

Usio, Inc.

USIO (NASDAQ) - Buy \$6 Price Target

Initiation Report

The Most Innovative Company in Payments

Analyst: Barry M. Sine, CFA, CMT

We initiate coverage of Usio, Inc. with a Buy Rating and a \$6 Price Target

- Usio is in the fast-growing electronic payments industry with the trend toward a cashless society likely to continue. Federal Reserve data show a 7% CAGR for non-cash payments from 2018 to 2021.
- Usio is more innovative than the industry and is taking share with a 24% revenue CAGR over the last five years (although this does include one acquisition).
- As we detail in this report, the company has had five major successes over the last decade, three very successful acquisitions and two major customer wins. The management team brings a deep collective history in payments, and with their track record, we expect more.
- Its PayFac business started in 2017, has come into its own with three major \$5 million+ customers in discussions. One, with \$20 million+ in annual recurring revenue has been signed and is on-boarding.
- With these and other catalysts, we look for the stock to move well above its \$1.50 to \$2.20 range for the last year and hit our \$6 target.

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	(\$0.01)	\$0.04	\$0.04
Stock Price	\$1.55	3Q - September	(\$0.04)	\$0.05	\$0.05	\$0.05
52 wk High	\$2.28	4Q - December	\$0.00	\$0.06	\$0.05	\$0.06
52 wk Low	\$1.30	Year	(\$0.02)	\$0.10	\$0.18	\$0.20
Shares Outstanding:	26.4 M	Revenue (\$mm)	\$82.6	\$90.2	\$101.9	\$112.9
Public Market Float:	17.0 M	EV/Rev	0.4X	0.4X	0.3X	0.3X
Avg. Daily Volume	33,354	EBITDA (\$mm)	\$2.4	\$4.1	\$6.1	\$6.8
Market Capitalization:	\$41 M	EV/EBITDA	NM	8.4X	5.7X	5.1X
Institutional Holdings:	21.4%					
Dividend Yield:	0.0%					

Senior Executives	Common Ownership Profile		
	Shareholder	Shares ('000)	% of Total
Louis Hoch Chairman, President and CEO	AWM Investment Co., Inc.	1,269.9	4.8%
Greg Carter EVP - Payment Acceptance	Perkins Capital Management, Inc.	1,042.7	3.9%
Houston Frost SVP - Chief Product Officer	The Vanguard Group, Inc.	1,011.8	3.8%
Michael White SVP - Chief Accounting Officer	Kepos Capital LP	500.0	1.9%
Jerry Uffner SVP - Card Issuance	Renaissance Technologies LLC	384.7	1.5%
Sy Green SVP - Output Solutions	Directors and Officers	5,049	19.1%

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 is the Most Innovative Company in the Fast-Growing Payments Sector, With Multiple Catalysts

We initiate coverage of Usio, Inc. with a Buy rating and a \$6 price target. It is a San Antonio-based electronic payments company. While it is not the largest player in payments, in our opinion it is the most innovative, frequently winning new business through innovations. It offers all of the types of payment services most businesses need, ACH and card, and its card issuance business issues prepaid cards in either plastic or virtual (phone app) form for business partners.

We value USIO shares at \$6 per share, with a twelve-month outlook. One challenge in valuing the company is that it is just on the cusp of sustainable EBITDA growth, in our opinion, so while revenue is strong, margins are not as high as the company is ultimately capable of. So, our target equates to 1.4x our 2025 revenue estimate or a 58% discount to the 3.3x revenue comps trade at based on trailing revenue. Conversely, our target represents a 53% premium to the 15x EV/EBITDA multiple of comparable payments companies.

We categorize risk factors into four categories: regulatory, cybersecurity, errors, and fraud. Usio's business is heavily regulated and is a target of certain senators. It also relies heavily on the Federal Reserve's Fedwire Funds Service for its ACH business. Its business is all done via the internet, exposing it to cyber risks. It also runs the risk of incurring a loss if it makes an error in transmitting funds and cannot retrieve them. Finally, there is outright fraud. All of these are manageable and Usio monitors for cyber risks constantly and has an active, and to date successful, risk and fraud management program.

The Most Innovative Company in Payments

Our investment thesis on Usio is based on management's track record of success in M&A deals and winning major new contracts. We believe it is set to continue this success and that's the reason for our bullish view and premium valuation.

- In December 2014 it acquired Akimbo Financial for \$3.3 million, entering the prepaid business. But Usio didn't just issue the same old plastic prepaid cards that dozens of its competitors do. It pioneered the use of virtual prepaid card cards, which dramatically reduced the cost of issuing a card, and allowed cards to be issued instantly. In one example, it allowed a Coca-Cola distributor to offer free Cokes to people trying its new Coke machines with the Cokes purchased using a specialized, downloaded prepaid card that could only be used to buy Coca-Cola products at vending machines.
- In December 2017, it acquired Singular Payments for \$5 million. Singular was a fairly conventional credit card processing business, with a very interesting new technology called payment facilitation or PayFac. The credit card processing business is slowing attriting, while PayFac is growing at double-digit rates and is the future of the company. The beauty of PayFac is that it is a large-scale, wholesale mechanism to acquire merchants through deals with software providers that provide specialized software to allow their clients to operate their businesses. PayFac grew by 14% in 1Q24 and is now around 17% of revenue.
- In December 2020, it acquired Information Management Solutions (IMS) for \$5.9 million. IMS was mainly a traditional bill printing and mailing business with a large number of credit union and small utilities customers. At the time, the deal was controversial as paper bills are a fading concept. But this deal has been a tremendous success. Usio has renamed it Output Solutions and continued to win paper printing business, including for Los Angeles and Miami-Dade counties, but now it also delivers PDF statements and processes the payments for its customers, creating tremendous positive synergy. Each bill now has a QR code that customers can scan and pay their bills electronically. Last year, Output Solutions was Usio's largest revenue category.

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- In January 2021, it became the program manager for Voyager Digital, which was at the time, one of the major retail crypto brokers started by the founders of E*Trade. Customers received a Voyager Debit Master Card, issued by Usio. Usio also handled all incoming and outgoing payments via its ACH unit (which carries a 60%ish gross margin). Critics cited the riskiness of crypto assets, but Usio never touched the crypto, only processing U.S. dollar payments coming into or out of Voyager. Voyage represented 8% of Usio's revenue in both 2021 and the first five months of 2022 or roughly \$7.3 million over this period. At a 60% gross margin for ACH, we estimate that Voyager generated roughly \$4 million in incremental cash for Usio before it shut down in June 2022. Voyager also invested \$1 million in Usio at \$7 per share. Usio now has \$7.1 million in cash, and it incurred no losses on Voyager because it only handled safe, U.S. dollar payments. So, while the deal was heavily criticized at the time, we view it positively and believe that it continues to benefit the company via a strengthened balance sheet.
- While still smarting from the criticism and negative comps from Voyager, in July 2022 it landed another mega-deal, that would also turn out to be short-lived. It signed the New York City Economic Development Commission to issue \$100 prepaid cards to incentivize residents to get COVID-19 vaccinations. COVID is now a fading memory, but the program was a long-term revenue generator via the spoilage revenue it gets as Usio retains a significant portion of the unused balances on prepaid cards. We estimate that NYC-related spoilage represented \$10 million in revenue in 2023. The card-issuing business carries roughly 30% to 40% margins, and NYC may have been even more profitable due to the high component of spoilage revenue. The company reported a 31% decline in prepaid revenue in 1Q24, as this spoilage revenue goes away, and it should have continued, but moderating difficult comparison issues through the year. But again, if this deal generated \$4 million in incremental cash, we view it very positively, even if it was a one-off.

Management teams that continue to make winning bets are not merely lucky, in our view, but are great managers. And that's the crux of our bullish thesis on Usio. Over the years this analyst has covered them, they have continued to announce positive customer wins and M&A deals. With the same CEO in place, we expect this winning track record to continue, and as we discuss later, its PayFac business has just announced another whale-sized contract, although this one looks to be sustainable.

We think that major PayFac customer wins will be the next major investor milestone. The company has said it is working on four large accounts, with large accounts defined as over \$5 million in annual recurring revenue. So unlike, Voyager and NYC, these wins should be long-lived. Usio recently signed the first of these and estimates annual revenue of over \$20 million, once the customer is fully ramped up and its clients are on-boarded. The other three are identified and in discussions but not signed. We think the second could be signed later this year and perhaps one of the other two in 2025. If we are correct, that would add another \$30 million in annual, recurring revenue from about 2026 onward, compared to our estimate of roughly \$90 million in revenue for this year.

The U.S. is Becoming a Cashless Society

Every three years, the Federal Reserve publishes an electronic payments study, the most recent of which was published in 2022 covering the years 2019 through 2021. In all, they report 204.5 billion transactions annually with a total value of \$129 trillion. By contrast, Usio processes less than \$6 billion in payments annually giving it a miniscule market share and ample room for growth.

