

Usio, Inc.

USIO (NASDAQ) - Buy \$6 Price Target

August 7, 2025

Usio Delivers Resilient EBITDA as ACH Strength Offsets Prepaid Headwinds—Reiterate Buy / \$6 Target

Diverse Business Model Proves Defensive; 2H Set for Acceleration

Analyst: Barry M. Sine, CFA, CMT

- **EBITDA Resilience Amid Revenue Dip:** Despite a modest 0.6% YoY decline in revenue, Usio delivered solid EBITDA of \$500K, highlighting strong cost controls and operational discipline across the business.
- **ACH Segment Drives Profitability:** The ACH (automated clearing house) segment posted 33% revenue growth, offsetting weakness elsewhere and contributing meaningfully to margin expansion and earnings stability.
- **Prepaid Headwinds Are Isolated:** A one-off event—a prepaid client losing a \$2M-revenue amusement park customer due to acquisition—drove a 26% revenue drop in the prepaid segment, but this is not indicative of broader structural issues.
- **Business Model Diversity Proves Effective:** The contrasting performance between prepaid and ACH segments underscores the strategic value of Usio's diversified revenue mix in mitigating segment-specific shocks.
- **Gross Margin Improvement Signals Operating Leverage:** Expanding gross margins despite topline pressure reflect the growing contribution of higher-margin services, particularly ACH, and suggest a more scalable earnings profile going forward.

Rating	BUY	Earnings Per Share			
Target Price	\$6.00	Normalized to exclude unusual items			
Ticker Symbol	USIO	FYE - December	2023	2024	2025E
Market	NASDAQ	1Q - March	\$0.00	(\$0.01)	(\$0.01) A
Stock Price	\$1.87	2Q - June	\$0.01	\$0.00	(\$0.01) A
52 wk High	\$2.92	3Q - September	(\$0.04)	\$0.10	(\$0.00)
52 wk Low	\$1.24	4Q - December	\$0.00	\$0.02	\$0.00
		Year	(\$0.02)	\$0.12	(\$0.02)
Shares Outstanding:	26.6 M	Revenue (\$mm)	\$82.6	\$82.9	\$88.5
Public Market Float:	16.9 M	EV/Rev	0.5X	0.5X	0.5X
Avg. Daily Volume	81,945	EBITDA (\$mm)	\$2.4	\$2.9	\$3.0
Market Capitalization:	\$50 M	EV/EBITDA	NM	14.9X	14.2X
Institutional Holdings:	25.3%				
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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Diverse Business Model Proves Defensive; 2H Set for Acceleration

Usio delivered a solid performance in Q2, generating \$500K in EBITDA despite a modest 0.6% year-over-year decline in revenue. The slight topline dip was driven entirely by a one-time customer loss within its prepaid segment—specifically, an amusement park client that was acquired and removed from the downstream portfolio. That customer alone would have contributed an estimated \$2 million in annualized revenue, but the impact was successfully offset by strength in higher-margin areas, particularly Usio's ACH business.

ACH Business Surges, Driving Margins to 10-Quarter High

Usio's ACH segment was the clear standout, posting 33% year-over-year revenue growth—its best performance in recent years. The segment's most profitable subcategory, returned checks, surged **b**, and momentum continues into Q3 with strong July volumes. We estimate that Usio generates approximately \$0.35 in revenue per returned check, making this contribution especially meaningful to the bottom line. Importantly, the surge in ACH revenue helped drive overall gross margin to 25.8%, the highest in 10 quarters.

This result underscores the power of Usio's diversified product portfolio, with multiple revenue drivers insulating the company from volatility in any one area.

Prepaid Rebounds with New Clients Despite One-Time Loss

Prepaid revenue declined 26% YoY, tied directly to the loss of the amusement park customer. While this headwind may also impact Q3 due to seasonal dynamics, the underlying prepaid business is strengthening. Usio added 15 new prepaid clients in Q2, and has 20 new clients total yet to begin contributing materially to revenue.

A notable tailwind: the Trump Administration's stated goal to route more federal payments (e.g., disaster relief) through state and local governments—many of whom already use Usio for disbursements via digital cards—could unlock a significant growth channel. Usio is already pursuing opportunities with the Commonwealths of Virginia and Pennsylvania.

