

Usio, Inc.

USIO (NASDAQ) - Buy \$6 Price Target

3Q Results – November 18, 2024

Reiterate Buy Rating as Strong 3Q Setting Up USIO For Massive 2025

Analyst: Barry M. Sine, CFA, CMT

- We reiterate our Buy rating on USIO shares as 3Q results contained numerous forward-looking data points that suggest to us that the company is on track for a very strong performance in 2025.
- While 3Q revenue was up just 2%, excluding a one-time benefit from spoilage revenue, organic growth is closer to 20%. Organic growth will again be visible starting in 2Q next year as this revenue anniversaries.
- The company has also won two major new Payfac customers. The first is an ERP ISV that has the potential to be the company's largest customer but is taking longer to ramp than expected. We have seen this phenomenon before at Usio, and in the past, revenue did indeed follow.
- The second Payfac customer is an association serving law firms that is smaller in potential, but ramping much faster. In total, there are over 20 new Payfac customers in implementation.
- We also note the massive increase in funds loaded onto prepaid cards. While these funds don't show up in any of the GAAP financial statements, these funds have to either be spent, generating revenue, or spoiled, generating even more revenue. So in our view, the company has a sizable "backlog" of revenue, that should hit over the next year.
- EBITDA for the quarter doubled, sending cash to \$8.4, million or \$0.31 per share. The company is also profitable, and likely to remain so. We believe that GAAP profitability is increasingly important in the microcap space, which is still struggling.

Rating	BUY	Earnings Per Share			
Target Price	\$6.00	Normalized to exclude unusual items			
Ticker Symbol	USIO	FYE - December	2023	2024E	2025E
Market	NASDAQ	1Q - March	\$0.00	(\$0.01) A	\$0.04
Stock Price	\$1.49	2Q - June	\$0.01	\$0.00 A	\$0.04
52 wk High	\$2.00	3Q - September	(\$0.04)	\$0.10 A	\$0.04
52 wk Low	\$1.30	4Q - December	\$0.00	\$0.01	\$0.04
		Year	(\$0.02)	\$0.11	\$0.16
Shares Outstanding:	27.1 M	Revenue (\$mm)	\$82.6	\$83.1	\$95.0
Public Market Float:	17.2 M	EV/Rev	0.4X	0.4X	0.4X
Avg. Daily Volume	43,081	EBITDA (\$mm)	\$2.4	\$3.2	\$5.7
Market Capitalization:	\$40 M	EV/EBITDA	NM	10.5X	5.9X
Institutional Holdings:	29.9%				
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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Reiterate Buy Rating as Strong 3Q Setting Up USIO For Massive 2025

We reiterate our Buy rating on USIO shares as information from third-quarter earnings, and our follow-up with management suggest that the company is setting up for a massive 2025 in terms of both revenue growth and profitability.

In 3Q, consolidated revenue was up just 1.9% from a year ago, normalized for a one-off revenue windfall last year organic growth is around 20%. The one-off was \$12 million annualized in spoilage revenue associated with the New York City Covid incentive program. This revenue carried into 1Q 2024, so by 2Q 2025, reported revenue growth will be much higher. We note that even with this one-time revenue from a year ago, the company reported a positive comparison. We see several catalysts, that are already in place, likely to drive a massive 2025 performance:

- The company has two major Payfac customer accounts that are signed, and coming online. This first is a nearby San Antonio web-based ERP ISV that should be a sizable contributor. It is taking longer than expected to onboard its franchisees, but we have seen this before, and eventually, the revenue starts flowing.
- The second is a new customer in the legal association management space. While this customer is smaller than the aforementioned ERP company, it is coming on board much more quickly. In addition, there are over 20 smaller Payfac customers in the implementation process. Once on board, Payfac customers generate high-margin, recurring revenue.
- We have also been tracking prepaid card load volume and the metrics are very promising. The company reported its fifth straight quarter with load volumes over \$100 million, hitting \$140 million in 3Q. Money loaded onto cards eventually turns into revenue in one of two ways, it is either spent by the customer and generates roughly 2% of transaction dollars in revenue or if the customer does not use the funds after a year or two (depending on the program) Usio collects spoilage revenue at 50% or more of the amount spoiled, varying by the customer. Money loaded onto cards is held by the company's bank, so it does not show up anywhere on GAAP financial statements, but in our view, it is perhaps the best leading indicator of results and, as noted, it has been growing sharply.