We believe that the growth potential of electronic payments is enormous. Today, there are roughly 9 billion credit cards globally accepted at 44 million merchant locations. In the U.S., there are approximately 800 million credit cards and 1.2 billion debit cards. Already, we are seeing an explosion in the ways that payments can be originated including cell phones, watches, fingerprints, and facial recognition, so the number of ways to pay could increase tenfold to over 90 billion. Usio is a leader in virtual prepaid card



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issuance. We are also seeing an explosion in areas where electronic payments are accepted ranging from vending machines to buses to food trucks. Usio's software enables both the payment device and the merchant accepting the payments.

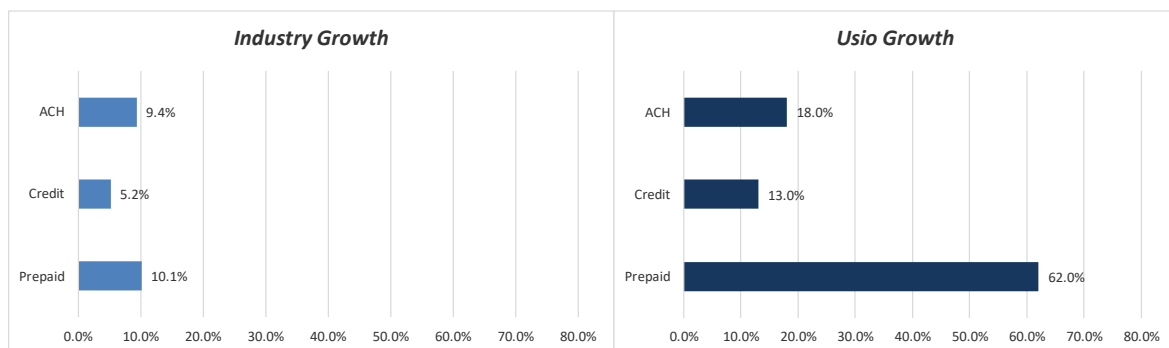
Cashless Payments Growing 7% Annually

Debit card transactions	105.9 billion	5.2% CAGR 2018-2021
Dollar amount of transactions	\$4.6 trillion	10.1% CAGR 2018-2022
Average transaction value	\$43	
Credit card transactions	51.1 billion	3.4% CAGR 2018-2021
Dollar amount of transactions	\$4.9 trillion	5.2% CAGR 2018-2022
Average transaction value	\$96	
ACH transactions	27.0 billion	6.2% CAGR 2018-2021
Dollar amount of transactions	\$51.2 trillion	9.4% CAGR 2018-2022
Average transaction value	\$1,896	
Total Transactions (incl. check)	204.5	4.2% CAGR 2018-2021
Dollar amount of transactions	\$129	7.0% CAGR 2018-2022
Average transaction value	\$61	

Source: Federal Reserve and NACHA

While electronic payments are growing rapidly, Usio is growing much faster. Using Usio's revenue from each product as a proxy for its transaction dollars processed, its prepaid unit has grown six times faster than the industry over the last three years while both its credit card and ACH units have posted twice the growth reported by the Federal Reserve in those categories.

Usio is Exceeding Industry Growth in Debit Card, Credit Card, and ACH, Taking Share



Source: Federal Reserve and Company reports

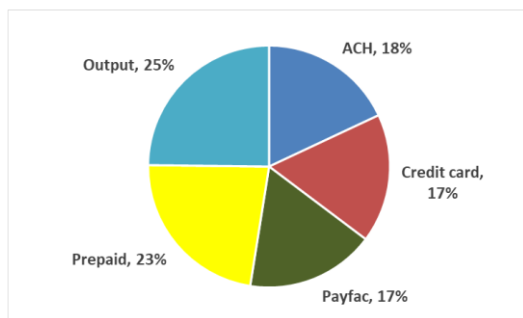
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Usio Offers a Full Array of Electronic Payments Services

Usio has four lines of business, or five depending on how you break them down: Output Solutions, which prints both paper and electronic (PDF) bills at 25% of revenue, card issuance or prepaid at 23% of revenue, automated clearing house or ACH at 18% of revenue and card processing which contains both the declining traditional card processing portfolio at 17% of revenue and its fast-growing PayFac business at 17% of revenue. Prepaid has been the fastest grower over the last five years with a 62% CAGR, while PayFac appears to be the growth engine of the future. ACH is by far the most profitable, with a gross margin in the low 60%s, whereas PayFac is the least profitable due to growth-related expenses.

Usio Offers a Diversified Portfolio of Businesses



	Estimated Revenue	% of rev	Projected Gross Margin
ACH	\$17.9	20%	Low 60%s
Prepaid	\$17.8	6%	35% to 45%
Payfac	\$17.6	6%	Single digits, during growth phase
Legacy credit	\$14.4	16%	12% to 20%
Output	\$22.5	25%	18% to 22%
2024E Revenue	\$90.2	100%	

Source: Litchfield Hills Research and Company reports

Automated Clearing House (ACH) is Usio's Most Profitable Business

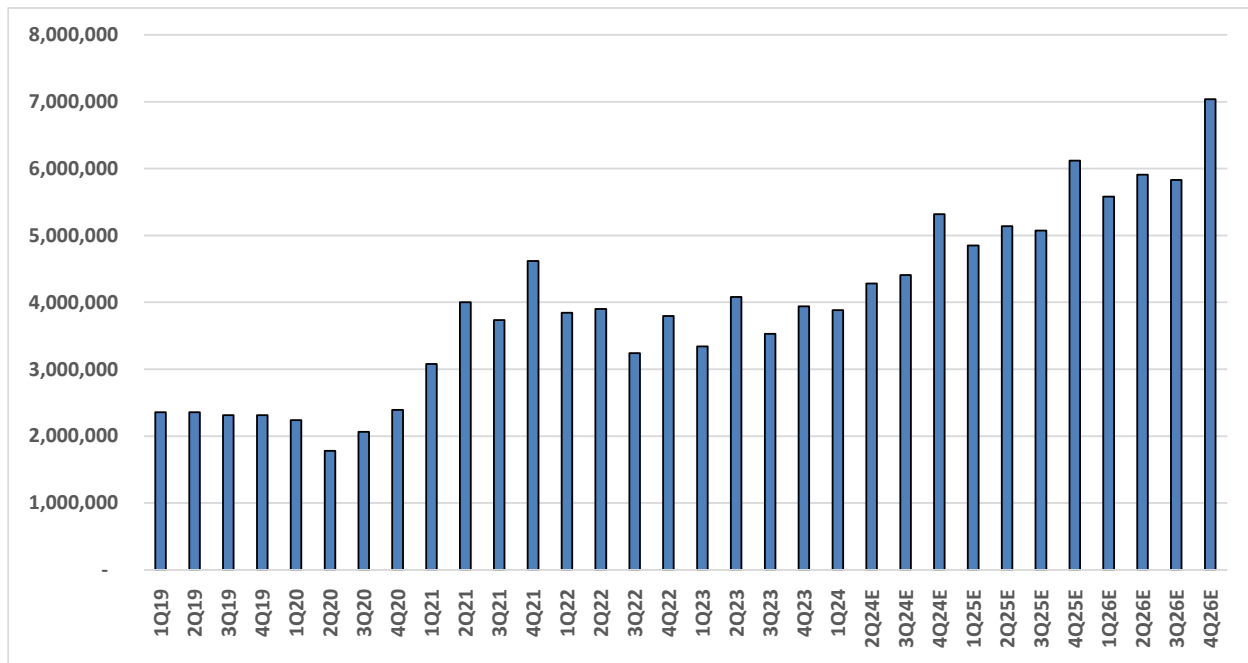
ACH generated \$14.9 million in revenue in 2023, up just 0.7% on tough crypto comps. Results dramatically improved in 1Q, with revenue up 16.2%. We expect 22% revenue growth in 2024, 16% in 2025 and 15% in 2026.

ACH is a network among financial institutions that supports both debit and credit transactions. Transactions are generally small, for bill payments or small loan disbursements and fees are relatively low to allow for small transactions. Usio is a major player in ACH and is the longest-standing accredited ACH institution, accredited by NACHA, which is the National Automated Clearing House Association. In late 2017 Usio became only the second ACH operator to become certified. The first was the TeleCheck unit of Fiserv, but it has lost its certification as it did not seek re-certification during the process of completing the major acquisition of First Data. This certification gives Usio enormous credibility, and should at the margin help win new business given NACHA's prominence. Also, in 2017, Usio began offering same-day ACH payments. This is an important feature demanded by many customers so this enhancement too should improve its win rate.

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ACH Has Posted a 10% Revenue CAGR Over the Past Five Years



Source: Litchfield Hills Research and Company reports

NACHA has just ten certified members, only two or three of which directly compete with Usio.

