

Usio, Inc.

USIO (NASDAQ) - Buy \$6 Price Target

December 20, 2024

Payment Processor Likely to See Significant Revenue Acceleration in 2025 as Stock Nears 52-week low. Reiterate Buy Rating and \$6 Target

Analyst: Barry M. Sine, CFA, CMT

- We reiterate our Buy rating on USIO shares as we think the stock represents a unique value just five cents above its 52-week low.
- The issue dragging the stock down is, we believe, the lack of revenue growth this year. But this issue is temporary as comparisons are hurt by the expiration of a major \$12 million spoilage revenue stream. This issue goes away in 2Q next year, so reported results should reflect the company's ongoing, organic double-digit revenue growth, not the flat comps seen for this year due to the one-off.
- While the loss of this spoilage is hurting comparisons, and the stock price, the \$12 million probably brought in an incremental \$4 to \$6 million in cash, bolstering the current \$8.4 million cash balance (\$0.31 per share or about a quarter of the market cap. The company is generating positive cash flow, this year, with acceleration expected next year, so the cash balance is not needed to fund the business and can be used for buybacks.
- We understand that fundamental investors may be exiting, partially due to the flat top line, but would expect these sellers to clear their books by year-end, reducing selling pressure into the new year. The negative share price trend created by the fundamental selling has likely attracted quant selling, magnifying the sell-off. As we look out to 2Q next year, when the spoilage impact goes away and reported growth returns, we expect to see the opposite occur with positive momentum.

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	\$1.29	3Q - September	(\$0.04)	\$0.10 A	\$0.04	\$0.05
52 wk High	\$2.00	4Q - December	\$0.00	\$0.01	\$0.04	\$0.04
52 wk Low	\$1.24	Year	(\$0.02)	\$0.11	\$0.16	\$0.18
Shares Outstanding:	27.1 M	Revenue (\$mm)	\$82.6	\$83.1	\$94.4	\$104.9
Public Market Float:	17.1 M	EV/Rev	0.3X	0.3X	0.3X	0.3X
Avg. Daily Volume	74,191	EBITDA (\$mm)	\$2.4	\$3.2	\$5.7	\$6.3
Market Capitalization:	\$35 M	EV/EBITDA	NM	8.8X	5.0X	4.5X
Institutional Holdings:	29.9%					
Dividend Yield:	0.0%					

Risks/Valuation

- We see four key risk categories, which we discuss in our initiation 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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Strong Prepaid Fundamentals Set the Stage for a Return to Double-Digit Topline Growth and Over \$5 Million in EBITDA in 2025

Yesterday we spoke with USIO's head of its card issuance division (aka prepaid), Jerry Uffner. As we have written previously, Mr. Uffner has spent his entire 25-year career in prepaid and joined USIO in late 2023. In the year since he joined, the company has seen strong organic growth from this business, masked by the expiration of one-off spoilage associated with the New York City Covid program. But underlying growth is strong with card load volume up an average of 60% for the last three quarters and 9% plus sequential growth in the last two quarters. When this segment returns to apples-to-apples comparisons starting in 2Q next year, we expect it to drive 20% business unit growth, and with the current momentum of the other three units, drive 14% consolidated topline growth generating \$5.7 million in EBITDA in 2025.

Mr. Uffner talked about an "aggressive growth plan for 2025". In terms of revenue growth, he made the following points:

- He has run the division for a little over a year now and for the last three quarters, new customer additions and sales to existing customers are both up from a year ago. In 3Q, it added 30 new programs, of which 10 were from existing customers. He spoke glowingly of Kyle Rushman, VP of sales, who has a background with two competitors: Fidelity National Information Services (NYSE: FIS) and Greendot (NYSE: GDOT). The company has locked in all of its existing prepaid customers for 2025 and is also bolstering its sales team to focus on sales to existing customers.
- Led by CEO Louis Hoch, the company, including card issuance, is embracing a one USIO strategy, cross-selling ACH, prepaid, output solutions, and Payfac across all of its 432 clients. This is a major focus in Mr. Uffner's realm with his 29-person team. To us, this makes enormous sense as its customers generally use more than one of USIO's services, but may only source one from USIO.

Uffner also spoke about concrete steps the company is taking to improve margins. The company's deck talks about a 30% to 40% margin for this business, while Mr. Uffner is hopeful of driving it closer to 40%. USIO has just implemented a new client portal platform. The new platform requires fewer employees and reduces errors, both of which improve margins.

Given our outlook, we expect the stock to respond to fundamentals and reiterate our \$6 price target. In the meantime, while reported topline comps are light this year (due to the expiration of the spoilage revenue), the stock is languishing. Management ended Q3 with a healthy \$8.4 million in cash and a robust share buyback program in place. The stock is just five cents above its 52-week low. With the buyback, and a snapback in growth expected next year, we think this presents an attractive entry point for USIO investors.