EBITDA and net income are also tracking strongly with 3Q EBITDA at \$800k, double that of a year ago, and EPS of ten cents with a tax gain or about breakeven on a normalized basis. The strong EBITDA performance drove the cash balance up to \$8.4 million or about \$0.31 per share versus the \$1.49 stock price. The company is EPS-positive and on track for positive EPS in both 2024 and 2025. We think positive EPS is important in today's more conservative investor climate towards microcaps, particularly with quant funds that drive so much of market activity today.

The fourth quarter is likely to look similar to 3Q and 1Q will also suffer from the difficult comp with the NYC Covid spoilage revenue, but from 2Q on, and for all of 2025, the underlying numbers suggest strong double-digit revenue growth, EBITDA generation, and profitability. Thus, we reiterate our Buy rating.



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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	3QA	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	4,302,510	4,532,105	16,610,679	4,852,168	4,673,196	4,947,887	5,211,921	19,685,171	5,579,993	5,374,175	5,690,069	5,993,709	22,637,947
YoY growth	16.2%	-4.5%	21.9%	15.0%	11.6%	25.0%	20.0%	15.0%	15.0%	18.5%	15.0%	15.0%	15.0%	15.0%	15.0%
Sequential growth	-1.5%	0.3%	10.5%	5.3%		7.1%	-3.7%	5.9%	5.3%		7.1%	-3.7%	5.9%	5.3%	
Percent of total revenue	18.5%	19.4%	20.2%	21.9%	20.0%	20.0%	20.0%	20.6%	22.3%	20.7%	20.8%	20.8%	21.4%	23.2%	21.5%
ACH interest	211,640	190,233	201,545	200,000	803,418	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%	25.0%												
Returned check transactions	9.0%	13.0%	18.0%												
Electronic check dollars processed	22.0%	36.0%	61.0%												
Credit card	7,560,734	7,261,268	7,197,362	7,194,330	29,213,694	8,468,022	8,277,846	8,204,993	8,201,536	33,152,397	9,484,185	9,271,187	9,189,592	9,185,721	37,130,684
YoY growth	3.0%	2.0%	0.4%	5.0%	2.6%	12.0%	14.0%	14.0%	14.0%	13.5%	12.0%	12.0%	12.0%	12.0%	12.0%
Sequential growth	10.3%	-4.0%	-0.9%	25.0%		17.7%	-2.2%	-0.9%	0.0%		15.6%	-2.2%	-0.9%	0.0%	
Percent of total revenue	36.1%	36.2%	33.8%	34.7%	35.2%	34.9%	35.5%	34.1%	35.1%	34.9%	35.3%	36.0%	34.6%	35.5%	35.3%
Credit card transaction volume	18.0%	19.0%	22.0%												
Credit card dollars	8.0%	10.0%	7.0%												
Prepaid card	3,341,224	3,673,418	4,017,153	3,617,339	14,649,134	4,009,469	4,408,102	4,820,584	4,340,807	17,578,961	4,209,942	4,628,507	5,061,613	4,557,848	18,457,909
YoY growth	-30.5%	-29.6%	-14.3%	-10.0%	-21.8%	20.0%	20.0%	20.0%	20.0%	20.0%	5.0%	5.0%	5.0%	5.0%	5.0%
Sequential growth	-16.9%	9.9%	9.4%	-10.0%		10.8%	9.9%	9.4%	-10.0%		-3.0%	9.9%	9.4%	-10.0%	
Percent of total revenue	15.9%	18.3%	18.8%	17.5%	17.6%	16.5%	18.9%	20.0%	18.6%	18.5%	15.7%	17.9%	19.0%	17.6%	17.6%
Prepaid interest	402,741	334,624	309,131	350,000	1,396,496	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%	21.0%												
Transaction volume	26.0%	58.0%	56.0%												
Purchase dollars	42.0%	39.0%	23.0%												
Output solutions	5,537,923	4,686,869	5,253,388	4,778,285	20,256,465	6,368,611	5,389,899	5,516,057	5,017,200	22,291,768	7,005,473	5,928,889	6,067,663	5,518,920	24,520,945
YoY growth	-7.1%	-3.3%	2.2%	5.0%	-1.2%	15.0%	15.0%	5.0%	5.0%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%
Sequential growth	21.7%	-15.4%	12.1%	-9.0%		33.3%	-15.4%	2.3%	-9.0%		39.6%	-15.4%	2.3%	-9.0%	
Percent of total revenue	26.4%	23.3%	24.6%	23.1%	24.4%	26.2%	23.1%	22.9%	21.5%	23.5%	26.1%	23.0%	22.8%	21.4%	23.3%
Output interest	34,390	39,146	40,389	35,000	148,925	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	21,321,478	20,707,060	83,078,812	24,283,270	23,334,042	24,074,520	23,356,464	95,048,297	26,864,592	25,787,758	26,593,937	25,841,197	105,087,485
YoY growth	-2.2%	-5.6%	3.9%	6.9%	0.6%	15.8%	16.2%	12.9%	12.8%	14.4%	10.6%	10.5%	10.5%	10.6%	10.6%
Sequential growth	8.3%	-4.2%	6.2%	-2.9%		17.3%	-3.9%	3.2%	-3.0%		15.0%	-4.0%	3.1%	-2.8%	