1. **ACI Worldwide** is publicly traded on the NASDAQ with a \$3.8 billion market cap. It became certified through its subsidiary Official Payments which processes tax payments for state and federal entities, including the IRS.
2. **Bill.com** is a private, venture-funded company in San Francisco with 3 million customers representing \$60 billion in payments annually. It was valued at \$1 billion in its last round. It focuses on CPAs and is the official payments provider of the American Institute of CPAs. It is integrated into popular CRM and accounting software packages including QuickBooks, NetSuite, and Sage. Bill.com also has agreements with PNC Bank and Bank of America to provide its service to their business customers.
3. **CBIZ Human Capital Management** is traded on the NYSE with a \$3.8 billion market cap. It is an employee benefits and accounting company.
4. **MyPay** provides outsourced payroll, banking, and tax services to CPA firms nationally. It was acquired by the privately-held IRIS Software Group in 2022. IRIS was founded in 1978, is highly acquisitive, and has over 2,200 employees.
5. **Netchex** is a privately held Louisiana-based payroll and human resources company. It has 340 employees and was founded in 2003.
6. **OneInc** is a privately held payments company serving the insurance industry for claims payments. They are headquartered in Folsom, California.
7. **Orum** is a privately held payments company based in San Francisco, California. It uses its proprietary APIs to allow insurance companies and brokerage firms to make payments.
8. **Paychex** is a very large, publicly traded payroll services company headquartered in Rochester, New York with a \$43 billion market cap. It has a customer base of 670,000 mainly mid to small businesses.



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9. **Paycor** is a publicly traded human resources and payroll company headquartered in Cincinnati, Ohio.

The requirements for NACHA certification include the following:

- Independent Nacha Rules Audit
- ACH Risk Assessment
- Compliance and Risk Program Policies and Procedures
- Agreement to Criminal Background Check for all principals and key officers
- Audited Financial Statements

Usio reports three KPIs for ACH: the number of electronic check transactions, the number of returned check transactions, and the dollar amount of check dollars processed. These were up 4%, 9%, and 22% in the first quarter. Payment transactions generate a 70c average fee, with 29 cents going to the bank Usio uses for processing and the company keeping the remaining 41 cents.

ACH Revenue Model

Charges flat 15c to 95c fee per transaction

Average fee - Usio charges 70 cents and nets 41 cents

Bank	\$0.29
Usio	<u>\$0.41</u>
Total	\$0.70

Return item charge average \$4 per item - depends on perceived risk

Incurs bad debt risk of return items that cannot be charged back to merchant

Source: Litchfield Hills Research and Company reports

In ACH, the company receives a per transaction “click fee” regardless of the amount of the transaction ranging from around 15¢ to 95¢ depending on the perceived risk level of the transaction with an average of around 35¢. It also charges a roughly \$4 fee for payments that are returned for insufficient funds. The company strikes a fine balance on return items since the fee revenue is very attractive, but they do present a financial risk, so it strives to maintain a ratio of no more than 15% bad checks per merchant.

The ACH process is a four-step process with the ACH operator, in this case, Usio, as the intermediary.

- Originator – business initiates a request for payment to customer or customer initiates a request to pay a business
- The bank of the originating business or consumer receives a request and sends it to the ACH operator
- Usio receives, sorts, and sends payments between the originating and receiving institutions
- The receiving bank receives a request from Usio and deposits funds



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Since Usio is not a bank, it needs to work with an originating depository financial institution or ODFI. It works with three ODFIs:

- North American Banking Company
- Metropolitan Commercial Bank
- TransPecos Bank

If the company is unable to charge back the merchant for a returned check, it is liable to the bank for the amount of returned items so it does need to carefully monitor its customer base for signs of financial distress. Returned checks require a balancing act since the ACH provider may have to incur the loss if it cannot charge back the item to the merchant. Since payments are batched and sent, there is a time lag from receipt to potential return, increasing the risk level. Given how lucrative they are, however, providers do want a reasonable amount of returned checks in a customer's mix. So, 1% is considered reasonable but if returned checks are 10% or more of a merchant's ACH payments, it's a sign of increased risk likely to cause the provider to take action. With a 35¢ average fee for payments and \$4 for return items, Usio averages around 70¢ per transaction. ACH is very profitable with an average gross margin of 41¢ per transaction for a gross margin of around 60%.

Usio targets larger, more credit-worthy customer bases. Its customer base is focused on:

- Mortgage servicers
- Insurance companies
- Utilities
- Apartment complexes
- Alternate lenders
- Charities
- Tenant management

Usio is also on the cutting edge, ahead of many competitors with new products including the new PINless debit. This product allows merchants to debit and credit accounts in real time. Usio is also one of only two payments companies with its own Fed terminal, the other being PayPal. This allows it to directly make much more timely ACH payments on behalf of its clients.

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Usio is One of Just Ten NACHA Certified ACH Providers

<p>Usio www.usio.com USIO - NASD \$42 mm mkt. cap.</p>		<p>Since 2018</p>
<p>ACI Worldwide www.aciworldwide.com ACIW - NASDAQ \$3.8 bn mkt. cap.</p>		<p>Since 2018</p>
<p>Bill.com www.bill.com private \$1 bn valuation in last round</p>		<p>Since 2021</p>
<p>CBIZ Human Capital Management www.cbiz.com CBZ - NYSE \$3.8 bn mkt. cap.</p>		<p>Since 2023</p>
<p>MyPay Solutions www.mpay.com private</p>		
<p>Netchex www.netchex.com private</p>		<p>Since 2021</p>
<p>OneInc www.oneinc.com private</p>		<p>Since 2021</p>
<p>Orum www.orum.io private</p>		<p>Since 2024</p>
<p>Paychex www.paychex.com PAYX - NASD \$43 bn mkt. cap.</p>		<p>Since 2018</p>
<p>PayCor HCM www.paycor.com PYCR - NASDAQ \$2.2 million market cap</p>		<p>Since 2020</p>

Source: NACHA, Factset, company reports and Pitchbook.com

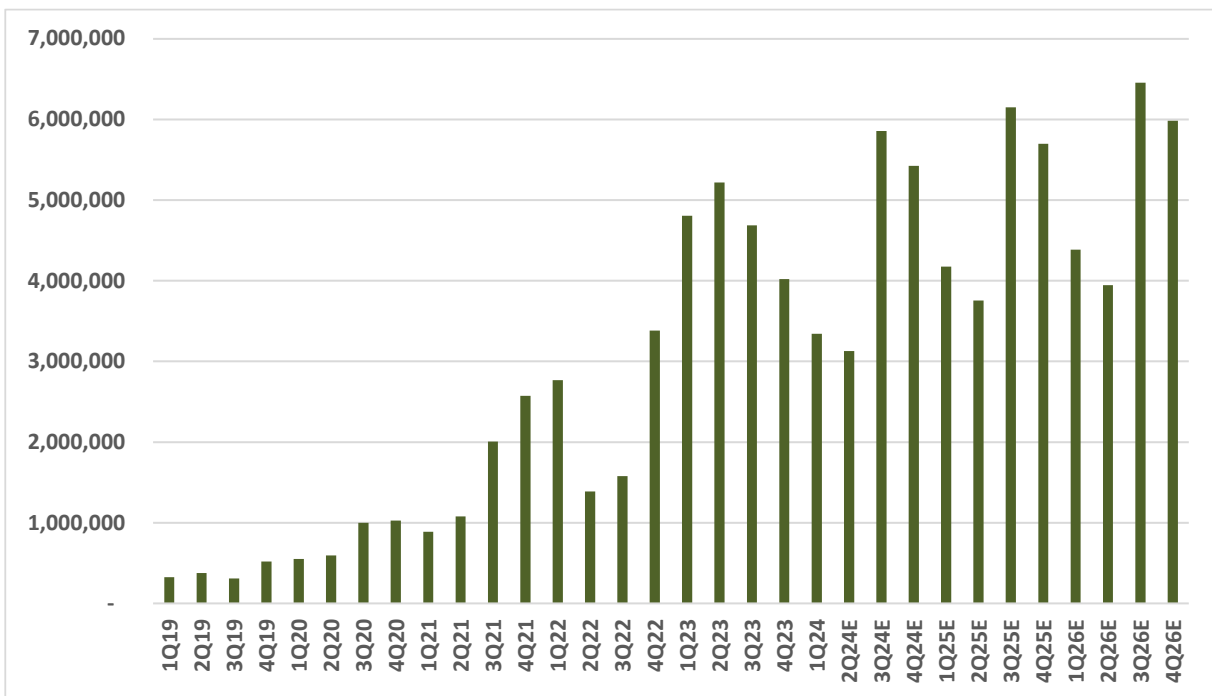
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Prepaid – Now called Card Issuance – Is Usio’s Fastest Grower

Usio’s prepaid/card issuance business generated \$18.7 million in revenue in 2023, up 105% and represented 23% of revenue. Over the last five years, it has been Usio’s fastest-growing business with a 62% CAGR. That was a bit above normal trends as the company recognized roughly \$10 million in spoilage/breakage revenue, related to the 2022 NYC COVID-19 vaccine inventive program. Spoilage is when some of the balance on a card is not used while breakage is when the card is never used.

Card Issuance Has Posted a 62% CAGR Over the Last Five Years



Source: Litchfield Hills Research and Company reports

Due to the tough comps with so much spoilage revenue in 2023, revenue was down 31% in 1Q24 but was up 21% excluding spoilage. We expect another quarter of decline in 2Q, but roughly flat revenue for the year. For 2025 we look for 9% revenue growth and for 2026 we forecast 5% growth.