Payfac Poised to Inflect as Key Customers Ramp

Card processing, now largely composed of Payfac (payment facilitator) revenue, declined a modest 3% as legacy business continues to be phased out. But the Payfac pipeline is increasingly encouraging. Usio signed 17 new Payfac customers in Q2—software ISVs—who are beginning to onboard their own end customers.

Two notable cases stand out:

- A healthcare software customer has now activated Usio payments across 700+ locations, with the potential for thousands more.
- A building supply chain is live at select locations and may expand across its national footprint.

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These are already won accounts; as their clients activate embedded payment functionality, we expect meaningful revenue conversion.

Output Solutions: Margin Expansion and RFP Pipeline Strengthen Outlook

Output Solutions saw revenue decline 0.9%, but operating income rose thanks to a favorable shift to digital bill printing, which carries higher margins than traditional paper printing.

Forward-looking indicators are highly positive:

- Stronger demand for ad hoc printing, including regulatory mailings and seasonal inserts (e.g., hurricane preparedness).
- Investment underway to quadruple check-printing capacity, a signal of confidence in future demand.
- Key existing clients include Verizon, T-Mobile, and Spectrum.
- Active RFPs submitted to major municipalities such as Cook County (Chicago), Harris County (Houston), and Denton County (north of Dallas).

Usio's strategy to bid competitively on initial print contracts and cross-sell higher-margin services like ACH is gaining traction, supporting the company's "One Usio" integrated platform approach.

Capital Allocation: Buybacks + M&A Upside

Usio ended the quarter with \$7.5 million in cash, down \$600K following \$700K in share repurchases. Notably, shares outstanding declined by 110K shares, demonstrating real execution—not just authorization—on the buyback.

Looking forward, management signaled increased optimism regarding M&A opportunities. With a strong balance sheet and a perfect acquisition track record, Usio appears poised to execute on accretive deals. Its last acquisition—Output Solutions—has proven highly successful both financially and strategically.

Importantly, quantitative investment models often do not differentiate between organic and inorganic revenue growth. A well-timed, accretive acquisition could drive a re-rating of the stock, particularly by quant funds.

Revised Guidance and Outlook

Usio issued FY25 guidance of 5% to 12% revenue growth, depending on customer ramp timing. We adopt a conservative midpoint assumption and now model 6.7% revenue growth for the year. Our EBITDA estimate is \$3.0 million, with the majority of the upside weighted toward Q4 as customer ramp and seasonality align.

Investment Thesis: Still Bullish with Catalysts Ahead

The only material negative this quarter—a downstream client's acquisition—was entirely external and unrelated to Usio's execution. In contrast, internal fundamentals are clearly improving:

- ACH is outperforming.



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- Payfac clients are activating.
- Prepaid is recovering.
- Output Solutions is margin-accretive and winning new business.

With a strengthening pipeline, margin tailwinds, a proven M&A strategy, and a diversified business model, we reaffirm our bullish stance.

We see significant upside potential in 2H25, particularly if management executes on one or more strategic acquisitions.



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Usio, Inc. – Revenue Forecast

