

Usio, Inc.

USIO (NASDAQ) - Buy \$6 Price Target

2Q Results – August 15, 2024

USIO Beats on EBITDA, Raises Guidance on Balanced Quarter – Reiterate Buy

Analyst: Barry M. Sine, CFA, CMT

- Usio reported solid 2Q results beating on EBITDA and raising EBITDA guidance by 12%.
- These results came despite a 6% decline in reported revenue (due to a short-term Covid-related program ending) as management continues its focus on cost control and shareholder value. Normalized for this program and a one-time settlement a year ago in ACH, revenue was up about 10%.
- As we write in the report, we view Usio as highly balanced from two perspectives. First, it has a number of counter-cyclical revenue drivers, which may become more important should the economy continue to weaken.
- The other area of balance is the Usio offers ACH, credit card, prepaid card, PayFac, and paper and electronic billing solutions giving it a revenue balance. Usio offers nearly every form of payment businesses require.
- Its key growth driver, its PayFac business, is seeing its major new customer onboard more slowly than expected, resulting in a cut in revenue guidance. This is something we have seen before and Usio has handled it well adopting incentives to speed up the onboarding process.
- Our updated forecast is included in this report, with our 2024 revenue estimate of \$82 million just under guidance and our \$4.7 million EBITDA estimate is in line. For 2025 and beyond, we look for a return to double-digit top-line growth and increasingly positive EPS.
- USIO shares trade at just 0.4x our 2025 revenue estimate and 5.9x our EBITDA estimate. Even factoring in a small company discount we believe the 60% discount to payments comps is unwarranted.
- We reiterate our Buy rating and \$6 price target. In our opinion, Usio is the most innovative company in the fast-growing electronic payments industry.

Rating	BUY	Earnings Per Share				Normalized to exclude unusual items			
Target Price	\$6.00	FYE - December				2023	2024E	2025E	2026E
Ticker Symbol	USIO	1Q - March	\$0.00	(\$0.01) A	\$0.04	\$0.05			
Market	NASDAQ	2Q - June	\$0.01	\$0.00 A	\$0.04	\$0.04			
Stock Price	\$1.50	3Q - September	(\$0.04)	\$0.04	\$0.04	\$0.04			
52 wk High	\$2.28	4Q - December	\$0.00	\$0.04	\$0.04	\$0.04			
52 wk Low	\$1.30	Year	(\$0.02)	\$0.07	\$0.16	\$0.18			
Shares Outstanding:	26.4 M	Revenue (\$mm)	\$82.6	\$82.3	\$93.2	\$103.1			
Public Market Float:	16.4 M	EV/Rev	0.4X	0.4X	0.4X	0.3X			
Avg. Daily Volume	23,429	EBITDA (\$mm)	\$2.4	\$4.7	\$5.6	\$6.2			
Market Capitalization:	\$40 M	EV/EBITDA	NM	7.0X	5.9X	5.3X			
Institutional Holdings:	20.6%								
Dividend Yield:	0.0%								

Risks/Valuation

- We see four key risk categories, which we discuss in this report: regulatory changes, cybersecurity risks, errors, and fraud.
- Our valuation implies a 53% premium to larger, slower-growing comps on an EV/EBITDA basis, but a 58% discount on an EV/sales basis.

Company description: Usio is a diversified payments company headquartered in San Antonio, Texas. It has proven highly innovative in new product launches, acquisitions, and customer wins driving 24% revenue growth over the last five years.

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USIO Beats on EBITDA, Raises Guidance on Balanced Quarter

Usio reported solid 2Q results with EBITDA ahead of our estimate and consensus and management raised EBITDA guidance for the year. Revenue continued soft, down 6%, as spoilage revenue from the large New York City Covid vaccine inventive program winds down. However, the core business continues strong, with revenue up 10%, with all business units reporting solid growth and operating metrics. Due to a delay in implementing a major new PayFac client, revenue growth guidance was cut from 10% to 12%, to 3% to 7%. This customer is still on track and should be a meaningful contributor in 2025 and well beyond as PayFac clients have nearly zero attrition once onboarded. Despite this noise, the company is still growing EBITDA, net income and cash and is buying back shares.