Usio makes money in three different ways in card issuance. First, it charges its client between 35 cents and \$4 per card issued. It issues both traditional plastic cards as well as virtual cards which are stored in the end user’s mobile device. When the money is spent, it earns between 1% and 2% of the transaction value from merchants. It also charges fees and retains a portion of the unused balance, splitting this with the program sponsor customer. These are between 2% and 4% of the amount loaded.

Usio reports three KPIs for Card Issuance: load volume, which was up 108% in 1Q, transaction volume which was up 26% and dollar volume which was up 42%. Load volume is probably the best leading indicator since Usio eventually makes money on the amount loaded, whether it is spent or spoiled. Dollar volumes are probably the best coincident indicator and, as noted, revenue was up 21% ex spoilage.



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Usio was the first prepaid card program manager to be compatible with all three electronic payment systems: Apple Pay, Google Wallet, and Samsung Pay. It has a sponsorship agreement with Sunrise Bank for prepaid cards.

Usio is very innovative in leveraging its advanced technologies to find new uses for electronic prepaid cards allowing its customers innovative, low-cost ways to disburse funds immediately, without the costs and delay of issuing a paper check or even sending an ACH payment.

Prepaid Revenue Model

Fee per card created	\$0.35	to	\$4.00 per card
Interchange merchant fee	1.0%	to	2.0% per transaction
Fees and spoilage	2.0%	to	4.0% per amount loaded

Source: Litchfield Hills Research and Company reports

Prepaid Cards for Everything

One of its more established lines of business is issuing prepaid cards under the brand names of pharmaceutical or medical device makers to compensate participants in the Food and Drug Administration (FDA) trials they have to undertake before they can introduce new products. Usio's healthcare clients include Pfizer, Merck, Lilly and Medtronic. When a patient shows up for tests or completes some other milestone in a trial, the manager of the trial can electronically transmit the payment from their computer, through Usio, to the trial participant's prepaid card. The FDA also places parameters on how much these companies can compensate trial participants, so Usio prepaid cards provide an easy way to manage this process.

Another category of customers the company loves are utilities or landlords who may have to send deposits back to consumers. Usio prepaid cards replace paper checks in most of these applications:

Sample card issuance clients:

Class Wallet (www.classwallet.com)

According to its website, "ClassWallet's initial goal was to create a simple technology that would easily allow teachers to get the funds they needed for their classrooms." It utilizes Usio prepaid cards to disburse funds to teachers for classroom needs and allows administrators to track this spending. Class Wallet is based in Hollywood, Florida, was founded in 2011, and has roughly 300 employees.

Mobile Money (www.mobilemoney.net)

Mobile Money has issued 1.4 million cards used at sports arenas and theme parks which increasingly do not take cash. These cards work like reverse ATM cards. The customer inserts money into a machine, and it issues a Mobile Money debit card.

International Rescue Committee (www.rescue.org)

IRC is a non-profit humanitarian aid organization originally set up in 1933 at the suggestion of Albert Einstein. It has issued 47,000 cards and loaded \$75 million since the program launch.

MoviePass (www.moviepass.com)

MoviePass is the post-bankruptcy reincarnation of the company by the same name, relaunched in 2022. It issues prepaid debit cards that its subscribers can use to purchase movie tickets at discounted rates. MoviePass is a high volume, high margin account with about 180,000 cards in use. Usio earns about 2% of their transaction volume as revenue, plus revenue from any unused funds.

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For any merchant conducting promotions, incentive programs, or rebates Usio has a simple, low-cost electronic way to disburse funds. One anecdote from management involves a program they did with the local operator of Coke machines in Atlanta. They had just introduced new machines with tap and pay capability and enlisted Usio in a clever marketing program to highlight this new capability to consumers. When a customer walked by one of these new machines, they would receive a text message offering them a free can of Coke. But how to deliver it? Once a consumer accepted, Usio would electronically deliver a prepaid card in the amount of the price of a can of Coke to the consumer's mobile wallet, valid only at that Coke machine for the next three hours. It just so happened that the first person to receive a free Coke offer was a high school student. He was so excited that he told all his friends at school and that machine quickly wound up dispensing 800 free Cokes. Then the students went home and posted on social media and the campaign went viral. Soon people all over Atlanta were looking for these new Coke machines and receiving free Cokes so within 48 hours, over 87,000 cards were issued requiring the customer to end its promotion early having publicized this new feature on its machines much more successfully than it ever thought possible. Usio's ability to limit where and when cards can be used, down to a single terminal, increases the value of promotions so that, for example, recipients of the free Coke promotion could not use it in a Pepsi machine.

The University of Alabama used Usio's capabilities for a unique promotion at a football game at Bryant-Denny Stadium. The university flashed a message on its jumbo scoreboard during a game instructing fans to text "GO BAMA" to its number to receive a free Coke during the game at a stadium concession stand. Again, fans who responded received a Usio-issued, Bama-branded electronic prepaid card that could only be used at stadium concession stands for a Coke for the next three hours.

Another competitive advantage and revenue source for Usio is unused funds on prepaid cards. For some types of businesses, such as utilities, cutting checks to return deposits costs around 21¢ per check. For pretty much every application where a consumer is issued a paper check, Usio can substitute a gift card saving its customers significant amounts of money. The secret to the economics is the high percentage of prepaid cards that go unused, and this percentage rises inversely to the amount of the card. So, while \$200 cards may have a breakage rate of just 2%, smaller denominations of \$20 have breakage rates as high as 50%. Legally the easiest way to recoup these balances and avoid state escheatment laws is to charge a dormancy fee. For example, Usio's own Akimbo prepaid card charges a \$5.95 per month dormancy fee after the card has gone unused for a year.

Its customer base primarily consists of the following:

- Non-profit/government agencies
- Corporations to issue expense payments
- Healthcare
- Gift Cards
- Corporate Incentives

Usio was a pioneer in the guaranteed income programs being experimented with in the U.S. According to Stanford University's Basic Income Lab, there are 65 active universal basic income programs in the U.S. currently, ranging from Stockton, California to Cook County, Illinois. Prepaid cards are ideal for these programs as the sponsor can load money on the cards and limit where the funds can be spent.

Prepaid cards are also ideal for corporate expense payments. Corporations can issue these cards to employees traveling on business, and restrict their use to things like airfare, car rentals, restaurants, and hotels. They can pull back any unspent funds at the end of the trip.

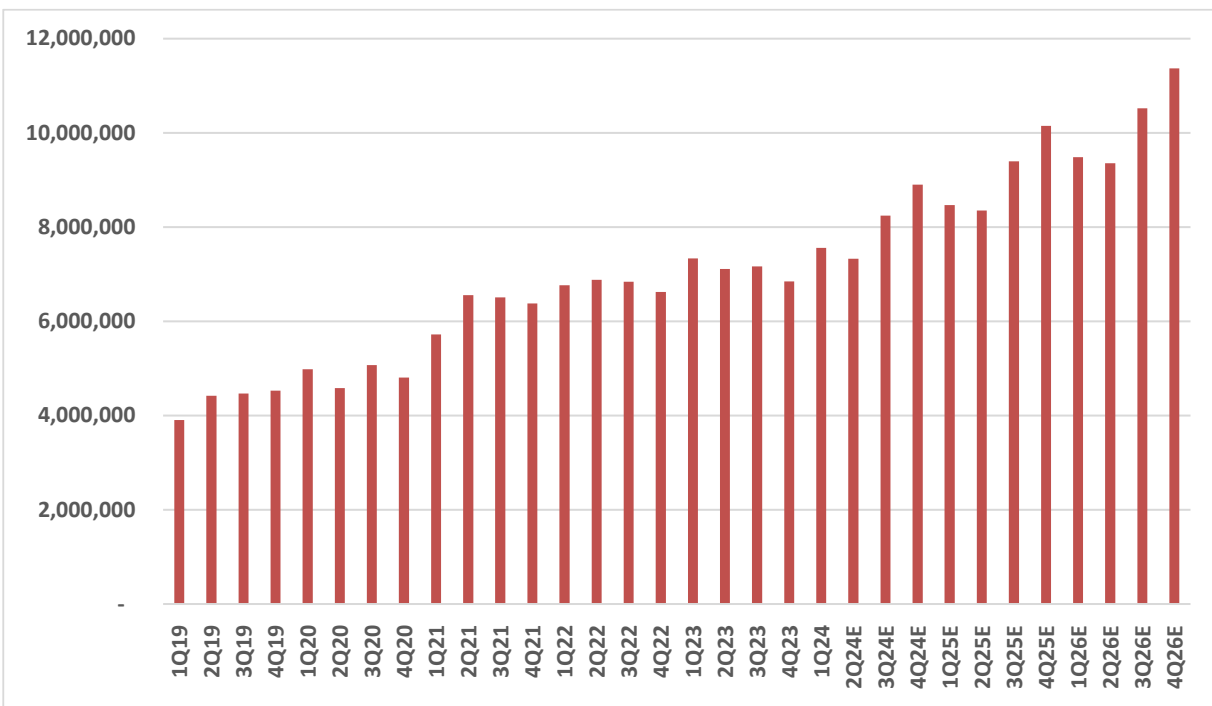
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Card Processing is About Half Declining Legacy Business and Half Fast-Growing PayFac

Usio's credit card business generated \$28.5 million in 2024, up 5%. For the first quarter, revenue increased only 3%. This part of the business is really two businesses, that are now roughly equal in size. First, there is a legacy portfolio of merchant clients for whom Usio processes credit card payments that was acquired in 2017 in the Singular acquisition. Acquiring individual merchant customers is expensive, and Usio has found a better way, so this part of the business is being allowed to attrit. The other, more exciting business is its payment facilitation business, which is growing but with growth expenses, is less profitable. We look for the card processing unit to grow revenue by 12.5% in 2024, 13.5% in 2025, and 12.0% in 2026 but as PayFac becomes a larger part of the mix, revenue should accelerate, so we are a bit conservative in this outlook.

