LITCHFIELD HILLS RESEARCH

Usio, Inc.

USIO (NASDAQ) - Buy $6 Price Target

May 14, 2026

The Growth Interregnum Is Over, Reiterating Buy and $6 Target

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- Usio reported 16% revenue growth and 17% EBITDA growth in 1Q26 as the company returned to its historical double-digit growth trajectory following last year's prepaid customer disruption.
- Management Got Religion On SG&A: Cash SG&A rose just 5% despite 16% revenue growth, driving a return to operating and net income profitability and highlighting the company's significant operating leverage potential.
- Credit Card, ACH And Output Solutions Are All Clicking At Once: Credit card revenue rose 23%, ACH revenue increased 25%, and Output Solutions grew 19% as higher-margin services increasingly drive the mix.
- The Prepaid Business Looked Dead Until It Didn't: While prepaid revenue declined 19%, management announced multiple large new customers, including a tuition voucher program, a regional bank, and a strategic fintech relationship launching this year.
- They Backed Up the Truck While the Market Panicked: Usio repurchased 891k shares for $1.3 million during the slowdown, and we believe renewed growth, expanding margins, and potential strategic interest could materially reprice the shares higher.

Rating	BUY
Target Price	$6.00
Ticker Symbol	USIO
Market	NASDAQ
Stock Price	$1.31
52 wk High	$2.02
52 wk Low	$1.03
Shares Outstanding:	27.7 M
Public Market Float:	19.6 M
Avg. Daily Volume	40,841
Market Capitalization:	$36 M
Institutional Holdings:	24.1%
Dividend Yield:	0.0%

Earnings Per Share	**Normalized to exclude unusual items**			
FYE - December	**2024**	**2025**	**2026E**	**2027E**
1Q - March	($0.01)	($0.01)	$0.00 A	$0.00
2Q - June	$0.00	($0.01)	($0.00)	$0.01
3Q - September	$0.10	($0.02)	($0.01)	$0.00
4Q - December	$0.02	($0.00)	($0.01)	($0.00)
Year	**$0.12**	**($0.04)**	**($0.01)**	**$0.01**
Revenue ($mm)	**$82.9**	**$85.0**	**$94.8**	**$104.9**
EV/Rev	0.4X	0.3X	0.3X	0.3X
EBITDA ($mm)	**$2.9**	**$2.4**	**$3.6**	**$4.2**
EV/EBITDA	10.3X	12.3X	8.3X	7.1X

Risks/Valuation

- We see four key risk categories, which we discussed in our initiation report: regulatory changes, cybersecurity risks, errors, and fraud.
- Our valuation is based on an EV/EBITDA and EV/Revenue methodology.

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.

The Growth Interregnum Is Over, Reiterating Buy and $6 Target

Usio reported strong first-quarter results with revenue up 16% and EBITDA up 17%. Growth stalled last year due to one of its customers losing a major customer, but Usio now appears to be back on its usual double-digit growth trajectory, with upbeat hold music on the earnings call from the opera Rigoletto and guidance for continued strong growth all year. In addition to the revenue growth, the company has made noticeable strides in expense control, with cash SG&A up just 5% and guidance for this to stay relatively flat for the rest of this year. The net result was a return to operating and net income profitability. Usio is largely a fixed-cost SaaS-like company, so if it continues this formula, EBITDA growth, which was up 17% in 1Q, should continue to accelerate, driving the shares higher. During the growth interregnum, management has been backing up the truck buying shares on NASDAQ, spending $1.3 million repurchasing 891k shares. Taken together, we think these moves could result in substantial upside in the shares over the next year as losses from the low-growth period are recouped and the market begins recognizing Usio as the high-growth fintech company it is.

