreign exchange rate risks. The company's international operations, including the use of foreign contract manufacturers, subjects the company to international operational, financial, legal, political, and public health risks, which could harm the company's operating results.

The company is subject to governmental export and import controls and economic sanctions laws that could subject the company to liability and impair the company's ability to compete in international markets. Changes in trade policy in the United States and other countries may have adverse impacts on the company's business, results of operations, and financial condition.

The company may collect, store, process, and use the personal information of its customers, which subjects the company to governmental regulation related to privacy, information security, and data protection. Any cybersecurity breaches or the company's failure to comply with such legal obligations by the company or by the company's third-party service providers or partners could harm the company's business. The company's products could infringe on the intellectual property rights of others. The company's intellectual property rights and proprietary rights may not adequately protect the company's products.

The company's principal manufacturer of HMDs is located in China and is owned by a related party which could create conflicts of interest.

If significant tariffs or other restrictions are placed and maintained on Chinese imports or any related countermeasures are taken by China, the company's revenue and results of the company's Consumer operations may be adversely impacted.

Exhibit 1: Income Statement

US Dollars in thousands, except per share

	F2024 A *	March A	June A	Sept A	Dec E	F2025 E	March E	June E	Sept E	Dec E	F2026 E
Total Revenue	4,850	1,630	3,219	9,646	22,755	37,249	28,600	28,967	43,891	48,924	150,382
COGS	6,206	2,480	2,844	9,009	20,103	34,436	24,310	23,753	32,918	33,268	114,250
Gross profit	(1,356)	(850)	375	638	2,652	2,814	4,290	5,214	10,973	15,656	36,133
Research and development	6,611	3,433	3,598	5,968	6,030	19,029	6,006	6,083	6,057	5,871	24,017
Sales and marketing	6,322	3,315	3,188	2,985	3,186	12,673	3,146	3,186	3,292	3,425	13,049
General and administration	11,459	4,880	6,236	9,216	8,419	28,751	8,294	8,400	8,559	8,806	34,060
Other	93										
Total operating expenses	24,485	11,628	13,022	18,169	17,635	60,453	17,446	17,670	17,908	18,102	71,126
EBIT	(25,841)	(12,478)	(12,647)	(17,531)	(14,983)	(57,639)	(13,156)	(12,456)	(6,935)	(2,446)	(34,993)
EBITDA	(23,895)	(11,380)	(10,933)	(16,989)	(14,818)	(54,121)	(12,056)	(11,356)	(5,835)	(1,346)	(30,593)
Adjusted EBITDA	(20,286)	(10,292)	(10,088)	(13,389)	(11,218)	(44,986)	(8,456)	(7,756)	(2,235)	2,254	(16,193)
Change in fair value of derivative	(303)	0	0	0	0	0	0	0	0	0	0
Investment loss (income), net	0	0	0	0	150	150	150	150	150	150	600
Interest expense	72	0	0	0	15	15	15	250	718	986	1,968
Other, net	0	10,645	0	0	0	0	0	0	0	0	0
Total other income/(expense), net	17,773	10,645	(632)	2,209	165	12,387	165	400	868	1,136	2,568
Pretax income	(43,614)	(23,123)	(13,279)	(15,322)	(14,818)	(66,543)	(12,991)	(12,056)	(6,067)	(1,310)	(32,424)
Income taxes expense/(benefit)	0	0	0	695	0	695	0	0	0	0	0
Net Income (loss)	(43,614)	(23,123)	(13,279)	(16,016)	(14,818)	(67,238)	(12,991)	(12,056)	(6,067)	(1,310)	(32,424)
Diluted weighted average shares in millions	77,040	85,506	91,295	99,581	119,581	98,991	122,381	125,181	127,181	127,181	125,481
GAAP EPS	(\$0.57)	(\$0.27)	(\$0.15)	(\$0.16)	(\$0.12)	(\$0.70)	(\$0.11)	(\$0.10)	(\$0.05)	(\$0.01)	(\$0.26)
Ratios & assumptions											
Revenue growth rate	-51%	-7%	-18%	65%	NM	NM	1655%	800%	355%	115%	304%
Total gross margin	-28%	-52%	12%	7%	12%	8%	15%	18%	25%	32%	24%
R&D (% of rev)	136%	211%	112%	62%	26%	51%	21%	21%	14%	12%	16%
S&M (% of rev)	130%	203%	99%	31%	14%	34%	11%	11%	8%	7%	9%
G&A (% of rev)	236%	299%	194%	96%	37%	77%	29%	29%	20%	18%	23%
Operating profit margin	-532.8%	-765.7%	-392.9%	-181.7%	-65.8%	-154.7%	-46.0%	-43.0%	-15.8%	-5.0%	-23.3%
*2024 is 8 months ended in Dec.											