Card Processing Has Posted a 10% CAGR Over the Last Five Years



Source: Litchfield Hills Research and Company reports

Similar to the ACH business, Usio must be sponsored by a bank that is a member of the major credit card associations, Visa, MasterCard, American Express, and Discover. Under these arrangements, Usio is referred to as a third-party servicer (TPS), merchant service provider (MSP), or independent sales organization (ISO). It has two such sponsorship arrangements:

- Wells Fargo
- Central Bank of St. Louis



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For credit card processing, Usio receives roughly 0.48% of the transaction value, out of the 2.75% the merchant pays. Usio reports two KPIs for its credit card unit: transaction volume or number of transactions, up 18% in 1Q, and dollar volume processed, up 8% in 1Q. Of the two, we view the dollar volume as more relevant, since this unit's revenue is more tied to the dollar value of transaction rather than the number of transactions. Unfortunately, neither is forward-looking.

Card Processing Revenue Model

Merchant discount rate	2.7500%
Interchange fee	2.1500%
Card brands	0.0011% plus 2c
Processing network fee	8c
Net spread	0.4800%

Source: Litchfield Hills Research and Company reports

Payment Facilitation is Usio's Growth Driver

We view Usio's PayFac business as its key growth driver and believe that after years of ramping up, it will come into its own this year. This business is reported in the card segment and is about half of the segment or roughly 17% of consolidated revenue. This business is posting strong growth with volumes up 12% and revenue up 14% in 1Q24, but is the least profitable of Usio's business due to the start-up costs of building a customer base.

2016 - PayFac in a Box idea inception at Singular – become a technology-based payment facilitator

2017 – Singular acquired by Usio

2018 – Product launched and signed a few customers

2019 – APIs perfected and built customer base to 53 customers

2024 – The year of PayFac, with one major account signed, and three more in process

The product was conceived in 2016 as Silicon Valley payments processor Stripe was taking off. Stripe's concept was to build a simple software API that could be incorporated into websites to accept payments. Usio's PayFac product takes this same concept but its APIs are designed to be integrated into software platforms for ISVs or integrated software vendors. ISVs make software that is specialized for a certain type of business such as a medical practice or law firm. Usio incorporates its payment processing software into the ISV's software so it can accept electronic payments and have seamless processing. The beauty of this model is that these ISVs do the hard work of selling and each can bring hundreds or thousands of small businesses to Usio.

As noted, Usio acquired the early basis of its PayFac product with the acquisition of Singular in 2017. Singular was looking at a time-to-market crunch before others could attack this opportunity and Usio offered capital and significant software development expertise in payments. In short, merging with Usio offered the quickest path to market and increased its likelihood of success. After the merger closed in September 2017 the next year was spent developing the product. By the end of 2018, a handful of customers were signed. In April 2019 the company hit a major milestone, finalizing the API software giving the product full functionality.

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Usio's PayFac product can onboard large numbers of customers quickly. The ISV merely needs to provide an electronic file containing a specified number of customer data points. This process originally ran into snags as Usio originally was receiving files that included a large number of inactive end customers, but it has worked with its ISV customers to help them screen the data to ensure it only contains live customers. The company also was delayed in that it had to replace early versions of its API with the final April 2019 version. Usio has a five-step process to get to revenue generation which can now be done in around 30 days through extensive automation:

1. Sign ISV customer contracts
2. Integrate Usio PayFac API into ISV's software
3. Get the batch file of each ISV's customer base and load it into Usio's payments system
4. Implement the payment function and educate customers
5. Go live and mandate that end customers use Usio's embedded PayFac system to accept all payments.

Usio's PayFac product accepts both ACH and credit card payments. For ACH, unlike the standalone ACH services it provides, Usio does charge a percentage of the transaction amount. After Usio pays out the interchange fees and bank fees, it splits the net payment with the ISV. This is significant for the ISV as they were previously only collecting a fixed usage fee for their software. Now, they get a percentage of the revenue their customers process. Thus, the ISVs have an enormous financial incentive to get all their customers to step five above, where their customers are processing all payments through their software and they and Usio are getting a recurring revenue stream. To encourage customers to use the new payment feature embedded in their software they are making it mandatory. After an education and training period, they set a mandatory usage date. After this, customers will have to log into the system and manually enter every single payment processed with another payment company. This will inevitably involve mismatches if they use their old separate payment terminal with the ISV's software, so they will have to reconcile the two systems manually every night the same way a bank teller reconciles their cash drawer every night. Or, they can use the payment feature they already have and go home an hour or two earlier every night.

Usio is targeting high-end merchants with very large average payment sizes. Note that this list includes business categories with better credit quality clientele and thus lower charge-back risk. This includes:

- Medical practices
- Property management
- Law firms
- High-end rehab clinics
- Senior living centers
- Mortgage processors
- Accounting firms
- Charities

A great example of an integrated software vendor customer is a company called PracticeSuite (www.practicesuite.com) headquartered in Tampa, Florida. Its service is an all-in-one, cloud-based medical office software platform serving about 10,000 medical practices. Usio's API is embedded in the PracticeSuite software to allow medical practices to easily accept all types of payments. The alternative would be to have a separate credit card terminal or to send paper bills to patients and to wait weeks for payments that in some cases never arrive. PracticeSuite's motto is "practice profitably". With changes in health insurance over the last decade, patient out-of-pocket responsibilities have skyrocketed. By offering

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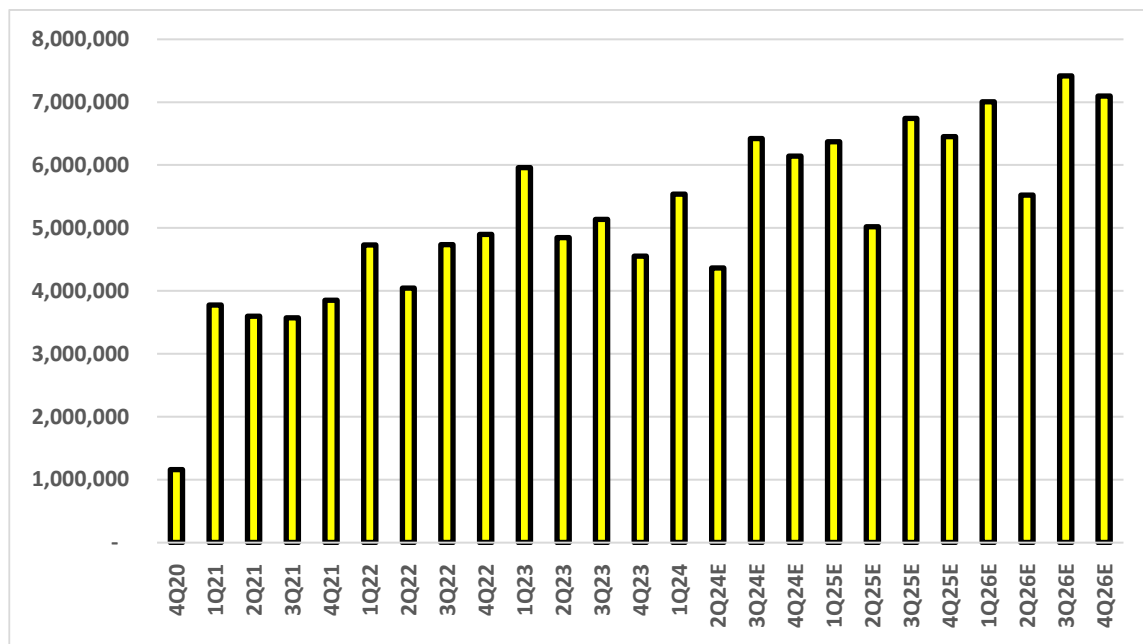
USIO (NASDAQ) - Buy \$6 Price Target

patients multiple, convenient ways to pay, PracticeSuite can significantly reduce patient accounts receivable and improve a practice's cash flow. This also reduces the need to go to collections which can be expensive, inefficient, and harmful to the relationship with the patient.