Additionally, as discussed in prior quarters, the company is in contract talks with two more new major PayFac customers. It also won a new contract to mail out checks in bankruptcy settlements, which it completed in July and is in the final round of discussions with the same administrator for a much larger bankruptcy project.

Business Balance Reduces Risk and Should Result in a Higher Multiple

We see Usio's business being balanced from two perspectives. First, it has a number of counter-cyclical revenue programs, the newest being mailing checks on bankruptcy settlements. In ACH one of its largest client categories is payday lenders, who see more business in weak economies. ACH also generates significant revenue on returned items (bounced checks), which also increases in times of weakness. Usio is the industry leader in processing payments under guaranteed income programs, which may also ramp if the economy weakens. In Output Solutions, its biggest client categories are utilities and cities, both of which tend to be more recession-resistant. With recent signs of macro weakness, we think it is important to highlight the balance of the company's business, with the ability to do well even in a recession.

The other perspective to balance is that Usio provides most forms of payment processing including ACH (19% of 2Q revenue) – which is sending or receiving payments to/from banks – credit card processing (36% of 2Q revenue) and prepaid card issuance (18% of 2Q revenue). (All three posted double-digit normalized revenue growth in 2Q.) Its Output Solutions business (23% of 2Q revenue) prints paper statements and provides the payment processing for these bills and is retaining its customer base as it moves from paper to electronic billing. The global macro trend of conducting more business online, including payments, continues unabated and Usio is at the forefront of this trend. While there are larger publicly-traded payments companies, none are as diversified as Usio, or, in our opinion, as innovative. Houston Frost, who previously headed the innovative Card Issuing business (prepaid) recently moved to a newly created corporate role as Chief Product Officer, so we expect to see additional innovative products introduced.

Tis' Better to Have Loved and Lost Than Never to Have Loved at All

Usio uncharacteristically reported a 6% decline in revenue. The reason, which has been discussed by management for over a year, was that Usio won a major contract with New York City whereby citizens were given \$100 prepaid cards (issued by Usio) during the pandemic if they got a vaccine. This revenue (\$12 million in 2023) had a long tail as Usio recorded spoilage revenue (keeping a large portion of unspent funds) for cards that had gone unused for over a year. This greatly benefited 2023 revenue but is now negatively impacting 2024 revenue growth with management now saying that revenue is only likely to grow around 5% this year. (Normalized, prepaid revenue was up 35%, and total revenue was up 10% in 2Q.) We reported revenue growth it to rebound to Usio's traditional double-digit growth in 2025 and beyond. While companies, including Usio, get some criticism when one-time revenue events lapse, we still echo the sentiments of Alfred Lord Tennyson that it was better to have had this major, and highly profitable revenue stream than never to have had it at all. We are pleasantly surprised to see that the market is not penalizing



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Usio shares, despite the cut in top line guidance but is now rewarding the company for its focus on profitability.

The Card Issuance business reported revenue of \$3.7 million, down 30% from the year-ago period, similar to 1Q results. As noted, the underlying business is still growing with revenue up 35%, but the company is no longer seeing significant spoilage revenue from NYC. New business unit head Jerry Uffner, whose entire career has been spent in prepaid has added 20 new customers this year. Data points showing the underlying strength include 58% growth in transaction volume, 39% in transaction dollars, and 55% growth in load volume. In our opinion, load volume is the most important leading indicator as these dollars eventually show up in revenue whether the dollars loaded onto cards are spent, or spoiled. First quarter load volume was even stronger at 108%, so this leading indicator looks very strong and we expect a return to double-digit growth (up 13.5% in 2025) once the NYC spoilage effect is passed.

Card Processing (credit card) continues to be Usio's largest business at 36% of revenue but it is a tale of two cities. 2Q revenue was \$7.3 million, up 2.0%. Its legacy card base is slowly declining, while its PayFac business is growing at a double-digit rate. As of 1Q, the mix was about even, but over time is shifting toward PayFac and is now around 60%/40% PayFac, with a positive impact on growth. The PayFac business experienced a major win earlier this year, but the customer is taking longer to onboard its customers than it expected, necessitating the reduction in guidance. The revenue is still out there and should grow to significant levels by 2025. The company previously discussed other whale PayFac prospect accounts and discussions with these continue.