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

	2024					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	3,894,330	4,302,510	4,599,750	16,678,324	5,044,517	5,192,224	5,163,012	5,519,700	20,919,453	5,801,195	5,971,058	5,937,464	6,347,655	24,057,371
YoY growth	16.2%	-4.5%	21.9%	16.7%	12.0%	30.0%	33.3%	20.0%	20.0%	25.4%	15.0%	15.0%	15.0%	15.0%	15.0%
Sequential growth	-1.5%	0.3%	10.5%	6.9%		9.7%	2.9%	-0.6%	6.9%		5.1%	2.9%	-0.6%	6.9%	
Percent of total revenue	18.5%	19.4%	20.2%	22.4%	20.1%	22.9%	26.0%	23.2%	22.7%	23.6%	23.2%	26.6%	24.0%	23.5%	24.3%
ACH interest	211,640	190,233	201,545	186,299	789,717	224,129	176,518	200,000	200,000	800,647	200,000	200,000	200,000	200,000	800,000
Electronic check transaction	4.0%	10.0%	25.0%	34.0%	18.0%	36.0%	33.0%								
Returned check transactions	9.0%	13.0%	18.0%	27.0%	17.0%	24.0%	32.0%								
Electronic check dollars processed	22.0%	36.0%	61.0%	44.0%	42.0%	42.0%	19.0%								
Credit card	7,560,734	7,261,268	7,197,362	7,248,182	29,267,546	7,878,694	7,045,030	7,917,098	9,060,228	31,901,050	8,824,137	7,890,434	8,867,150	10,147,455	35,729,176
YoY growth	3.0%	2.0%	0.4%	5.8%	2.8%	4.2%	-3.0%	10.0%	25.0%	9.0%	12.0%	12.0%	12.0%	12.0%	12.0%
Sequential growth	10.3%	-4.0%	-0.9%	0.7%		8.7%	-10.6%	12.4%	14.4%		-2.6%	-10.6%	12.4%	14.4%	
Percent of total revenue	36.1%	36.2%	33.8%	35.3%	35.3%	35.8%	35.3%	35.6%	37.3%	36.0%	35.3%	35.2%	35.9%	37.6%	36.0%
Credit card transaction volume	18.0%	19.0%	22.0%	34.0%	24.0%	65.0%	69.0%								
Credit card dollars	8.0%	10.0%	7.0%	15.0%	10.0%	17.0%	9.0%								
Prepaid card	3,341,224	3,673,418	4,017,153	3,048,855	14,080,650	2,907,451	2,726,410	2,812,007	2,439,084	10,884,952	3,488,941	2,862,731	2,952,607	2,561,038	11,865,317
YoY growth	-30.5%	-29.6%	-14.3%	-24.1%	-24.8%	-13.0%	-25.8%	-30.0%	-20.0%	-22.7%	20.0%	5.0%	5.0%	5.0%	9.0%
Sequential growth	-16.9%	9.9%	9.4%	-24.1%		-4.6%	-6.2%	3.1%	-13.3%		43.0%	-17.9%	3.1%	-13.3%	
Percent of total revenue	15.9%	18.3%	18.8%	14.8%	17.0%	13.2%	13.7%	12.6%	10.0%	12.3%	14.0%	12.8%	12.0%	9.5%	12.0%
Prepaid interest	402,741	334,624	309,131	299,183	1,345,679	182,661	134,823	350,000	350,000	1,017,484	350,000	350,000	350,000	350,000	1,400,000
Load volume	108.0%	55.0%	21.0%	36.0%	35.0%	-15.0%	-51.0%								
Transaction volume	26.0%	58.0%	56.0%	7.0%	45.0%	5.0%	-37.0%								
Purchase dollars	42.0%	39.0%	23.0%		26.0%	-8.0%	-23.0%								
Output solutions	5,537,923	4,686,869	5,253,388	5,140,816	20,618,996	5,732,867	4,642,901	5,778,727	6,683,061	22,837,556	6,306,154	5,107,191	6,356,599	7,351,367	25,121,311
YoY growth	-7.1%	-3.3%	2.2%	13.0%	0.6%	3.5%	-0.9%	10.0%	30.0%	10.8%	10.0%	10.0%	10.0%	10.0%	10.0%
Sequential growth	21.7%	-15.4%	12.1%	-2.1%		11.5%	-19.0%	24.5%	15.6%		-5.6%	-19.0%	24.5%	15.6%	
Percent of total revenue	26.4%	23.3%	24.6%	25.0%	24.9%	26.0%	23.3%	26.0%	27.5%	25.8%	25.2%	22.8%	25.7%	27.2%	25.3%
Output interest	34,390	39,146	40,389	37,003	150,928	38,731	43,084	35,000	35,000	151,815	35,000	35,000	35,000	35,000	140,000
Transactions/pieces mailed				5.40	24.50	5.00	5.40								
Electronic documents delivered							20.00								
Total	20,970,386	20,079,888	21,321,478	20,560,088	82,931,840	22,009,050	19,960,990	22,255,844	24,287,072	88,512,956	25,005,427	22,416,413	24,698,821	26,992,515	99,113,175
YoY growth	-2.2%	-5.6%	3.9%	6.2%	0.4%	5.0%	-0.6%	4.4%	18.1%	6.7%	13.6%	12.3%	11.0%	11.1%	12.0%
Sequential growth	8.3%	-4.2%	6.2%	-3.6%		7.0%	-9.3%	11.5%	9.1%		3.0%	-10.4%	10.2%	9.3%	