Output Solutions Has Proven More Synergistic than Expected Since 2020 Acquisition

Usio acquired its Output Solutions business in December 2020 for \$5.9 million and it has been an absolute home run ever since, generating 25% of revenue last year, with 11% revenue CAGR in the three years that Usio has owned it. Output Solutions is primarily a bill printing company and its offices and printing plant are a few minutes away from Usio headquarters in San Antonio. We recently visited the plant and met with Usio SVP Sy Green who runs the business and has worked there since 1999. Output generated \$20.5 million in revenue in 2023, up 11.4%. Revenue for 1Q24 declined 7.1% as it took on several lower revenue-per-piece printing jobs, including election mailings for governments. Our model has it growing 9.6% this year, 9.4% next year, and 10% in 2026.

Output Solutions Has Posted an 11% Revenue CAGR in the 3 Years Usio Has Owned It



Source: Litchfield Hills Research and Company reports

Output Solutions has also been a home run from a synergy standpoint. Part of the unit's business is now from existing Usio clients who also need a paper bill printing solution. The synergy works even better the other way with Usio including a QR code on the bills so the recipient scans the code, opens a branded payment page with its client's logo, and Usio processes the payment for the client.



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The plant is located in an industrial area of San Antonio and consists of roughly 32,000 square feet that are leased. It employs 45 production employees on two shifts. It has two printing and inserting machines: a Ricoh InfoPrint 5000 and a Bluecrest modular machine. It uses massive 17-mile-long rolls of paper and can print approximately 60,000 color pages an hour. The printed roll is printed with a barcode on the side, which is later discarded, so bills and other documents are tracked every step of the way. If a customer's client claims they never got their bill, Usio can provide documentation on when it was printed, put in the envelope, and mailed. Once it has printed a roll of paper, the roll is moved over to the Bluecrest machine where cutting and folding occur. Usio also can insert additional items into bills as they are stuffed into envelopes.

The envelopes are then sent to a mailing station where they are pre-sorted for the post office and delivered to a USPS mail center. Usio receives mailing discounts from USPS that it then passes along to clients.

Its customer base is mainly governments, utilities, and financial institutions. Some key customers include:

- City of Corpus Christi, Texas
- Los Angeles County, California
- Miami-Dade County, Florida
- Security Service Federal Credit Union
- Houston County Electric Cooperative

For its government customers, it also produces court summons, toll and parking violations, election mailers, and anything else needed. Government entities, financial institutions and utilities still send out a lot of paper, so this part of Usio's business appears secure. Most estimates we found showed that the printing industry is still growing modestly, in the 1% to 3% range, although employment is in rapid decline due to automation. Usio Output Solutions is significantly outgrowing the industry with its 11% revenue CAGR from 2021 through 2023.

Management Team is a Hand-Picked Group of Entrepreneurs

Louis Hoch – Chairman, President and CEO

Mr. Hoch (pronounced hoke) has been in the payments business since 1998. We have come to know him as a soft-spoken, straight shooter who is deeply analytical. We view his key talents as M&A target acquisition and integration and talent evaluation. He co-founded the company Billserv in 1998 as a bill payment processing platform. The company sold this business to CyberStarts for \$4.8 mm but kept the shell corporation. Today Billserv is part of American Express. Management then renamed the shell to Payment Data Solutions Systems and began organically building again, this time focusing on ACH, credit, and prepaid card transactions. In July 2019 the name and ticker symbol were changed to USIO which is derived from the word fusion without the F and N. The rationale is that Usio strives to fuse all electronic payment technologies into a simple-to-use solution for customers.

Greg Carter – EVP, Payment Acceptance

Mr. Carter runs ACH and Card Processing which includes the all-important PayFac unit. He is the only EVP in the company. His background is as a Marine Corps sergeant and then mainly in sales roles, first in telecom with companies such as Qwest, then with cleaning companies before joining Usio in 2019 as a sales SVP. He has an affable personality and is an avid golfer, and uses this skill to cement many of the company's major customer wins.

Houston Frost – Chief Product Officer

Mr. Frost ran Usio's prepaid business since joining Usio as part of the Akimbo acquisition in 2014, until recently. He started in finance with JP Morgan in 2007 after earning two degrees in chemical engineering including a PhD. He co-founded Akimbo in 2010. His prepaid team was largely responsible for some of

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the major prepaid wins, including with New York City. We are not sure exactly what a chief product officer does, but we know him as an eclectic, entrepreneurial, out-of-the-box thinker who has a close relationship with the CEO. One of the key reasons we are bullish on Usio is its track record of innovation. In his new role, Mr. Frost will be free to work across all business units in innovating the next new product category breakthrough.

Michael White – Chief Accounting Officer

Michael White is effectively the company's CFO but does not yet have the title as he is working on earning his CPA. He is very young and worked under the prior CFO, who retired last year, for many years since joining the company in 2020. We have generally felt that it's the number two under the CFO who does most of the hard work, and believe this was the case with Mr. White. We have found him to have an encyclopedic knowledge of the company's finances and is a great source of information. The finance department is usually not a profit center, but under Michael White, it is. Usio had roughly \$77 million in cash at banks at the end of March, of which \$7 million was its own cash balance, and the rest was customer funds such as money for prepaid cards. Banks have not gotten out of their prior mindset of the low-interest rate era of paying negligible rates on balances. Last year, at the urging of the outgoing CFO, Mr. White got on the phone with its banks and demanded higher rates. As a result, we expect that Usio will generate \$3.2 million in interest income compared to \$4.1 million in EBITDA for all of the operating units of the company. In the first quarter, interest income was \$764k, up over 700%, reflecting his success.

Jerry Uffner – SVP Card Issuing

Mr. Uffner joined Usio in November 2023 but formally took over prepaid/card issuance in April of this year. Before our recent call with him, we looked him up on LinkedIn and he seems to have come straight out of central casting for his new role, starting in prepaid with RBS Lynk in 1999. To paraphrase Barbara Mandrell, he was prepaid, when prepaid wasn't cool. He takes over prepaid at a time of difficult revenue comps due to the winding down of spoilage revenue from the New York City account. But underlying that, Mr. Frost left him with a strong base of roughly 300 clients including several milestone accounts we described in this report. In our conversation with him, we noted a tone of improving the business unit's profitability with potential price increases, among other actions. While he may be new to Usio, he is one of the most experienced executives in payments on the senior management team.

Sy Green – SVP Output Solutions

We recently met with Mr. Green and he gave us a tour of Output Solutions printing plant in San Antonio. We found him to be very focused and very high energy. His printing career dates back to 1984 and he joined IMS in 1999 which Usio acquired in 2020. Since then, synergies have been better than expected both from Output Solutions to the rest of Usio, and vice versa. His tenure also boasted some major recent wins including Los Angeles and Miami-Dade counties. Despite his grasp of the big picture, he seemed most at home on the printing floor describing every nuance of the company's Ricoh and Bluecrest printers and how they Usio works with the post office.

Paul Manley – SVP Investor Relations

Normally, investor relations is not a senior, SVP role as it is at Usio. Paul Manley joined to take the position in 2022. He spent 12 years working with mid-tier brokerage firms before moving over to investor relations in 2020. He had been courted by Mr. Hoch for several years before joining Usio. Given how closely Mr. Hoch tracks everything related to the company's stock performance, he has a demanding boss. As an experienced institutional salesman, he knows pretty much every Usio institutional investor and what their hot buttons are, every past institutional investor and why they exited and might return, and, most importantly every prospective institutional investor and what their criteria are. Usio attends numerous investor conferences and he comes armed with knowledge of the institutional investors attending. He has a good relationship with the four analysts who cover the company (now five) and can deftly communicate within the bounds of Reg FD.

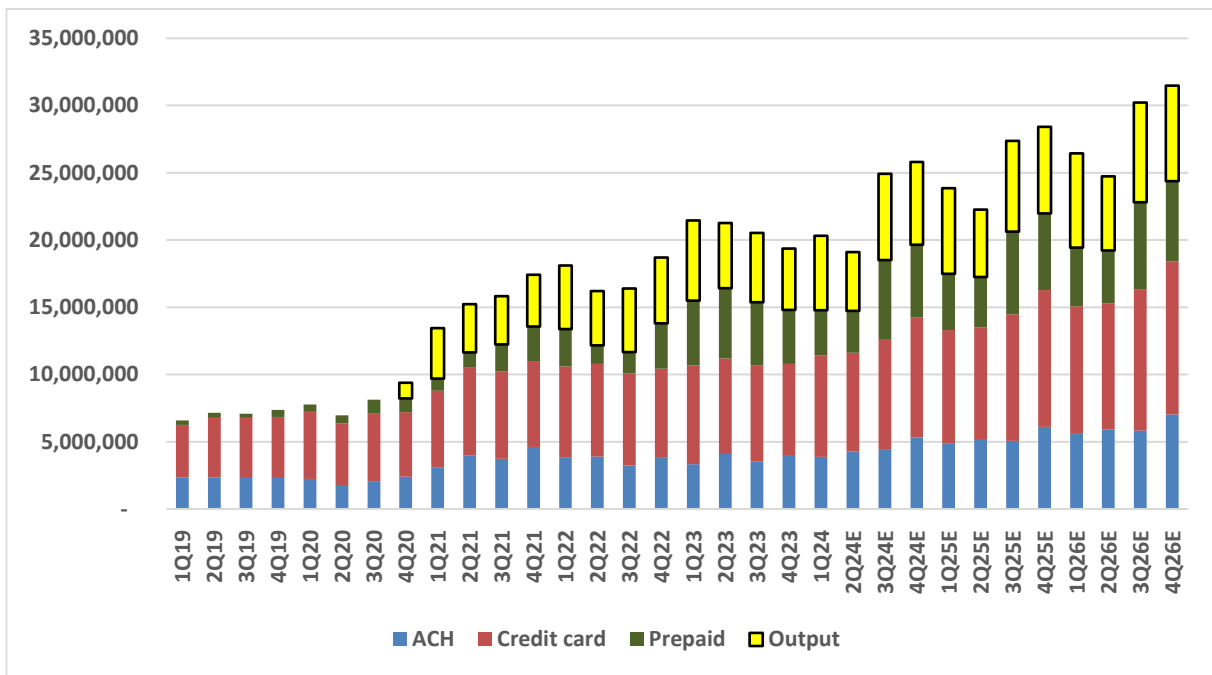
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Strong Financial Growth Track Record, and Outlook