ACH is the company's most profitable business and represented 19% of revenue in 2Q. Revenue came in at \$3.9 million, down 4.5%. Adjusted for a one-off \$600k settlement last year, organic revenue growth was 12%. This business also benefits from PayFac customers as some payments are made via ACH. Usio has a number of innovations it is rolling out in this business, leading the industry, including pinless debit, and FedNow (same-day Fed ACH payments). And, as noted, it has a number of revenue drivers that should strengthen, should the economy continue to weaken.

Output Solutions is the bill printing business Usio acquired at the end of 2020. 2Q revenue came in at \$4.7 million, down 3.3% YoY and representing 23% of total revenue. While paper bills are becoming less popular, Usio is nicely transitioning the business in two ways. First, many of the paper bills it prints now come with QR codes customers can scan to pay their bills electronically, benefitting Usio's other business units. Second, electronic bills now outnumber paper bills so Usio has largely been able to retain customers as they make the transition. Usio added several more cities to its customer base and a bankruptcy program, so customer growth continues.

EBITDA Guidance Raised, Despite Cut in Revenue Guidance

Usio is laser-focused on keeping costs under control, with SG&A up just \$147k or 3.8%, roughly in line with inflation. This focus is directly responsive to investor concerns and we expect it to continue, especially as revenue returns to growth later in the year, driving EBITDA and positive EPS. EBITDA came in at \$800k, down from \$1.3 million a year ago. However, EBITDA guidance was raised from a range of \$4.0 to \$4.5 million to a new 12% higher range of \$4.5 to \$5.0 million with the delta partially due to including business-unit related interest income in revenue, and thus EBITDA. Lastly, net income was slightly positive in the quarter with EPS rounding to \$0.00 and should grow, rising to 16 cents in 2025 and 18 cents in 2026, which start to become meaningful on a \$1.50 stock price.

We reiterate our Buy rating and \$6 target. As the comps sheet at the end of this report shows, USIO shares trade at roughly a 60% discount to payments comps.



Usio, Inc.

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Usio, Inc. – Revenue Forecast