Credit Card Is Swinging Like Spieth At The Texas Open

The largest revenue generator is the company's credit card business, which posted 23% revenue growth to $9.7 million. This business is now primarily high-growth PayFac revenue, with the declining legacy business substantially reduced. PayFac growth is expected to continue to be robust. The company has been touting a new relationship for approved healthcare flexible spending account purchases at bodegas. The response among bodega owners who have adopted this has reportedly been overwhelmingly positive, leading to word-of-mouth momentum for new business going forward. Existing ISV clients continue to add more of their own clients who then use Usio, and the company is also adding new ISVs.

Output Solutions Still Prints Paper And Money

The second-largest contributor is its Output Solutions business, which saw revenue rise 19% to $6.8 million. This business both prints old-fashioned paper bills for clients and increasingly sends out digital PDF bills, which carry much higher margins. The company recently invested in a new $1.2 million HP printing machine and sees significant growth continuing. So far this year it has added six new cities, two new counties, and four other new clients. Government customers are this unit's strong suit, as they still use paper for a number of functions, such as parking citations. Usio also adds payment options via its other product lines with QR codes on bills, making this a highly synergistic business.

Real-Time Payments Are Becoming Real-Time Margin Expansion

ACH was the third-largest revenue contributor, with revenue up 25% to $6.3 million. ACH is the company's highest-margin business, so the fact that the highest-margin business is also the fastest growing bodes well for margins going forward. A key driver here has been the strong success of real-time payments, which also carry high margins.

The Prepaid Business Looked Dead Until It Didn't

Prepaid, or card issuing, was the lone negative contributor to top-line growth, with revenue down 19% to $2.4 million on top of a 23% decline last year. The reason for the decline was that one of its largest reverse ATM customers, where customers insert cash to receive a prepaid card, lost a major theme park customer in January 2025. As a result, the negative comparisons are now largely behind the company. Management announced a number of new customers that are already signed but have not yet started contributing revenue. The first is a company that handles a tuition voucher program that is expected to see over $1 billion in annual payments, mainly through prepaid cards. The second is a larger regional bank rolling out in Q3, and the third is what management described as a multi-billion-dollar strategic fintech company rolling out in June. On top of these whale customers, it has also won 27 smaller minnow customers that are currently onboarding. So while the top line looks distressing externally, internally, there are numerous developments that should drive growth. The company expects prepaid revenue to be up for the full year despite the weak start to the year.

This Quarter Had No Fairy Dust, Rabbit Tricks Or Tax Refunds

As noted, the company reported positive operating income, net income, and EBITDA. And this was a clean quarter without one-time items like Covid-related payments or tax refunds that benefited prior strong quarters.

Management Got Religion On SG&A

And the trend looks set to continue. On the gross margin front, management expects to move back toward its normal 23% to 25% range compared to 20.2% in 1Q. The company is seeing growth in high-margin services such as real-time payments and digital bill presentment. Interest revenue, which is effectively 100% gross margin, has declined due to lower interest rates, but with higher card balances on prepaid cards, interest revenue should begin growing again, boosting the gross margin.

On the operating margin front, management appears to have gotten religion with cash SG&A costs up just 5% despite 16% revenue growth. We note that once Usio onboards a customer, the revenue generation process is largely automatic without human intervention. The company handled $2.5 billion worth of payments in the quarter but could likely do many times this volume on its current systems. As the company has moved to a more productive unified sales process, instead of the prior model where salespeople sold only a single product, sales productivity has improved, and quota-bearing sales headcount has declined from 12 people to 8 people. It may add an account servicing person, as Usio refreshingly does not use email, web forms or chatbots for customer support — customer calls are handled live by real people, greatly increasing customer satisfaction and retention. Usio is a rare bird in adopting this philosophy across American industries.