Including the acquisition of Output Solutions, Usio has posted a 24% revenue CAGR over the last five years. Each of its business units is growing at several times the rate of its industry as it uses innovation and technology to take share. For 2024, guidance is for revenue growth of 10% to 12% (\$90.9 million to \$92.5 million) and EBITDA of \$4.0 to \$4.5 million. Our estimates are for revenue of \$90.2 million, up 9.2%, and EBITDA of \$4.1 million, up 74%. Usio was EBITDA negative for 2022 and the third quarter of 2023 so it is only now starting to generate enough revenue to cover expenses and start to post consistent EBITDA growth. Its three payments businesses are all electronic and so can handle significantly more revenue with little increase in overhead, and even the printing infrastructure has more capacity than it currently needs.

Usio Has Posted a 24% Revenue CAGR Over the Last Five Years



Source: Litchfield Hills Research and Company reports

Looking further out, we forecast revenue of \$102 million, up 13% for 2025, and \$113 million, up 11% for 2026. As we discussed in this report, there are several considerations behind our forecast.

- Strong industry trends toward electronic payments with a 7% CAGR in recent years
- Usio's demonstrated track record of taking share and growing faster than the market through innovation
- A management team that has a long track record of running businesses in their industry, with a track record of success
- Management comments about some major PayFac clients coming on board, one with at least \$20 million that is already signed, and three more large contracts in discussions

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We should note that Usio just came off a weak first quarter with Card Issuance hit by the decline in spoilage revenue from New York City and Output Solutions reporting a lower revenue mix of printing jobs. 1Q revenue was \$20.3 million, down 5.2%. Yet EBITDA was still positive. Reading management commentary, we are conservatively modeling a light Q2 with revenue of just \$19.1 million, down 10%. In the second half of the year, we look for revenue to take off with the company hitting the low end of revenue guidance of 10%. We note two key drivers. First, the company reported a 108% increase in load volume on prepaid cards. When this money is either spent or spoils, Usio collects revenue. Second, the new, large PayFac customer is currently onboarding its clients and should start to come on in the second half. We don't expect annualized \$20 million in revenue for about a year as its clients are on-boarded, but as management noted on the last call, it has gotten much better at on-boarding and this particular new customer seems motivated to do so. Recall, that Usio's ISV clients receive a recurring split of payments revenue that Usio processes from its clients.

Usio now has a strong balance sheet with \$7.1 million in its own cash and another \$70 million in client funds. We don't expect it to tap this for operations, as our model shows that it is EBITDA positive. The company does have a \$4 million buyback program in place, with about \$2.2 million still available as of the end of March. Last year, it bought back 211k shares and another 28k in the first quarter of this year, so we don't expect share repurchases to consume much cash at this rate. That leaves acquisitions as a potential use of cash. As noted, Usio's current business is based on three exemplary acquisitions, completed in 2014, 2017, and 2020. However, we don't get a sense that acquisitions are imminent this year, especially until revenue upticks in the second half per guidance. But we would expect to see something in either 2025 or 2026.

CEO Louis Hoch has articulated three key criteria for acquisitions:

1. It must be synergistic and bring in some combination of new lines of business, technology, or talent. We note that the leaders of two of the three past acquisitions are still key members of senior management.
2. Appropriate valuation, e.g., don't overpay. This makes sense since if an acquisition is over-priced, it will be more difficult for it to be financially accretive.
3. No fixer-uppers. Usio has made it clear it is not going to acquire troubled businesses that need its help for a turnaround.

We Value USIO Shares at \$6

As our comp table on page 24 illustrates, the group of 12 payments comparables trade at 3.2x trailing twelve-months revenue and 15.0x EBITDA. As discussed above, Usio appears to be on the cusp of sustainable EBITDA growth, with annual revenue poised to break above \$100 million, but positive EBITDA is a relatively new phenomenon, and thus EBITDA is lower than its potential. Usio's trailing 12-month EBITDA margin is just 2%, versus a 29% average for comps, many of whom are quite a bit larger. As a result, Usio trades at a significant discount to comps on revenue, at 0.5x, but a premium on an EBITDA basis at 24.8x.

Our price target methodology uses 2025 revenue and EBITDA, to get to a 12-month price target and assumes a continued discount to revenue, by 58% versus comps trailing multiple, and a 53% premium on an EV/EBITDA basis.

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USIO Shares Near Support Levels

As the chart below shows, USIO shares have been in a trading range of \$1.50 to \$2.20 for the last year. At the current price of \$1.55, they are very near their support level, so at least from a technical perspective, downside risk is limited with a 3% implied downside risk. Even if the shares only trade up to their resistance level of \$2.20, that still represents a 40% gain. So technically, the risk/reward ratio looks positive for USIO shares at this point.

USIO Shares Have been in a \$1.50 to \$2.20 Range for the Last Year



Source: Litchfield Hills Research and Company reports



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Usio, Inc. – Revenue Forecast

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

	2024E					2025E					2026E				
	1Q	2Q	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	4,283,115	4,410,166	5,320,297	17,895,312	4,852,168	5,139,738	5,071,691	6,118,342	21,181,938	5,579,993	5,910,698	5,832,445	7,036,093	24,359,229
YoY growth	16.2%	5.0%	25.0%	35.0%	20.2%	25.0%	20.0%	15.0%	15.0%	18.4%	15.0%	15.0%	15.0%	15.0%	15.0%
Sequential growth	-1.5%	10.3%	3.0%	20.6%		-8.8%	5.9%	-1.3%	20.6%		-8.8%	5.9%	-1.3%	20.6%	
Percent of total revenue	19.1%	22.4%	17.7%	20.6%	19.8%	20.3%	23.1%	18.5%	21.5%	20.8%	21.1%	23.9%	19.3%	22.3%	21.6%
Electronic check transaction	4.0%														
Returned check transactions	9.0%														
Electronic check dollars processed	22.0%														
Credit card	7,560,734	7,329,361	8,244,426	8,907,266	32,041,786	8,468,022	8,355,471	9,398,646	10,154,283	36,376,422	9,484,185	9,358,128	10,526,483	11,372,797	40,741,592
YoY growth	3.0%	3.0%	15.0%	30.0%	12.5%	12.0%	14.0%	14.0%	14.0%	13.5%	12.0%	12.0%	12.0%	12.0%	12.0%
Sequential growth	10.3%	-3.1%	12.5%	25.0%		-4.9%	-1.3%	12.5%	8.0%		-6.6%	-1.3%	12.5%	8.0%	
Percent of total revenue	37.2%	38.4%	33.1%	34.5%	35.5%	35.5%	37.5%	34.3%	35.7%	35.7%	35.9%	37.8%	34.8%	36.1%	36.1%
Credit card transaction volume	18.0%														
Credit card dollars	8.0%														
Prepaid card	3,341,224	3,130,481	5,856,515	5,426,009	17,754,229	4,176,530	3,756,577	6,149,341	5,697,310	19,779,757	4,385,357	3,944,406	6,456,808	5,982,175	20,768,745
YoY growth	-30.5%	-40.0%	25.0%	35.0%	-5.2%	25.0%	20.0%	5.0%	5.0%	11.4%	5.0%	5.0%	5.0%	5.0%	5.0%
Sequential growth	-16.9%	-6.3%	87.1%	-7.4%		-23.0%	-10.1%	63.7%	-7.4%		-23.0%	-10.1%	63.7%	-7.4%	
Percent of total revenue	16.4%	16.4%	23.5%	21.0%	19.7%	17.5%	16.9%	22.5%	20.0%	19.4%	16.6%	15.9%	21.4%	19.0%	18.4%
Load volume	108.0%														
Transaction volume	26.0%														
Purchase dollars	42.0%														
Output solutions	5,537,923	4,364,277	6,422,538	6,143,510	22,468,248	6,368,611	5,018,919	6,743,664	6,450,685	24,581,880	7,005,473	5,520,811	7,418,031	7,095,754	27,040,068
YoY growth	-7.1%	-10.0%	25.0%	35.0%	9.6%	15.0%	15.0%	5.0%	5.0%	9.4%	10.0%	10.0%	10.0%	10.0%	10.0%
Sequential growth	21.7%	-21.2%	47.2%	-4.3%		3.7%	-21.2%	34.4%	-4.3%		8.6%	-21.2%	34.4%	-4.3%	
Percent of total revenue	27.3%	22.8%	25.8%	23.8%	24.9%	26.7%	22.5%	24.6%	22.7%	24.1%	26.5%	22.3%	24.5%	22.5%	23.9%
Total	20,321,615	19,107,233	24,933,645	25,797,082	90,159,575	23,865,331	22,270,705	27,363,342	28,420,620	101,919,997	26,455,006	24,734,043	30,233,766	31,486,819	112,909,635
YoY growth	-5.2%	-10.1%	21.5%	33.2%	9.2%	17.4%	16.6%	9.7%	10.2%	13.0%	10.9%	11.1%	10.5%	10.8%	10.8%
Sequential growth	5.0%	-6.0%	30.5%	3.5%		-7.5%	-6.7%	22.9%	3.9%		-6.9%	-6.5%	22.2%	4.1%	
Total dollars	\$1,500,000														
YoY growth	22.0%														
Revenue per transaction dollar	0.0135														
Total transactions (millions)	9,800														
	-18.0%														