Dollars in thousands, except per share data

Fiscal years ended December 31

	2024E					2025E					2026E				
	1QA	2QA	3Q	4Q	YEAR	1Q	2Q	3Q	4Q	YEAR	1Q	2Q	3Q	4Q	YEAR
	March	June	September	December		March	June	September	December		March	June	September	December	
ACH	3,881,734	3,894,330	3,704,540	4,532,105	16,012,709	4,852,168	4,673,196	4,260,221	5,211,921	18,997,505	5,579,993	5,374,175	4,899,254	5,993,709	21,847,131
YoY growth	16.2%	-4.5%	5.0%	15.0%	7.5%	25.0%	20.0%	15.0%	15.0%	18.6%	15.0%	15.0%	15.0%	15.0%	15.0%
Sequential growth	-1.5%	-73.8%	-4.9%	22.3%		7.1%	-3.7%	-8.8%	22.3%		7.1%	-3.7%	-8.8%	22.3%	
Percent of total revenue	18.5%	19.4%	18.0%	21.9%	19.5%	19.8%	20.0%	18.9%	22.8%	20.4%	20.6%	20.8%	19.6%	23.7%	21.2%
ACH interest	211,640	190,233	200,000	200,000	801,873	200,000	200,000	200,000	200,000	800,000	200,000	200,000	200,000	200,000	800,000
Electronic check transaction	4.0%	10.0%													
Returned check transactions	9.0%	13.0%													
Electronic check dollars processed	22.0%	36.0%													
Credit card	7,560,734	7,261,268	7,384,138	7,194,330	29,400,470	8,468,022	8,277,846	8,417,917	8,201,536	33,365,321	9,484,185	9,271,187	9,428,067	9,185,721	37,369,160
YoY growth	3.0%	2.0%	3.0%	5.0%	3.2%	12.0%	14.0%	14.0%	14.0%	13.5%	12.0%	12.0%	12.0%	12.0%	12.0%
Sequential growth	10.3%	-74.5%	1.7%	25.0%		17.7%	-2.2%	1.7%	-2.6%		15.6%	-2.2%	1.7%	-2.6%	
Percent of total revenue	36.1%	36.2%	35.9%	34.7%	35.7%	34.6%	35.5%	37.3%	35.9%	35.8%	35.1%	36.0%	37.7%	36.3%	36.3%
Credit card transaction volume	18.0%	19.0%													
Credit card dollars	8.0%	10.0%													
Prepaid card	3,341,224	3,673,418	3,748,170	3,617,339	14,380,151	4,176,530	4,408,102	3,935,578	3,798,206	16,318,416	4,385,357	4,628,507	4,132,357	3,988,117	17,134,337
YoY growth	-30.5%	-29.6%	-20.0%	-10.0%	-23.2%	25.0%	20.0%	5.0%	5.0%	13.5%	5.0%	5.0%	5.0%	5.0%	5.0%
Sequential growth	-16.9%	-80.4%	2.0%	-3.5%		15.5%	5.5%	-10.7%	-3.5%		15.5%	5.5%	-10.7%	-3.5%	
Percent of total revenue	15.9%	18.3%	18.2%	17.5%	17.5%	17.1%	18.9%	17.4%	16.6%	17.5%	16.2%	17.9%	16.5%	15.8%	16.6%
Prepaid interest	402,741	334,624	350,000	350,000	1,437,365	350,000	350,000	350,000	350,000	1,400,000	350,000	350,000	350,000	350,000	1,400,000
Load volume	108.0%	55.0%													
Transaction volume	26.0%	58.0%													
Purchase dollars	42.0%	39.0%													
Output solutions	5,537,923	4,686,869	5,138,030	4,778,285	20,141,107	6,368,611	5,389,899	5,394,932	5,017,200	22,170,642	7,005,473	5,928,889	5,934,425	5,518,920	24,387,706
YoY growth	-7.1%	-3.3%	0.0%	5.0%	-1.7%	15.0%	15.0%	5.0%	5.0%	10.1%	10.0%	10.0%	10.0%	10.0%	10.0%
Sequential growth	21.7%	-77.1%	9.6%	-7.0%		33.3%	-15.4%	0.1%	-7.0%		39.6%	-15.4%	0.1%	-7.0%	
Percent of total revenue	26.4%	23.3%	25.0%	23.1%	24.5%	26.0%	23.1%	23.9%	22.0%	23.8%	25.9%	23.0%	23.8%	21.8%	23.7%
Output interest	34,390	39,146	35,000	35,000	143,536	35,000	35,000	35,000	35,000	140,000	35,000	35,000	35,000	35,000	140,000
Total	20,970,386	20,079,888	20,559,877	20,707,060	82,317,211	24,450,331	23,334,042	22,593,647	22,813,863	93,191,884	27,040,006	25,787,758	24,979,103	25,271,466	103,078,334
YoY growth	-2.2%	-5.6%	0.2%	6.9%	-0.3%	16.6%	16.2%	9.9%	10.2%	13.2%	10.6%	10.5%	10.6%	10.8%	10.6%
Sequential growth	8.3%	-75.7%	2.4%	0.7%		18.1%	-4.6%	-3.2%	1.0%		18.5%	-4.6%	-3.1%	1.2%	

Source: Company reports and Litchfield Hills Research LLC



Usio, Inc.