Source: Company reports and Litchfield Hills Research LLC



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Usio, Inc. – Income Forecast

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

	2024E					2025E					2026E				
	1QA	2QA	3QA	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	21,321,478	20,707,060	83,078,812	24,283,270	23,334,042	24,074,520	23,356,464	95,048,297	26,864,592	25,787,758	26,593,937	25,841,197	105,087,485
YoY grow th	-2.2%	-5.6%	3.9%	6.9%	0.6%	15.8%	16.2%	12.9%	12.8%	14.4%	10.6%	10.5%	10.5%	10.6%	10.6%
Seq grow th	8.3%	-4.2%	6.2%	-2.9%		17.3%	-3.9%	3.2%	-3.0%		15.0%	-4.0%	3.1%	-2.8%	
Cost of services	16,116,691	15,280,074	16,425,321	15,944,436	63,766,522	18,455,285	17,733,872	18,296,635	17,750,913	72,236,706	20,417,090	19,598,696	20,211,392	19,639,310	79,866,488
As a percent of revenue	76.9%	76.1%	77.0%	77.0%	76.8%	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%	23.0%	23.0%	23.2%	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	4,119,317	3,934,341	16,114,728	4,370,989	4,200,128	4,333,414	4,204,164	17,108,693	4,835,627	4,641,797	4,786,909	4,651,415	18,915,747
As a percent of revenue	19.4%	19.9%	19.3%	19.0%	19.4%	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	569,772	600,000	2,129,106	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	583,718	600,000	2,307,721	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)	(376,650)	(371,718)	(1,239,266)	381,996	325,043	369,471	326,388	1,402,898	536,876	472,266	520,636	475,472	2,005,249
Operating margin	-1.3%	-1.0%	-1.8%	-1.8%	-1.5%	1.6%	1.4%	1.5%	1.4%	1.5%	2.0%	1.8%	2.0%	1.8%	1.9%
Interest income	115,354	107,270	125,564	800,000	1,148,188	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)	(13,700)	(1,000)	(42,535)	(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	(264,786)	427,282	(133,613)	1,180,996	1,124,043	1,168,471	1,125,388	4,598,898	1,335,876	1,271,266	1,319,636	1,274,472	5,201,249
Taxes	(13,858)	70,000	(3,116,053)	62,121	(2,997,790)	72,850	70,002	72,224	70,069	285,145	80,594	77,363	79,782	77,524	315,262
As a percent of revenue	-0.1%	0.3%	-14.6%	0.3%	-3.6%	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	2,851,267	365,161	2,864,177	1,108,146	1,054,040	1,096,248	1,055,318	4,313,753	1,255,282	1,193,902	1,239,854	1,196,948	4,885,987
Net income margin	-0.8%	0.4%	13.4%	1.8%	3.4%	4.6%	4.5%	4.6%	4.5%	4.5%	4.7%	4.6%	4.7%	4.6%	4.6%
Diluted shares outstanding	26,508,872	26,534,407	27,322,497	27,337,497	26,925,818	27,352,497	27,367,497	27,382,497	27,397,497	27,374,997	27,412,497	27,427,497	27,442,497	27,457,497	27,434,997
Seq change	5,621	25,535	788,090	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	\$0.10	\$0.01	\$0.11	\$0.04	\$0.04	\$0.04	\$0.04	\$0.16	\$0.05	\$0.04	\$0.05	\$0.04	\$0.18