Source: Ladenburg Thalmann & Co. Inc.

APPENDIX A: IMPORTANT RESEARCH DISCLOSURES

ANALYST CERTIFICATION

I, Michael F. Legg, Sr., attest that the views expressed in this research report accurately reflect my personal views about the subject security and issuer. Furthermore, no part of my compensation was, is, or will be directly or indirectly related to the specific recommendation or views expressed in this research report, provided, however, that:

The research analyst primarily responsible for the preparation of this research report has or will receive compensation based upon various factors, including the volume of trading at the firm in the subject security, as well as the firm's total revenues, a portion of which is generated by investment banking activities.

Additional information regarding the contents of this publication will be furnished upon request. Please contact Ladenburg Thalmann, Compliance Department, 640 Fifth Avenue, 4th floor, New York, New York 10019 (or call 212-409-2000) for any information regarding current disclosures, and where applicable, relevant price charts, in regard to companies that are the subject of this research report.

COMPANY BACKGROUND

Red Cat is a U.S.-based provider of advanced all-domain drone and robotic solutions for defense and national security. Through its wholly owned subsidiaries, Teal Drones and FlightWave Aerospace, Red Cat develops American-made hardware and software that support military, government, and public safety operations across air, land, and sea. Its Family of Systems, led by Black Widow, delivers unmatched tactical capabilities in small, unmanned aircraft systems (sUAS). Expanding into the maritime domain through Blue Ops, Inc., Red Cat is also innovating in uncrewed surface vessels (USVs), delivering integrated platforms designed to enhance safety and multi-domain mission effectiveness.

VALUATION METHODOLOGY

We value RCAT using an EV/revenue framework and maintain our \$20 target based on applying a 8x multiple to our 2027 revenue outlook, reflecting the strategic value of a program-of-record position and the potential for margin expansion as volumes rise and software content increases.

RISKS

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The company's principal manufacturer of HMDs is located in China and is owned by a related party which could create conflicts of interest.

If significant tariffs or other restrictions are placed and maintained on Chinese imports or any related countermeasures are taken by China, the company's revenue and results of the company's Consumer operations may be adversely impacted.

STOCK RATING DEFINITIONS

Buy: The stock's return is expected to exceed 12.5% over the next twelve months.

Neutral: The stock's return is expected to be plus or minus 12.5% over the next twelve months.

Sell: The stock's return is expected to be negative 12.5% or more over the next twelve months.

Investment Ratings are determined by the ranges described above at the time of initiation of coverage, a change in risk, or a change in target price. At other times, the expected returns may fall outside of these ranges because of price movement and/or volatility. Such interim deviations from specified ranges will be permitted but will become subject to review.

RATINGS DISPERSION AND BANKING RELATIONSHIPS AS OF (March 26, 2026)

Rating	%	IB %
BUY	74.6	51.5
NEUTRAL	23.9	45.4
SELL	1.4	0.0

COMPANIES UNDER MICHAEL'S COVERAGE

Aduro Clean Technologies Inc. (ADUR)
 Beeline Holdings, Inc. (BLNE)
 Draganfly Inc. (DPRO)
 Ondas Holdings Inc. (ONDS)
 Red Cat Holdings Inc. (RCAT)
 SoundHound AI Inc. (SOUN)

AirJoule Technologies Corp. (AIRJ)
 Data I/O Corp. (DAIO)
 Comstock Inc. (LODE)
 Ocean Power Technologies Inc. (OPTT)
 Serve Robotics Inc. (SERV)

COMPANY SPECIFIC DISCLOSURES

Ladenburg Thalmann & Co. Inc. has managed or co-managed a public offering for Red Cat Holdings Inc. within the past 12 months.

Ladenburg Thalmann & Co. Inc. intends to seek compensation for investment banking and/or advisory services from Red Cat Holdings Inc. within the next 3 months.

Ladenburg Thalmann & Co. Inc received compensation for investment banking services from Red Cat Holdings Inc. within the past 12 months.

Ladenburg Thalmann & Co. Inc had an investment banking relationship with Red Cat Holdings Inc. within the last 12 months.

Ladenburg Thalmann & Co Inc. acted in an advisory capacity for Red Cat Holdings Inc. in the last 12 months.

INVESTMENT RATING AND PRICE TARGET HISTORY



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