USIO (NASDAQ) - Buy \$6 Price Target

Usio, Inc. – Income Forecast

Dollars in thousands, except per share data
Fiscal years ended December 31

	2024E					2025E					2026E				
	1QA	2QA	3Q	4Q	YEAR	1Q	2Q	3Q	4Q	YEAR	1Q	2Q	3Q	4Q	YEAR
	March	June	September	December		March	June	September	December		March	June	September	December	
Revenue	20,970,386	20,079,888	20,559,877	20,707,060	82,317,211	24,450,331	23,334,042	22,593,647	22,813,863	93,191,884	27,040,006	25,787,758	24,979,103	25,271,466	103,078,334
YoY growth	-2.2%	-5.6%	0.2%	6.9%	-0.3%	16.6%	16.2%	9.9%	10.2%	13.2%	10.6%	10.5%	10.6%	10.8%	10.6%
Seq growth	8.3%	-4.2%	2.4%	0.7%		18.1%	-4.6%	-3.2%	1.0%		18.5%	-4.6%	-3.1%	1.2%	
Cost of services	16,116,691	15,280,074	15,625,507	15,737,366	62,759,637	18,582,252	17,733,872	17,171,172	17,338,536	70,825,832	20,550,405	19,598,696	18,984,118	19,206,314	78,339,534
As a percent of revenue	76.9%	76.1%	76.0%	76.0%	76.2%	76.0%	76.0%	76.0%	76.0%	76.0%	76.0%	76.0%	76.0%	76.0%	76.0%
Gross margin	23.1%	23.9%	24.0%	24.0%	23.8%	24.0%	24.0%	24.0%	24.0%	24.0%	24.0%	24.0%	24.0%	24.0%	24.0%
S,G&A - cash	4,060,225	4,000,845	3,495,179	3,313,130	14,869,379	4,401,060	4,200,128	4,066,857	4,106,495	16,774,539	4,867,201	4,641,797	4,496,238	4,548,864	18,554,100
As a percent of revenue	19.4%	19.9%	17.0%	16.0%	18.1%	18.0%	18.0%	18.0%	18.0%	18.0%	18.0%	18.0%	18.0%	18.0%	18.0%
Stock-based comp.	499,273	460,061	600,000	600,000	2,159,334	550,000	550,000	550,000	550,000	2,200,000	550,000	550,000	550,000	550,000	2,200,000
Cancellation of stock-based comp.	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Depreciation and amortization	576,154	547,849	600,000	600,000	2,324,003	525,000	525,000	525,000	525,000	2,100,000	525,000	525,000	525,000	525,000	2,100,000
Operating income	(281,957)	(208,941)	239,191	456,565	204,858	392,020	325,043	280,619	293,832	1,291,513	547,400	472,266	423,746	441,288	1,884,700
Operating margin	-1.3%	-1.0%	1.2%	2.2%	0.2%	1.6%	1.4%	1.2%	1.3%	1.4%	2.0%	1.8%	1.7%	1.7%	1.8%
Interest income	115,354	107,270	800,000	800,000	1,822,624	800,000	800,000	800,000	800,000	3,200,000	800,000	800,000	800,000	800,000	3,200,000
Other	-	261,413	-	-	-	-	-	-	-	-	-	-	-	-	-
Interest expense	(13,585)	(14,250)	(1,000)	(1,000)	(29,835)	(1,000)	(1,000)	(1,000)	(1,000)	(4,000)	(1,000)	(1,000)	(1,000)	(1,000)	(4,000)
Pretax Income	(180,188)	145,492	1,038,191	1,255,565	1,997,647	1,191,020	1,124,043	1,079,619	1,092,832	4,487,513	1,346,400	1,271,266	1,222,746	1,240,288	5,080,700
Taxes	(13,858)	70,000	61,680	62,121	179,943	73,351	70,002	67,781	68,442	279,576	81,120	77,363	74,937	75,814	309,235
As a percent of revenue	-0.1%	0.3%	0.3%	0.3%	0.2%	0.3%	0.3%	0.3%	0.3%	0.3%	0.3%	0.3%	0.3%	0.3%	0.3%
Net income to common	(166,330)	75,492	976,512	1,193,444	1,817,704	1,117,669	1,054,040	1,011,838	1,024,390	4,207,937	1,265,280	1,193,902	1,147,809	1,164,474	4,771,465
Net income margin	-0.8%	0.4%	4.7%	5.8%	2.2%	4.6%	4.5%	4.5%	4.5%	4.5%	4.7%	4.6%	4.6%	4.6%	4.6%
Diluted shares outstanding	26,508,872	26,534,407	26,549,407	26,564,407	26,539,273	26,579,407	26,594,407	26,609,407	26,624,407	26,601,907	26,639,407	26,654,407	26,669,407	26,684,407	26,661,907
Seq change	5,621	25,535	15,000	15,000		15,000	15,000	15,000	15,000		15,000	15,000	15,000	15,000	
EPS diluted - continuing	(\$0.01)	\$0.00	\$0.04	\$0.04	\$0.07	\$0.04	\$0.04	\$0.04	\$0.04	\$0.16	\$0.05	\$0.04	\$0.04	\$0.04	\$0.18
EBITDA															
Operating income	(281,957)	(208,941)	239,191	456,565	204,858	392,020	325,043	280,619	293,832	1,291,513	547,400	472,266	423,746	441,288	1,884,700
Addback															
Depreciation and amortization	576,154	547,849	600,000	600,000	2,324,003	525,000	525,000	525,000	525,000	2,100,000	525,000	525,000	525,000	525,000	2,100,000
Stock comp. expense	499,273	460,061	600,000	600,000	2,159,334	550,000	550,000	550,000	550,000	2,200,000	550,000	550,000	550,000	550,000	2,200,000
EBITDA	793,470	798,969	1,439,191	1,656,565	4,688,195	1,467,020	1,400,043	1,355,619	1,368,832	5,991,513	1,622,400	1,547,266	1,498,746	1,516,288	6,184,700
YoY growth	-22.9%	-30.9%	-1550.5%	459.8%	96.8%	84.9%	-17.4%	-17.4%	-17.4%	19.3%	10.6%	10.5%	10.6%	10.8%	10.6%
EBITDA margin	3.8%	4.0%	7.0%	8.0%	5.7%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%

