LITCHFIELD HILLS RESEARCH

Usio, Inc.

USIO (NASDAQ) - Buy $6 Price Target

November 11, 2026

Operating Leverage Kicking in as 12% Revenue Growth Drives 222% EBITDA Growth – But the Best is Yet to Come

Analyst: Barry M. Sine, CFA, CMT

- Usio reported third-quarter revenue of $24 million, up 12%, while adjusted EBITDA surged 222% to $1.2 million. Results were above our estimates and roughly in line consensus. We believe that the company has reached sufficient scale to sustain positive earnings and EBITDA.
- Credit Card revenue increased 18.2%, driven by the growing PayFac business. As the declining legacy business becomes a smaller portion of the segment, overall growth should accelerate.
- Output Solutions revenue increased 14.2%, benefiting from expanded printing capacity, digital delivery, and payment processing synergies. An increasing mix of digital documents should drive margin expansion.
- Prepaid returned to growth after ten consecutive quarters of declines, removing a persistent drag on consolidated results. New bank and fintech partnerships should support accelerating growth.
- We reiterate our Buy rating and $6 price target, expecting double-digit revenue growth and even faster EBITDA growth. With much of its infrastructure already in place, incremental revenue should generate substantial operating leverage. We view the sharp post-earnings selloff as inexplicable and unwarranted and recommend buying shares at current levels.

Rating	BUY
Target Price	$6.00
Ticker Symbol	USIO
Market	NASDAQ
Stock Price	$2.91
52 wk High	$3.29
52 wk Low	$1.03
Shares Outstanding:	28.5 M
Public Market Float:	17.9 M
Avg. Daily Volume	328,216
Market Capitalization:	$83 M
Institutional Holdings:	21.0%
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	$0.01
2Q - June	$0.00	($0.01)	$0.01 A	$0.01
3Q - September	$0.10	($0.02)	$0.01 A	$0.01
4Q - December	$0.02	($0.00)	($0.00)	$0.01
Year	**$0.12**	**($0.04)**	**$0.02**	**$0.05**
Revenue ($mm)	**$82.9**	**$85.0**	**$97.4**	**$107.5**
EV/Rev	0.9X	0.9X	0.8X	0.7X
EBITDA ($mm)	**$2.9**	**$2.4**	**$4.1**	**$5.4**
EV/EBITDA	27.0X	32.3X	19.0X	14.5X

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.

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Operating Leverage Kicking in as 12% Revenue Growth Drives 222% EBITDA Growth – But the Best is Yet to Come

Usio reported third quarter revenue of $23.8 million, up 12%, and adjusted EBITDA of $1.2 million, representing a 5% margin. EBITDA increased 222% year-over-year. In our opinion, the headline is that Usio has finally achieved sufficient scale to consistently generate positive EPS and EBITDA. As a fintech, much of its payment processing infrastructure has relatively fixed costs, so margins should expand as revenue grows. In prior years, Usio seemed to encounter setbacks beyond its control whenever growth was gaining momentum. Even the end of the COVID-19 pandemic was a setback, as Usio had been processing incentive payments to encourage vaccinations. With these disruptions largely behind it, the strong results now emerging reflect the underlying growth engine that was always present but frequently masked by external events. We reiterate our Buy rating and $6 price target. With the customer and product catalysts already announced, we expect double-digit revenue growth to continue, accompanied by expanding margins and even faster EBITDA growth.

Although management emphasized strong ACH volume growth, Usio's fastest-growing business was Credit Card, driven primarily by its PayFac operations. PayFac provides embedded payment processing within specialized software platforms serving businesses ranging from medical practices to apartment rental agencies. Credit Card revenue increased 18.2%. The declining legacy credit card business now represents only 25% of segment revenue. As this business becomes a smaller portion of the total, its drag on Credit Card and consolidated revenue growth should diminish, allowing reported growth to accelerate.

