



Breakthrough Tech Profits

**The Spare
Change
Superstar:
How To
Lock Up
Your Share
Of an \$87
Million
Windfall for
Pennies on
the Dollar**

The Spare Change Superstar

By: The team of analysts at Breakthrough Tech Profits

We may pay for parking on our phones, check out at Whole Foods using Apple Pay, and send up to \$10,000 across borders for free... but one industry is still firmly stuck in the 19th century—vending machines.

That's all about to change, though. And as it does, we're tracking a cashless payments trailblazer named USA Technologies (NSDQ: USAT).

It's helping usher vending machine technology into the 21st century. A clever business model shift *last* year is accelerating growth *this* year, and promises to put up to \$261 million into shareholders' pockets.

With Apple, Google, and Samsung battling to have us use their digital wallets, it's easy to think the big shift in payment processing is the move to *touchless* methods.

But the much bigger shift is actually the *cashless* revolution, of which touchless methods, including Apple Pay and Google Wallet, play a minor role compared with traditional credit cards.

A full 85% of the world's transactions still happen in cash, including more than 50% here in North America.

As clear as the trend is, predicting the winners from that shift is a dangerous way to invest, especially when the companies involved are global tech titans, sport balance sheets that dwarf those of entire nations, and think of their payments divisions as sideshows that don't need to be profitable.

Add in MasterCard and Visa deciphering their evolving relationships with Silicon Valley partners-cum-competitors and government agencies seeking to more closely regulate credit card transaction fees, and you have a cauldron of competitive dynamics that could boil over any side.

An Overlooked Niche

In situations like these, I look for opportunities in two places:

- Behind-the-scenes suppliers to the players actually making the headlines.
- The niches so unsexy that most people simply ignore them.

USA Technologies is both. After all, it doesn't get less sexy than vending machines.

As a result, competition rounds to zero for USAT's payment devices, which enable even those vending machines still stocking Mr. Pibb to accept everything from credit cards to swipe-to-pay smartphone apps.

Even better, USAT has already secured partnerships with Visa, MasterCard, Apple Pay, Android Pay, Samsung Pay, and Chase Bank, positioning itself as the must-have supplier to every major payment platform wanting exposure to the self-serve retail market.

That exposure is highly desired because only a sliver of the more than \$43 billion spent every year at vending machines and self-serve kiosks in the United States alone is currently cashless.

That's changing fast. In 2011, 4% of vending transactions were cashless. By 2014, that figure had *tripled*, and all signs point to accelerating adoption from here.

USAT's pitch to vending machine owners is more than just a better customer experience. When a USAT cashless device is installed on a machine, the average transaction instantly jumps from \$1.21 to \$1.60.

That's because when customers have the option of swiping their credit card or waving their smartphone, rather than having to dig through their pockets for loose change, they tend to splurge on the Red Bull and protein bars over cheaper Coca-Cola and Snickers.

This seemingly minor shift in customer behavior translates into a whopping—and effortless—32% jump in revenue for vendors.

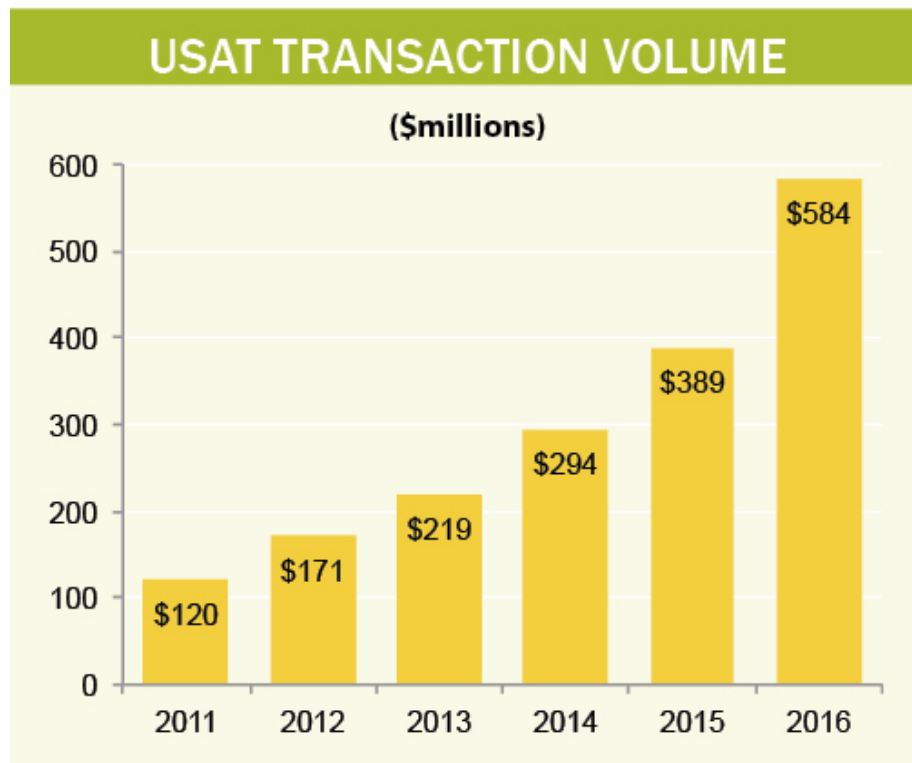
A Clever Model Shift

That kind of easy money has driven USAT's growth for several years, but it's also presented a problem.