Source: Company reports and Litchfield Hills Research LLC



Usio, Inc.

USIO (NASDAQ) - Buy \$6 Price Target

Usio Trades at a Significant Discount to Comps – Our \$6 Target Implies Slight Premium on Ev/EBITDA

Company Name	Fiscal Period	Price	Shares Outstanding	Market Value	Enterprise Value	Sales	EBITDA	Enterprise Value/ Sales	Enterprise Value/ EBITDA
USIO	06/30/2024	\$1.51	26.4	38.6	34.2	80.3	2.1	0.4x	15.9x
USIO @ 2025E	12/31/25	\$1.51	26.4	38.6	34.2	93.2	5.6	0.4x	6.1x
USIO @ target on 2052E	12/31/25	\$6.00	26.4	158.6	154.2	93.2	5.6	1.7x	27.6x
USIO @ target on 2026E	12/31/26	\$6.00	26.4	158.6	154.2	103.1	6.2	1.5x	24.9x
versus comps								44%	161%
ACI Worldwide, Inc.	06/30/2024	\$47.23	104.7	4,900.1	5,794.1	1,452.6	357.0	4.0x	16.2x
Bread Financial Holdings, Inc.	06/30/2024	\$53.42	49.7	2,603.6	3,285.6	4,938.0	-	0.7x	
Euronet Worldwide, Inc.	06/30/2024	\$101.52	44.9	4,477.1	4,802.0	3,688.0	565.5	1.3x	8.5x
EVERTEC, Inc.	06/30/2024	\$33.19	64.0	2,075.5	2,762.7	694.7	236.0	4.0x	11.7x
Fidelity National Information Ser	06/30/2024	\$78.30	545.6	42,603.2	51,719.2	9,821.0	3,592.0	5.3x	14.4x
Fiserv, Inc.	06/30/2024	\$165.13	575.7	94,436.2	119,484.2	19,093.0	7,777.0	6.3x	15.4x
Jack Henry & Associates, Inc.	03/31/2024	\$165.46	72.9	12,013.2	12,298.0	2,077.7	671.4	5.9x	18.3x
Shift4 Payments, Inc. Class A	06/30/2024	\$83.48	62.0	7,009.7	8,775.5	2,564.8	399.4	3.4x	22.0x
PayPal Holdings, Inc.	06/30/2024	\$67.79	1,022.3	67,617.1	66,924.1	29,681.0	5,926.0	2.3x	11.3x
Block, Inc. Class A	06/30/2024	\$63.96	555.2	38,293.1	35,652.4	21,915.6	1,188.0	1.6x	30.0x
WEX Inc.	06/30/2024	\$178.65	41.1	7,185.2	6,292.6	2,548.0	929.9	2.5x	6.8x
Corpay, Inc.	06/30/2024	\$291.48	69.4	19,996.7	23,807.7	3,757.7	2,027.5	6.3x	11.7x
Average								3.4x	15.5x

Source: FactSet Research Systems, Company reports, and Litchfield Hills Research LLC



Usio, Inc.

USIO (NASDAQ) - Buy \$6 Price Target

Disclosures:

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