EBITDA															
Operating income	(281,957)	(208,941)	(376,650)	(371,718)	(1,239,266)	381,996	325,043	369,471	326,388	1,402,898	536,876	472,266	520,636	475,472	2,005,249
Addback															
Depreciation and amortization	576,154	547,849	583,718	600,000	2,307,721	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	569,772	600,000	2,129,106	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	776,840	828,282	3,197,561	1,456,996	1,400,043	1,444,471	1,401,388	5,702,898	1,611,876	1,547,266	1,595,636	1,550,472	6,305,249
YoY grow th	-22.9%	-30.9%	-882.9%	179.9%	34.2%	83.6%	69.2%	69.2%	78.4%	78.4%	10.6%	10.5%	10.5%	10.6%	10.6%
EBITDA margin	3.8%	4.0%	3.6%	4.0%	3.8%	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	09/30/2024	\$1.49	27.1	40.7	36.2	81.1	2.1	0.4x	16.9x
USIO @ 2025E	12/31/25	\$1.49	27.1	40.7	36.2	95.0	5.7	0.4x	6.3x
USIO @ target on 2052E	12/31/25	\$6.00	27.1	162.8	158.3	95.0	5.7	1.7x	27.8x
USIO @ target on 2026E	12/31/26	\$6.00	27.1	162.8	158.3	105.1	6.3	1.5x	25.1x
ACI Worldwide, Inc.	09/30/2024	\$54.29	104.9	5,768.9	6,625.9	1,452.6	357.0	4.6x	18.6x
Bread Financial Holdings, Inc.	09/30/2024	\$58.50	49.7	2,818.8	3,931.8	4,938.0	-	0.8x	
Euronet Worldwide, Inc.	09/30/2024	\$101.88	43.9	4,489.4	4,565.0	3,688.0	565.5	1.2x	8.1x
EVERTEC, Inc.	09/30/2024	\$34.64	63.6	2,191.5	2,875.9	694.7	236.0	4.1x	12.2x
Fidelity National Information Ser	09/30/2024	\$87.82	538.4	47,622.8	57,302.8	9,821.0	3,592.0	5.8x	16.0x
Fiserv, Inc.	09/30/2024	\$210.92	568.9	119,956.5	144,774.5	19,093.0	7,777.0	7.6x	18.6x
Jack Henry & Associates, Inc.	09/30/2024	\$173.21	73.0	12,581.8	12,736.5	2,215.5	705.4	5.7x	18.1x
Shift4 Payments, Inc. Class A	09/30/2024	\$97.01	68.7	8,900.3	10,582.0	2,564.8	399.4	4.1x	26.5x
PayPal Holdings, Inc.	09/30/2024	\$85.83	1,002.5	86,007.8	87,346.8	29,681.0	5,926.0	2.9x	14.7x
Block, Inc. Class A	09/30/2024	\$84.30	555.2	51,328.8	48,324.9	21,915.6	1,188.0	2.2x	40.7x
WEX Inc.	09/30/2024	\$179.08	39.8	7,197.2	6,741.5	2,548.0	929.9	2.6x	7.2x
Corpay, Inc.	09/30/2024	\$363.36	69.7	25,812.6	29,447.2	3,757.7	2,027.5	7.8x	14.5x
Average								3.8x	18.1x

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



Usio, Inc.

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Disclosures:

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BUY: We expect the stock to provide a total return of 15% or more within a 12-month period.

HOLD: We expect the stock to provide a total return of negative 15% to positive 15% within a 12-month period.

SELL: We expect the stock to have a negative total return of more than 15% within a 12-month period.

Total return is defined as price appreciation plus dividend yield.

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