Output Solutions was the second-fastest-growing business, with revenue increasing 14.2%. Usio recently invested in a substantially larger and faster printing machine, expanding its production capacity. Although Output Solutions has traditionally been a printing business, an increasing proportion of its output, including utility bills, is delivered digitally, significantly improving margins. Another important growth driver is the synergy with Usio's other business units. Printed bills and violation notices increasingly include QR codes that allow recipients to scan and pay electronically through Usio, generating additional payment processing revenue.

Prepaid revenue increased just 1%, but this marked its first quarter of growth following ten consecutive quarters of declines. A major headwind over the past year was the loss of a customer by one of Usio's resellers, rather than a direct customer loss by Usio. With Prepaid returning to growth, the segment is no longer the drag on consolidated revenue that it had been. Management expressed considerable optimism about future growth, highlighting a partnership with a regional bank and another with a fintech company. These relationships should help accelerate Prepaid growth in coming quarters.

Operating leverage is beginning to materialize, but we believe substantial additional margin expansion lies ahead. During the third quarter, Usio processed $2.7 billion in payments while generating $23.8 million in revenue and $1.2 million in adjusted EBITDA. The difference represents approximately $22.6 million in quarterly costs and expenses included in the adjusted EBITDA calculation, or roughly $90 million annualized. We believe Usio can increase annual revenue to $100 million next year and potentially $200 million over time without a proportionate increase in operating expenses. While additional processing volume will entail some incremental costs, such as paper and postage for Output Solutions printing, the existing infrastructure should support substantially higher revenue and profitability. The key is sustaining growth without the external setbacks that have repeatedly interrupted progress in the past. With the business model now demonstrating operating leverage, we believe Usio has the potential to become a significant cash flow generator.

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Usio, Inc. – Income Forecast