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USIO Shares are Just a Nickel Above Their 52-Week Low



Source: Factset Research



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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%	20.5%	20.0%	20.6%	22.3%	20.9%	20.9%	20.8%	21.4%	23.2%	21.6%
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%	35.9%	35.5%	34.1%	35.1%	35.1%	35.6%	36.0%	34.6%	35.5%	35.4%
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	3,341,224	4,408,102	4,820,584	4,340,807	16,910,716	4,009,469	4,628,507	5,061,613	4,557,848	18,257,436
YoY growth	-30.5%	-29.6%	-14.3%	-10.0%	-21.8%	0.0%	20.0%	20.0%	20.0%	15.4%	20.0%	5.0%	5.0%	5.0%	8.0%
Sequential growth	-16.9%	9.9%	9.4%	-10.0%		-7.6%	31.9%	9.4%	-10.0%		-7.6%	15.4%	9.4%	-10.0%	
Percent of total revenue	15.9%	18.3%	18.8%	17.5%	17.6%	14.1%	18.9%	20.0%	18.6%	17.9%	15.0%	17.9%	19.0%	17.6%	17.4%
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%	27.0%	23.1%	22.9%	21.5%	23.6%	26.3%	23.0%	22.8%	21.4%	23.4%
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	23,615,025	23,334,042	24,074,520	23,356,464	94,380,052	26,664,119	25,787,758	26,593,937	25,841,197	104,887,011
YoY growth	-2.2%	-5.6%	3.9%	6.9%	0.6%	12.6%	16.2%	12.9%	12.8%	13.6%	12.9%	10.5%	10.5%	10.6%	11.1%
Sequential growth	8.3%	-4.2%	6.2%	-2.9%		14.0%	-1.2%	3.2%	-3.0%		14.2%	-3.3%	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	23,615,025	23,334,042	24,074,520	23,356,464	94,380,052	26,664,119	25,787,758	26,593,937	25,841,197	104,887,011
YoY growth	-2.2%	-5.6%	3.9%	6.9%	0.6%	12.6%	16.2%	12.9%	12.8%	13.6%	12.9%	10.5%	10.5%	10.6%	11.1%
Seq growth	8.3%	-4.2%	6.2%	-2.9%		14.0%	-1.2%	3.2%	-3.0%		14.2%	-3.3%	3.1%	-2.8%	
Cost of services	16,116,691	15,280,074	16,425,321	15,944,436	63,766,522	17,947,419	17,733,872	18,296,635	17,750,913	71,728,839	20,264,730	19,598,696	20,211,392	19,639,310	79,714,129
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	4,250,705	4,200,128	4,333,414	4,204,164	16,988,409	4,799,541	4,641,797	4,786,909	4,651,415	18,879,662
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)	341,902	325,043	369,471	326,388	1,362,803	524,847	472,266	520,636	475,472	1,993,221
Operating margin	-1.3%	-1.0%	-1.8%	-1.8%	-1.5%	1.4%	1.4%	1.5%	1.4%	1.4%	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)	1,140,902	1,124,043	1,168,471	1,125,388	4,558,803	1,323,847	1,271,266	1,319,636	1,274,472	5,189,221
Taxes	(13,858)	70,000	(3,116,053)	62,121	(2,997,790)	70,845	70,002	72,224	70,069	283,140	79,992	77,363	79,782	77,524	314,661
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	1,070,056	1,054,040	1,096,248	1,055,318	4,275,663	1,243,855	1,193,902	1,239,854	1,196,948	4,874,560
Net income margin	-0.8%	0.4%	13.4%	1.8%	3.4%	4.5%	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)	341,902	325,043	369,471	326,388	1,362,803	524,847	472,266	520,636	475,472	1,993,221
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	1,416,902	1,400,043	1,444,471	1,401,388	5,662,803	1,599,847	1,547,266	1,595,636	1,550,472	6,293,221
YoY growth	-22.9%	-30.9%	-882.9%	179.9%	34.2%	78.6%			69.2%	77.1%	12.9%	10.5%	10.5%	10.6%	11.1%
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



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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	\$1.29	27.1	34.7	30.2	81.1	2.1	0.4x	14.1x
USIO @ 2025E	12/31/25	\$1.29	27.1	34.7	30.2	94.4	5.7	0.3x	5.3x
USIO @ target on 2052E	12/31/25	\$6.00	27.1	162.8	158.3	94.4	5.7	1.7x	27.9x
USIO @ target on 2026E	12/31/26	\$6.00	27.1	162.8	158.3	104.9	6.3	1.5x	25.1x
ACI Worldwide, Inc.	09/30/2024	\$52.43	104.9	5,443.7	6,300.8	1,452.6	357.0	4.3x	17.6x
Bread Financial Holdings, Inc.	09/30/2024	\$61.42	49.7	3,017.2	4,130.2	4,938.0	-	0.8x	
Euronet Worldwide, Inc.	09/30/2024	\$103.10	43.9	4,480.1	4,555.7	3,688.0	565.5	1.2x	8.1x
EVERTEC, Inc.	09/30/2024	\$33.60	63.6	2,141.9	2,826.3	694.7	236.0	4.1x	12.0x
Fidelity National Information Ser	09/30/2024	\$80.14	538.4	43,251.4	52,931.4	9,821.0	3,592.0	5.4x	14.7x
Fiserv, Inc.	09/30/2024	\$202.26	568.9	114,785.1	139,603.1	19,093.0	7,777.0	7.3x	18.0x
Jack Henry & Associates, Inc.	09/30/2024	\$175.99	73.0	12,877.3	13,032.0	2,215.5	705.4	5.9x	18.5x
Shift4 Payments, Inc. Class A	09/30/2024	\$101.26	68.7	8,931.8	10,613.5	2,564.8	399.4	4.1x	26.6x
PayPal Holdings, Inc.	09/30/2024	\$86.78	1,002.5	85,666.9	87,005.9	29,681.0	5,926.0	2.9x	14.7x
Block, Inc. Class A	09/30/2024	\$87.64	559.7	54,109.8	51,105.9	21,915.6	1,188.0	2.3x	43.0x
WEX Inc.	09/30/2024	\$167.45	39.8	6,679.6	6,223.9	2,548.0	929.9	2.4x	6.7x
Corpay, Inc.	09/30/2024	\$339.09	69.7	23,643.9	27,278.5	3,757.7	2,027.5	7.3x	13.5x
Average								3.7x	18.0x

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



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Disclosures:

Analyst Certification

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Litchfield Hills Research LLC Rating System

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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