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

	2024					2025E					2026E				
	1Q	2Q	3Q	4Q	YEAR	1QA	2QA	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	20,560,088	82,931,840	22,009,050	19,960,990	22,255,844	24,287,072	88,512,956	25,005,427	22,416,413	24,698,821	26,992,515	99,113,175
YoY growth	-2.2%	-5.6%	3.9%	6.2%	0.4%	5.0%	-0.6%	4.4%	18.1%	6.7%	13.6%	12.3%	11.0%	11.1%	12.0%
Seq growth	8.3%	-4.2%	6.2%	-3.6%		7.0%	-9.3%	11.5%	9.1%		3.0%	-10.4%	10.2%	9.3%	
Cost of services	16,116,691	15,280,074	16,425,321	15,495,310	63,317,396	17,199,907	14,820,921	17,359,558	18,943,916	68,324,303	19,004,124	17,036,474	18,771,104	20,514,311	75,326,013
As a percent of revenue	76.9%	76.1%	77.0%	75.4%	76.3%	78.1%	74.2%	78.0%	78.0%	77.2%	76.0%	76.0%	76.0%	76.0%	76.0%
Gross margin	23.1%	23.9%	23.0%	24.6%	23.7%	21.9%	25.8%	22.0%	22.0%	22.8%	24.0%	24.0%	24.0%	24.0%	24.0%
S,G&A - cash	4,060,225	4,000,845	4,119,317	4,547,694	16,728,081	4,142,895	4,638,185	4,006,052	4,371,673	17,158,805	4,751,031	4,259,118	4,692,776	5,128,578	18,831,503
As a percent of revenue	19.4%	19.9%	19.3%	22.1%	20.2%	18.8%	23.2%	18.0%	18.0%	19.4%	19.0%	19.0%	19.0%	19.0%	19.0%
Stock-based comp.	499,273	460,061	569,772	564,300	2,093,406	410,062	434,255	435,000	435,000	1,714,317	500,000	500,000	500,000	500,000	2,000,000
Cancellation of stock-based comp.	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Depreciation and amortization	576,154	547,849	583,718	555,581	2,263,302	495,770	464,599	500,000	500,000	1,960,369	525,000	525,000	525,000	525,000	2,100,000
Operating income	(281,957)	(208,941)	(376,650)	(602,797)	(1,470,345)	(239,584)	(396,970)	(44,766)	36,483	(644,837)	225,271	95,821	209,941	324,626	855,659
Operating margin	-1.3%	-1.0%	-1.8%	-2.9%	-1.8%	-1.1%	-2.0%	-0.2%	0.2%	-0.7%	0.9%	0.4%	0.9%	1.2%	0.9%
Interest income	115,354	107,270	125,564	116,558	464,746	79,011	110,908	125,000	125,000	439,919	125,000	125,000	125,000	125,000	500,000
Other	-	261,413	-	1,476,272	1,737,685	-	-	-	-	-	-	-	-	-	-
Interest expense	(13,585)	(14,250)	(13,700)	(12,267)	(53,802)	(11,843)	(11,735)	(10,000)	(10,000)	(43,578)	(10,000)	(10,000)	(10,000)	(10,000)	(40,000)
Pretax income	(180,188)	145,492	(264,786)	977,766	678,284	(172,416)	(297,797)	70,234	151,483	(248,496)	340,271	210,821	324,941	439,626	1,315,659
Taxes	(13,858)	70,000	(3,032,195)	348,840	(2,627,213)	62,554	68,857	76,773	83,780	291,964	75,016	67,249	74,096	80,978	297,340
As a percent of revenue	-0.1%	0.3%	-14.2%	1.7%	-3.2%	0.3%	0.3%	0.3%	0.3%	0.3%	0.3%	0.3%	0.3%	0.3%	0.3%
Net income to common	(166,330)	75,492	2,767,409	628,926	3,305,497	(234,970)	(366,654)	(6,540)	67,703	(540,461)	265,255	143,571	250,845	358,648	1,018,319
Net income margin	-0.8%	0.4%	13.0%	3.1%	4.0%	-1.1%	-1.8%	0.0%	0.3%	-0.6%	1.1%	0.6%	1.0%	1.3%	1.0%
Diluted shares outstanding	26,508,872	26,534,407	27,322,497	27,162,675	26,852,129	26,615,947	26,456,411	26,471,411	26,486,411	26,507,545	26,501,411	26,516,411	26,531,411	26,546,411	26,523,911
Seq change	5,621	25,535	788,090	(159,822)		(546,728)	(159,536)	15,000	15,000		15,000	15,000	15,000	15,000	
EPS diluted - continuing	(\$0.01)	\$0.00	\$0.10	\$0.02	\$0.12	(\$0.01)	(\$0.01)	(\$0.00)	\$0.00	(\$0.02)	\$0.01	\$0.01	\$0.01	\$0.01	\$0.04
EBITDA															
Operating income	(281,957)	(208,941)	(376,650)	(602,797)	(1,470,345)	(239,584)	(396,970)	(44,766)	36,483	(644,837)	225,271	95,821	209,941	324,626	855,659
Addback															
Depreciation and amortization	576,154	547,849	583,718	555,581	2,263,302	495,770	464,599	500,000	500,000	1,960,369	525,000	525,000	525,000	525,000	2,100,000
Stock comp. expense	499,273	460,061	569,772	564,300	2,093,406	410,062	434,255	435,000	435,000	1,714,317	500,000	500,000	500,000	500,000	2,000,000
EBITDA	793,470	798,969	776,840	517,084	2,886,363	666,248	501,884	890,234	971,483	3,029,849	1,250,271	1,120,821	1,234,941	1,349,626	4,955,659
YoY growth	-22.9%	-30.9%	-882.9%	74.7%	21.2%	-16.0%	-37.2%	14.6%	87.9%	5.0%	5.0%	123.3%	5.0%	38.9%	63.6%
EBITDA margin	3.8%	4.0%	3.6%	2.5%	3.5%	3.0%	2.5%	4.0%	4.0%	3.4%	5.0%	5.0%	5.0%	5.0%	5.0%