Source: Company reports and Litchfield Hills Research LLC



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USIO (NASDAQ) - Buy \$6 Price Target

Usio, Inc. – Income Forecast

2024E						2025E					2026E				
Dollars in thousands, except per share data	1Q	2Q	3Q	4Q	YEAR	1Q	2Q	3Q	4Q	YEAR	1Q	2Q	3Q	4Q	YEAR
Fiscal years ended December 31	March	June	September	December		March	June	September	December		March	June	September	December	
Revenue	20,321,615	19,107,233	24,933,645	25,797,082	90,159,575	23,865,331	22,270,705	27,363,342	28,420,620	101,919,997	26,455,006	24,734,043	30,233,766	31,486,819	112,909,635
YoY growth	-5.2%	-10.1%	21.5%	33.2%	9.2%	17.4%	16.6%	9.7%	10.2%	13.0%	10.9%	11.1%	10.5%	10.8%	10.8%
Seq growth	5.0%	-6.0%	30.5%	3.5%		-7.5%	-6.7%	22.9%	3.9%		-6.9%	-6.5%	22.2%	4.1%	
Cost of services	16,116,691	15,094,714	18,949,570	19,605,782	69,766,758	18,137,652	16,925,736	20,796,140	21,599,671	77,459,198	20,105,805	18,797,872	22,977,663	23,929,983	85,811,322
As a percent of revenue	79.3%	79.0%	76.0%	76.0%	77.4%	76.0%	76.0%	76.0%	76.0%	76.0%	76.0%	76.0%	76.0%	76.0%	76.0%
Gross margin	20.7%	21.0%	24.0%	24.0%	22.6%	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	3,821,447	4,238,720	4,127,533	16,247,924	4,295,760	4,008,727	4,925,402	5,115,712	18,345,600	4,761,901	4,452,128	5,442,078	5,667,627	20,323,734
As a percent of revenue	20.0%	20.0%	17.0%	16.0%	18.0%	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	500,000	600,000	600,000	2,199,273	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	575,000	600,000	600,000	2,351,154	525,000	525,000	525,000	525,000	2,100,000	525,000	525,000	525,000	525,000	2,100,000
Operating income	(930,728)	(883,928)	545,355	863,767	(405,534)	356,920	261,242	566,801	630,237	1,815,200	512,300	409,043	739,026	814,209	2,474,578
Operating margin	-4.6%	-4.6%	2.2%	3.3%	-0.4%	1.5%	1.2%	2.1%	2.2%	1.8%	1.9%	1.7%	2.4%	2.6%	2.2%
Interest income	764,125	800,000	800,000	800,000	3,164,125	800,000	800,000	800,000	800,000	3,200,000	800,000	800,000	800,000	800,000	3,200,000
Other	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Interest expense	(13,585)	(1,000)	(1,000)	(1,000)	(16,585)	(1,000)	(1,000)	(1,000)	(1,000)	(4,000)	(1,000)	(1,000)	(1,000)	(1,000)	(4,000)
Pretax Income	(180,188)	(84,928)	1,344,355	1,662,767	2,742,006	1,155,920	1,060,242	1,365,801	1,429,237	5,011,200	1,311,300	1,208,043	1,538,026	1,613,209	5,670,578
Taxes	(13,858)	57,322	74,801	77,391	195,656	71,596	66,812	82,090	85,262	305,760	79,365	74,202	90,701	94,460	338,729
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)	(142,249)	1,269,554	1,585,375	2,546,350	1,084,324	993,430	1,283,710	1,343,975	4,705,440	1,231,935	1,133,840	1,447,325	1,518,749	5,331,849
Net income margin	-0.8%	-0.7%	5.1%	6.1%	2.8%	4.5%	4.5%	4.7%	4.7%	4.6%	4.7%	4.6%	4.8%	4.8%	4.7%
Diluted shares outstanding	26,508,872	26,523,872	26,538,872	26,553,872	26,531,372	26,568,872	26,583,872	26,598,872	26,613,872	26,591,372	26,628,872	26,643,872	26,658,872	26,673,872	26,651,372
Seq change	5,621	15,000	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)	(\$0.01)	\$0.05	\$0.06	\$0.10	\$0.04	\$0.04	\$0.05	\$0.05	\$0.18	\$0.05	\$0.04	\$0.05	\$0.06	\$0.20
EBITDA	(930,728)	(883,928)	545,355	863,767	(405,534)	356,920	261,242	566,801	630,237	1,815,200	512,300	409,043	739,026	814,209	2,474,578
Operating income	(930,728)	(883,928)	545,355	863,767	(405,534)	356,920	261,242	566,801	630,237	1,815,200	512,300	409,043	739,026	814,209	2,474,578
Addback	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Depreciation and amortization	576,154	575,000	600,000	600,000	2,351,154	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	500,000	600,000	600,000	2,199,273	550,000	550,000	550,000	550,000	2,200,000	550,000	550,000	550,000	550,000	2,200,000
EBITDA	144,699	191,072	1,745,355	2,063,767	4,144,893	1,431,920	1,336,242	1,641,801	1,705,237	6,115,200	1,587,300	1,484,043	1,814,026	1,889,209	6,774,578
YoY growth	-85.9%	-83.5%	-1859.1%	597.4%	74.0%	889.6%	6.0%	6.0%	-17.4%	47.5%	10.9%	11.1%	10.5%	10.8%	10.8%
EBITDA margin	0.7%	1.0%	7.0%	8.0%	4.6%	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	03/31/2024	\$1.55	26.4	41.0	37.2	81.5	1.5	0.5x	24.8x
USIO @ 2025E	12/31/25	\$1.55	26.4	41.0	37.2	101.9	6.1	0.4x	6.1x
USIO @ target on 202E	12/31/25	\$6.00	26.4	158.6	154.8	101.9	6.1	1.5x	25.3x
USIO @ target on 2026E	12/31/26	\$6.00	26.4	158.6	154.8	112.9	6.8	1.4x	22.8x
versus comps								42%	153%
ACI Worldwide, Inc.	03/31/2024	\$34.75	105.4	3,728.4	4,612.3	1,452.6	357.0	3.2x	12.9x
Bread Financial Holdings, Inc.	03/31/2024	\$40.98	49.6	2,047.8	2,891.8	4,938.0	-	0.6x	
Euronet Worldwide, Inc.	03/31/2024	\$115.69	45.9	5,322.4	5,554.1	3,688.0	565.5	1.5x	9.8x
EVERTEC, Inc.	03/31/2024	\$33.90	64.4	2,204.1	2,973.0	694.7	236.0	4.3x	12.6x
Fidelity National Information Serv	03/31/2024	\$76.07	556.3	42,297.4	50,250.4	9,821.0	3,592.0	5.1x	14.0x
Fiserv, Inc.	03/31/2024	\$147.99	585.1	86,870.1	110,977.1	19,093.0	7,777.0	5.8x	14.3x
Jack Henry & Associates, Inc.	03/31/2024	\$161.70	72.9	11,901.7	12,186.5	2,077.7	671.4	5.9x	18.2x
Shift4 Payments, Inc. Class A	03/31/2024	\$70.54	62.0	6,141.3	7,559.1	2,564.8	399.4	2.9x	18.9x
PayPal Holdings, Inc.	03/31/2024	\$63.33	1,046.0	66,382.1	63,664.1	29,681.0	5,926.0	2.1x	10.7x
Block, Inc. Class A	03/31/2024	\$64.25	556.5	39,676.1	37,143.2	21,915.6	1,188.0	1.7x	31.3x
WEX Inc.	03/31/2024	\$182.89	41.9	7,744.9	6,552.8	2,548.0	929.9	2.6x	7.0x
Corpay, Inc.	03/31/2024	\$257.92	70.3	18,153.9	21,743.1	3,757.7	2,027.5	5.8x	10.7x
Average								3.2x	15.0x

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



Usio, Inc.

USIO (NASDAQ) - Buy \$6 Price Target

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