

Mossberg's Investor Digest

Best Idea Profile:

USA Technologies (NASDAQ:USAT)

DESCRIPTION:

USA Technologies provides wireless networking, cashless transactions, asset monitoring, and other value-added services principally to the small-ticket, unattended retail markets. Its flexible platform allows multiple ways to connect: USAT hardware, USAT web service or through third-party hardware and applications. Its product, ePort Connect offers cashless payment and telemetry services that can process traditional magnetic stripe credit and debit cards, contactless credit and debit cards, and NFC-equipped mobile phones. Customers include Canteen, Aramark, Starbucks, PepsiCo and Coca-Cola. Partners and suppliers include Verizon Wireless, Visa, Isis, and Elavon. The company was founded in 1992, employs 50 people, and has its headquarters in Malvern, Pennsylvania.

KEY INVESTMENT CONSIDERATIONS:

Cash Won't Always Be King – The self-serve retail market generates more than \$120 billion in largely cash-based transactions today but continues to shift to cashless transaction. There is a huge untapped market for cashless transactions in what have been traditionally cash-only markets: vending, tolls, kiosks, commercial laundry, taxis.

Dependable Revenue – Most of USAT's revenue is recurring and transaction-based. License and transaction fees generate 84% of the revenue. There is low attrition and USAT has an extremely scalable platform. Customers have grown at a compound annual rate of 67% and the value of each customer is growing. In addition, the company is getting better about mining its customers with expanded products. Management's forecast for fiscal 2014 is for a 25% growth in service revenues, and a 20% to 25% growth in total revenues.

Strong Financial Improvement – USAT has an impressive record of organic growth and the increasing scale is vastly improving cash flow. USAT expects to begin generating sustainable free cash flow in the fourth quarter of fiscal 2014. Year-end adjusted EBITDA has improved from \$(2.8) million at June 2012 to \$5.8 million at June 2013, and management predicts it will gain 40% to 50% in fiscal 2014. USAT had \$6 million of cash on hand at the end of fiscal 2013.

Strength in Vending Market – USAT holds the largest share of existing cashless vending with six to seven million machines; yet the cashless penetration is below

10%. USAT recently announced a major commitment from USConnect, a consortium of 25 independent vending operating companies that has indicated they want to be 85% cashless in five years. This is further demonstration of an acceleration of cashless adoption. USAT's expansion into other, non-vending markets is evident as well. This is evidenced by its growth in adjacent self-serve retail markets such as amusement, commercial laundry and kiosks; all these areas are in the early stages of cashless adoption.

Loyalty Programs – USAT is rolling out a nationwide loyalty promotion, which is a first in the industry. This results in higher transaction dollars and cost saving opportunities for USAT and the vending operator.

VALUATION:

The recurring revenue business model is very attractive because of the visibility of earnings potential. The clear lead USAT has in its markets will fuel growth as the trend toward cashless transactions continues. USAT stock should increasingly reflect this growth potential and the cash flow generated from this scalable business.

USA Technologies (NASDAQ:USAT)

Investment Data (as of 11/26/13)

| | |
|--------------------------------|-----------------|
| Recent Price | \$1.75 |
| 52-Week Range | \$1.40 - \$2.75 |
| Fiscal Year End | June |
| Dividend | NA |
| Yield | NA |
| Shares Outstanding | 34 M |
| Average Trading Volume (3 mos) | 161k |
| Market Capitalization | \$60 M |
| Cash | \$6 M |
| Long-term Debt | \$4 M |
| Enterprise Value (EV) | \$65 M |
| Book Value | \$0.62 |
| TTM Revenue | \$38 M |
| P/ Revenue | 1.6x |
| TTM EPS | \$0.01 |
| P/ EPS | 135x |
| TTM EBITDA | \$6 M |
| EV/ EBITDA | 11x |

We attempt to provide subscribers with reasoned opinions based on our analysis of publicly available information from sources believed to be reliable, but make no representations as to its accuracy or completeness. Best Idea profiles are not based upon individual needs of subscribers nor are they an offer to buy or sell securities. Additional disclosures can be found under the Disclosures portion of the Mossberg's Investor Digest website.