While the vending machine owners pay a percentage of transaction volume to USAT every year, the company had to bear the cost of manufacturing the devices up front.

The faster USAT grew, the more negative short-term cash flow went, and USAT found itself unable to fill mounting orders because of purely financial constraints.

But that all changed late last year.



Because management came up with the genius solution of partnering with a third-party, which either buys the devices and leases them to vending machine owners or provides financing so owners can buy the devices themselves in installments.

The outcome is a cash-happy USAT that now has the resources to meet all the demand flowing its way.

The results of the shift are already materializing. USAT has added 21,000 new vending machine connections in the last 3 months...bringing its total to an impressive 469,000 connections.

With over 6 million vending machines out there and 13 million to 15 million total self-serve retail stations, this story is only just beginning.

Growth is also accelerating for a second reason: USAT now has devices in the field with over 11,000 different vending machine owners.

These owners alone own over 2 million machines, 80% of which are not yet cashless.

That translates to massive upside potential.

Because once they see the jump in sales that results from introducing cashless payments, persuading them to convert more machines is a much easier task.

Financial Inflection Point

USAT has a beautiful financial model because deployed devices bring in a predictable stream of high-margin revenue that grows as customers spend more over time.

Over 70% of revenue is recurring, and under the new business model, the company generates gobs of cash.

Earnings, though, remain negative. Accounting arcana is partly to blame, but USAT also plays a scale game.

The more devices in the field, the more fixed costs scale and the better the financials become.

I expect USAT to announce profitability as soon as the next earnings call—which is only days from now—and when that news breaks, two important things will happen:

- The company will realize major tax assets accumulated from years of accounting losses.
- Wall Street analysts will begin covering the stock.

Both of these factors will help drive the share price toward its correct value.

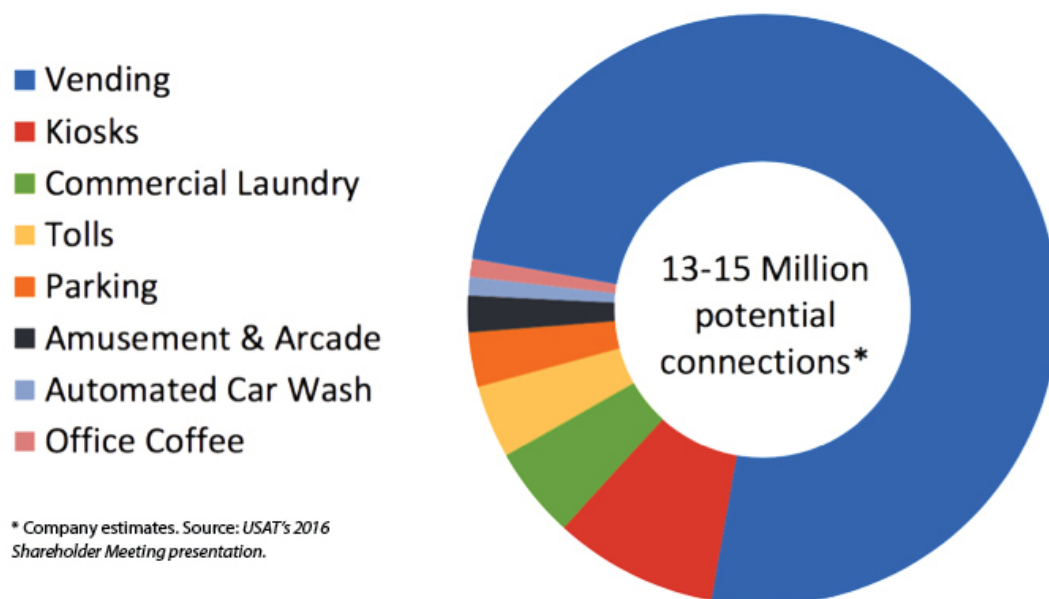
This sudden flood of cash from new investors who finally realize what I'm clueing you into now will create an \$87 million windfall for shareholders.

Just as importantly, news of profitability could set off a feeding frenzy among big investment houses (less than 60 hold a stake in USAT compared to the thousands of institutions who own Microsoft) ...

And if that happens the windfall could easily skyrocket to \$174 million... \$261 million... maybe even more. And you can share in that bounty if you pick up shares before its coming announcement.

Dealbreaker

USAT is riding the payments wave without so much as lifting a paddle, harnessing the technological advances made by major tech and financial companies in how we transfer funds. This is where I want the company to stay—acting as supplier, not competitor. If I see USAT’s measly \$1.5 million research budget grow as a percentage of revenue or if management makes moves to develop payment tech of their own, I’ll likely recommend selling.



Our model for the company values its stock around \$6.15 to \$6.35 per share. That’s a conservative estimate, and I suspect we’ll revise it upward as the next few quarterly reports trickle in.

We’ll keep you updated on USAT’s progress through our weekly alerts—including when to sell for a profit.

Until then, be prepared for a rocket ride that could put a substantial amount of coin in your pocket.

Like coffee and bottom-shelf liquor, vending machines are nearly immune to business cycles.


USAT itself is doubly-protected, because when the economy slows, business

owners hunt for ways to grow income that do not require shelling out lots of cash.

With its new business model, USAT offers vending machine owners a predictable way to increase sales without any upfront investment at all.

It's rare to find a major growth opportunity coupled with such a bulletproof vest in a single company.

I recommend digging up some spare change and buying shares of USA Technologies (Ticker: USAT) under \$5.40.



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