The Market Treated A Temporary Slowdown Like A Funeral

We reiterate our Buy rating and $6 price target, which simply assumes that the company will eventually be accorded a valuation multiple more in line with fintech comps. The stock lost roughly a quarter of its value over the last year as it posted weak top-line growth due to the aforementioned loss of a major customer by one of its customers. We expect the shares to recover this lost ground. Today's strong results already have the stock up approximately 10% in the after-market, but one quarter does not a trend make. As noted, the forward outlook continues to look strong. On the call, management mentioned that both Output Solutions and Credit Card had record months in April. So 2Q should be stronger than 1Q if current trends continue, especially since the company will have lapped the prepaid customer loss. As Usio reports quarter after quarter of the double-digit growth it has historically generated, and generated last year on a normalized basis, excluding the customer loss, we expect the market to reward it with a premium valuation relative to current fintech comps.

Usio May Be Too Small To Stay Independent Forever

Lastly, we note that Usio increasingly appears to be drawing attention from much larger fintech companies, which are now not only partnering with it, but could eventually view the company as an acquisition target. Usio is still small enough that it represents an easily digestible acquisition for at least a dozen larger fintechs. The CEO has sold businesses before, and every time we have brought up the topic, he has indicated that he is receptive to obtaining the best value for shareholders. So we think today's results begin putting the company on the radar screens of potential acquirers.

Litchfield Hills Research

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Usio, Inc. – Income Forecast