Source: Company reports and Litchfield Hills Research LLC



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Usio Trades at a Significant Discount to Comps – Our \$6 Target Implies a 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	03/31/2025	\$1.87	26.6	50.4	45.4	84.0	2.1	0.5x	21.1x
USIO @ 2025E	12/31/25	\$1.87	26.6	50.4	45.4	88.5	3.0	0.5x	15.0x
USIO @ \$6 target on 2052E	12/31/25	\$6.00	26.6	159.6	154.6	88.5	3.0	1.7x	51.0x
USIO @ \$6 target on 2026E	12/31/26	\$6.00	26.6	159.6	154.6	99.1	5.0	1.6x	31.2x
ACI Worldwide, Inc.	03/31/2025	\$42.15	104.9	4,357.5	5,015.4	1,594.3	434.1	3.1x	11.6x
Bread Financial Holdings, Inc.	06/30/2025	\$58.69	46.6	2,750.0	3,159.0	4,787.0	-	0.7x	
Euronet Worldwide, Inc.	03/31/2025	\$92.41	41.0	3,775.3	4,020.1	3,989.8	635.0	1.0x	6.3x
EVERTEC, Inc.	06/30/2025	\$35.05	64.0	2,213.1	2,891.8	845.5	296.4	3.4x	9.8x
Fidelity National Information Ser	06/30/2025	\$69.90	525.4	37,944.0	50,339.0	10,127.0	4,122.0	5.0x	12.2x
Fiserv, Inc.	06/30/2025	\$134.04	543.6	72,993.7	102,248.7	20,456.0	8,971.0	5.0x	11.4x
Jack Henry & Associates, Inc.	03/31/2025	\$166.76	72.8	12,088.2	12,271.8	2,215.5	705.4	5.5x	17.4x
Shift4 Payments, Inc. Class A	06/30/2025	\$82.20	66.4	7,564.8	9,391.8	3,330.6	586.4	2.8x	16.0x
PayPal Holdings, Inc.	06/30/2025	\$69.42	955.4	64,803.3	66,967.3	31,789.0	6,787.0	2.1x	9.9x
Block, Inc. Class A	03/31/2025	\$76.13	555.0	46,307.1	44,192.5	24,121.1	2,414.1	1.8x	18.3x
WEX Inc.	06/30/2025	\$171.95	34.3	5,840.4	5,615.2	2,628.2	1,013.3	2.1x	5.5x
Corpay, Inc.	03/31/2025	\$315.07	70.5	22,457.8	26,286.0	3,974.6	2,150.5	6.6x	12.2x
Average								3.0x	11.8x

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



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Disclosures:

Analyst Certification

We, the Litchfield Hills Research Department, hereby certify that the views expressed in this research report accurately reflect our personal views about the subject company and the underlying securities.

FINRA Compliant Research Report

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