Fiscal years ended December 31	2025 1Q March	2Q June	3Q September	4Q December	YEAR	2026E 1QA March	2QA June	3QA September	4Q December	YEAR	2027E 1Q March	2Q June	3Q September	4Q December	YEAR
Revenue	**22,009,050**	**19,960,990**	**21,180,333**	**21,889,629**	**85,040,002**	**25,465,774**	**23,678,636**	**23,763,838**	**24,487,817**	**97,396,065**	**28,148,756**	**26,913,748**	**25,799,797**	**26,606,717**	**107,469,017**
YoY growth	5.0%	-0.6%	-0.7%	6.5%	2.5%	15.7%	18.6%	12.2%	11.9%	14.5%	10.5%	13.7%	8.6%	8.7%	10.3%
Seq growth	7.0%	-9.3%	6.1%	3.3%		16.3%	-7.0%	0.4%	3.0%		15.0%	-4.4%	-4.1%	3.1%	
Cost of services	17,199,907	14,820,921	16,310,314	17,073,910	65,405,052	20,328,891	17,952,649	18,025,493	18,855,619	75,162,652	21,393,054	20,454,449	19,607,845	20,221,105	81,676,453
As a percent of revenue	78.1%	74.2%	77.0%	78.0%	76.9%	79.8%	75.8%	75.9%	77.0%	77.2%	76.0%	76.0%	76.0%	76.0%	76.0%
Gross margin	21.9%	25.8%	23.0%	22.0%	23.1%	20.2%	24.2%	24.1%	23.0%	22.8%	24.0%	24.0%	24.0%	24.0%	24.0%
S,G&A - cash	4,142,895	4,638,185	4,501,762	3,940,133	17,222,975	4,356,142	4,580,548	4,553,317	4,652,685	18,142,692	5,348,264	5,113,612	4,901,961	5,055,276	20,419,113
As a percent of revenue	18.8%	23.2%	21.3%	18.0%	20.3%	17.1%	19.3%	19.2%	19.0%	18.6%	19.0%	19.0%	19.0%	19.0%	19.0%
Stock-based comp.	410,062	434,255	399,582	435,000	1,678,899	329,284	482,508	570,431	500,000	1,882,223	500,000	500,000	500,000	500,000	2,000,000
Cancellation of stock-based comp.	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Depreciation and amortization	495,770	464,599	432,846	500,000	1,893,215	225,745	286,018	335,865	525,000	1,372,628	525,000	525,000	525,000	525,000	2,100,000
Operating income	**(239,584)**	**(396,970)**	**(464,171)**	**(59,415)**	**(1,160,140)**	**225,712**	**376,913**	**278,732**	**(45,487)**	**835,870**	**382,438**	**320,687**	**264,990**	**305,336**	**1,273,451**
Operating margin	-1.1%	-2.0%	-2.2%	-0.3%	-1.4%	0.9%	1.6%	1.2%	-0.2%	0.9%	1.4%	1.2%	1.0%	1.1%	1.2%
Interest income	79,011	110,908	124,449	125,000	439,368	91,491	96,198	94,910	125,000	407,599	125,000	125,000	125,000	125,000	500,000
Other			5,000		5,000										
Interest expense	(11,843)	(11,735)	(11,328)	(10,000)	(44,906)	(22,826)	(22,934)	(22,680)	(10,000)	(78,440)	(10,000)	(10,000)	(10,000)	(10,000)	(40,000)
Pretax Income	(172,416)	(297,797)	(346,050)	55,585	(760,678)	294,377	450,177	350,962	69,513	1,165,029	497,438	435,687	379,990	420,336	1,733,451
Taxes	62,554	68,857	68,857	71,163	271,431	171,874	170,097	133,582	137,652	613,205	84,446	80,741	77,399	79,820	322,407
As a percent of revenue	0.3%	0.3%	0.3%	0.3%	0.3%	0.7%	0.7%	0.6%	0.6%	0.6%	0.3%	0.3%	0.3%	0.3%	0.3%
Net income to common	**(234,970)**	**(366,654)**	**(414,907)**	**(15,578)**	**(1,032,109)**	**122,503**	**280,080**	**217,380**	**(68,139)**	**551,824**	**412,992**	**354,946**	**302,590**	**340,516**	**1,411,044**
Net income margin	-1.1%	-1.8%	-2.0%	-0.1%	-1.2%	0.5%	1.2%	0.9%	-0.3%	0.6%	1.5%	1.3%	1.2%	1.3%	1.3%
Diluted shares outstanding	26,615,947	26,456,411	26,892,925	26,907,925	26,718,302	27,748,037	27,819,834	28,474,331	28,489,331	28,132,883	28,504,331	28,519,331	28,534,331	28,549,331	28,526,831
Seq change	(546,728)	(159,536)	436,514	15,000		840,112	71,797	654,497	15,000		15,000	15,000	15,000	15,000	
EPS diluted - continuing	**($0.01)**	**($0.01)**	**($0.02)**	**($0.00)**	**($0.04)**	**$0.00**	**$0.01**	**$0.01**	**($0.00)**	**$0.02**	**$0.01**	**$0.01**	**$0.01**	**$0.01**	**$0.05**
EBITDA															
Operating income	(239,584)	(396,970)	(464,171)	(59,415)	(1,160,140)	225,712	376,913	278,732	(45,487)	835,870	382,438	320,687	264,990	305,336	1,273,451
Addback															
Depreciation and amortization	495,770	464,599	432,846	500,000	1,893,215	225,745	286,018	335,865	525,000	1,372,628	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	482,508	570,431	500,000	1,882,223	500,000	500,000	500,000	500,000	2,000,000
EBITDA	**666,248**	**501,884**	**368,257**	**875,585**	**2,411,974**	**780,741**	**1,145,439**	**1,185,028**	**979,513**	**4,090,721**	**1,407,438**	**1,345,687**	**1,289,990**	**1,330,336**	**5,373,451**
YoY growth	-16.0%	-37.2%	-52.6%	69.3%	-16.4%	17.2%	128.2%	221.8%	11.9%	69.6%	80.3%	17.5%	8.9%	35.8%	31.4%
EBITDA margin	3.0%	2.5%	1.7%	4.0%	2.8%	3.1%	4.8%	5.0%	4.0%	4.2%	5.0%	5.0%	5.0%	5.0%	5.0%

Source: Company reports and Litchfield Hills Research LLC

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