			2025					2026E					2027E		
l years ended December 31	1Q	2Q	3Q	4Q	YEAR	1QA	2Q	3Q	4Q	YEAR	1Q	2Q	3Q	4Q	YEAR
	March	June	September	December		March	June	September	December		March	June	September	December	
ue	**22,009,050**	**19,960,990**	**21,180,333**	**21,889,629**	**85,040,002**	**25,465,774**	**23,857,878**	**23,008,415**	**22,515,948**	**94,848,014**	**28,148,756**	**28,563,454**	**25,021,920**	**23,174,306**	**104,908,435**
YoY growth	5.0%	-0.6%	-0.7%	6.5%	2.5%	15.7%	19.5%	8.6%	2.9%	11.5%	10.5%	19.7%	8.8%	2.9%	10.6%
Seq growth	7.0%	-9.3%	6.1%	3.3%		16.3%	-6.3%	-3.6%	-2.1%		25.0%	1.5%	-12.4%	-7.4%	
f services	17,199,907	14,820,921	16,310,314	17,073,910	65,405,052	20,328,891	18,370,566	17,716,479	17,337,280	73,753,216	21,674,542	21,993,859	19,266,879	17,844,216	80,779,495
As a percent of revenue	78.1%	74.2%	77.0%	78.0%	76.9%	79.8%	77.0%	77.0%	77.0%	77.8%	77.0%	77.0%	77.0%	77.0%	77.0%
Gross margin	21.9%	25.8%	23.0%	22.0%	23.1%	20.2%	23.0%	23.0%	23.0%	22.2%	23.0%	23.0%	23.0%	23.0%	23.0%
\ - cash	4,142,895	4,638,185	4,501,762	3,940,133	17,222,975	4,356,142	4,532,997	4,371,599	4,278,030	17,538,768	5,348,264	5,427,056	4,754,165	4,403,118	19,932,603
As a percent of revenue	18.8%	23.2%	21.3%	18.0%	20.3%	17.1%	19.0%	19.0%	19.0%	18.5%	19.0%	19.0%	19.0%	19.0%	19.0%
based comp.	410,062	434,255	399,582	435,000	1,678,899	329,284	500,000	500,000	500,000	1,829,284	500,000	500,000	500,000	500,000	2,000,000
llation of stock-based comp.	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
ciation and amortization	495,770	464,599	432,846	500,000	1,893,215	225,745	525,000	525,000	525,000	1,800,745	525,000	525,000	525,000	525,000	2,100,000
ting income	**(239,584)**	**(396,970)**	**(464,171)**	**(59,415)**	**(1,160,140)**	**225,712**	**(70,685)**	**(104,663)**	**(124,362)**	**(73,998)**	**100,950**	**117,538**	**(24,123)**	**(98,028)**	**96,337**
Operating margin	-1.1%	-2.0%	-2.2%	-0.3%	-1.4%	0.9%	-0.3%	-0.5%	-0.6%	-0.1%	0.4%	0.4%	-0.1%	-0.4%	0.1%
t income	79,011	110,908	124,449	125,000	439,368	91,491	125,000	125,000	125,000	466,491	125,000	125,000	125,000	125,000	500,000
			5,000		5,000										
t expense	(11,843)	(11,735)	(11,328)	(10,000)	(44,906)	(22,826)	(10,000)	(10,000)	(10,000)	(52,826)	(10,000)	(10,000)	(10,000)	(10,000)	(40,000)
Income	(172,416)	(297,797)	(346,050)	55,585	(760,678)	294,377	44,315	10,337	(9,362)	339,667	215,950	232,538	90,877	16,972	556,337
	62,554	68,857	68,857	71,163	271,431	171,874	161,022	155,289	151,965	640,150	84,446	85,690	75,066	69,523	314,725
As a percent of revenue	0.3%	0.3%	0.3%	0.3%	0.3%	0.7%	0.7%	0.7%	0.7%	0.7%	0.3%	0.3%	0.3%	0.3%	0.3%
come to common	**(234,970)**	**(366,654)**	**(414,907)**	**(15,578)**	**(1,032,109)**	**122,503**	**(116,707)**	**(144,952)**	**(161,327)**	**(300,483)**	**131,504**	**146,848**	**15,811**	**(52,551)**	**241,612**
Net income margin	-1.1%	-1.8%	-2.0%	-0.1%	-1.2%	0.5%	-0.5%	-0.6%	-0.7%	-0.3%	0.5%	0.5%	0.1%	-0.2%	0.2%
d shares outstanding	26,615,947	26,456,411	26,892,925	26,907,925	26,718,302	27,748,037	27,763,037	27,778,037	27,793,037	27,770,537	27,808,037	27,823,037	27,838,037	27,853,037	27,830,537
Seq change	(546,728)	(159,536)	436,514	15,000		840,112	15,000	15,000	15,000		15,000	15,000	15,000	15,000	
iluted - continuing	**($0.01)**	**($0.01)**	**($0.02)**	**($0.00)**	**($0.04)**	**$0.00**	**($0.00)**	**($0.01)**	**($0.01)**	**($0.01)**	**$0.00**	**$0.01**	**$0.00**	**($0.00)**	**$0.01**
A															
ing income	(239,584)	(396,970)	(464,171)	(59,415)	(1,160,140)	225,712	(70,685)	(104,663)	(124,362)	(73,998)	100,950	117,538	(24,123)	(98,028)	96,337
ck															
Depreciation and amortization	495,770	464,599	432,846	500,000	1,893,215	225,745	525,000	525,000	525,000	1,800,745	525,000	525,000	525,000	525,000	2,100,000
Stock comp. expense	410,062	434,255	399,582	435,000	1,678,899	329,284	500,000	500,000	500,000	1,829,284	500,000	500,000	500,000	500,000	2,000,000
A	**666,248**	**501,884**	**368,257**	**875,585**	**2,411,974**	**780,741**	**954,315**	**920,337**	**900,638**	**3,556,031**	**1,125,950**	**1,142,538**	**1,000,877**	**926,972**	**4,196,337**
YoY growth	-16.0%	-37.2%	-52.6%	69.3%	-16.4%	17.2%	90.1%	149.9%	2.9%	47.4%	44.2%	19.7%	8.8%	2.9%	18.0%
EBITDA margin	3.0%	2.5%	1.7%	4.0%	2.8%	3.1%	4.0%	4.0%	4.0%	3.7%	4.0%	4.0%	4.0%	4.0%	4.0%

Source: Company reports and Litchfield Hills Research LLC

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Total return is defined as price appreciation plus dividend yield.

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