USA Technologies Reports Second Quarter Fiscal Year 2020 Results

February 19, 2020

Revenue Growth of 27.7% Year-Over-Year

Total Connections Rose 16% Year-Over-Year

Fiscal 2020 Revenue Expectations Increased to $175 Million to $185 Million

MALVERN, Pa.--(BUSINESS WIRE)--Feb. 18, 2020-- USA Technologies, Inc. (OTC:USAT) ("USAT" or the "Company"), a cashless payments and software services company that provides end-to-end technology solutions for the self-service retail market, today reported results for the second quarter fiscal year 2020 ended December 31, 2019.

"We are pleased with our fiscal second quarter results, which were marked by an acceleration in revenue growth and improvement in gross margins," said Don Layden, USA Technologies' Interim Chief Executive Officer. "We are in the final stages of negotiating a new transaction processing agreement, which we expect to result in first year savings of approximately $3.5 million and total cost savings over the next five years of approximately $22 million. In addition, we have completed a series of cost actions that will reduce our operating expenses by approximately $8.0 million on an annualized basis and we continue to rationalize our expenses to further optimize our cost structure."

Second Quarter Fiscal 2020 Financial Highlights:

- Revenue of $44.1 million, increased 27.7% year-over-year
  - License and transaction fee revenue of $35.8 million, increased 20.3% year-over-year
  - Equipment revenue of $8.3 million, increased 74.6% year-over-year
- Net new connections of 40,000 bring total connections to 1,255,000
- Gross margin of 29.0% increased from 27.4% in the prior year period
  - License and transaction gross margin of 36.8% increased from 34.5% in the prior year period
  - Equipment gross margin of (5.0)% increased from (17.6)% in the prior year period
- Operating loss of $(7.8) million compared to operating loss of $(10.0) million in the prior year period
- Net loss of $(8.4) million, or $(0.13) per basic share compared to net loss of $(10.4) million, or $(0.17) per basic share in the prior year period
- Non-GAAP net loss of $(4.0) million, or $(0.06) per share compared to non-GAAP net loss of $(1.6) million, or $(0.03) per share in the prior year period
- EBITDA of $(5.9) million compared to $(8.0) million in the prior year period
- Adjusted EBITDA of $(2.3) million compared to $0.0 million in the prior year period
- Ended the quarter with $37.5 million in cash and cash equivalents

"We are pleased to deliver another quarter of strong revenue growth, over 80% of which remains from recurring license and transaction fees," said Glen Goold, USA Technologies' Interim Chief Financial Officer. "We are raising our revenue guidance based on our strong financial performance this fiscal year. We are focused on execution and believe our scalable financial model, improved financial position, and enhanced compliance controls positions the Company well."

Fiscal Year 2020 Outlook:

For full fiscal year 2020, the Company now expects revenue to between $175 million to $185 million, up from prior expectations of $165 million to $175 million, and continues to expect to add 170,000 to 190,000 net new connections to its service. We will not be able to meet our previous guidance of $10 million of annualized Adjusted EBITDA previously given. This guidance was set assuming we would take out all non-recurring expenses as part of our Adjusted EBITDA calculation. We will provide more details during the upcoming conference call of what our normalized performance would look like after eliminating all non-recurring expenses from the Company.

Webcast and Conference Call

USA Technologies will host a conference call and webcast the event beginning at 8:30 a.m. Eastern Time tomorrow, February 19, 2020.

To participate in the conference call, please dial (866) 393-1608 approximately 10 minutes prior to the call. International callers should dial (224) 357-2194. Please reference conference ID # 7577265.

A live webcast of the conference call will be available at http://usat.client.shareholder.com/events.cfm. Please access the website 15 minutes prior to the start of the call to download and install any necessary audio software. A telephone replay of the conference call will be available from 11:30 a.m. Eastern Time on February 19, 2020 until 11:30 a.m. Eastern Time on February 26, 2020 and may be accessed by calling (855) 859-2056 (domestic dial-in) or (404) 537-3406 (international dial-in) and reference conference ID # 7577265. An archived replay of the conference call will also be available in the investor relations section of the company's website.

About USA Technologies

USA Technologies, Inc. is a cashless payments and software services company that provides end-to-end technology solutions for the self-service retail market. With more than one million connections worldwide, USAT is transforming the unattended retail community by offering one solution for payments processing, logistics, and back-office management solutions. The company's enterprise-wide platform is designed to increase consumer engagement and sales revenue through digital payments, digital advertising and customer loyalty programs, while providing retailers with control and visibility over their operations and their inventory. As a result, customers ranging from vending machine companies, to operators of micro-markets, car charging stations, laundromats, kiosks, amusements and more, can run their businesses more proactively, predictably, and competitively.

Discussion of Non-GAAP Financial Measures:

This press release contains certain non-GAAP financial measures. Generally, a non-GAAP financial measure is a numerical measure of a company's performance, financial position or cash flows that either excludes or includes amounts that are not normally excluded or included in the most directly comparable measure calculated and presented in accordance with GAAP (Generally Accepted Accounting Principles). Reconciliations between non-GAAP financial measures and the most comparable GAAP financial measures are set forth below in Financial Schedule D.

The following non-GAAP financial measures are discussed herein: adjusted EBITDA, non-GAAP net income (loss), and non-GAAP net income (loss) per share. The presentation of these additional financial measures is not intended to be considered in isolation or as a substitute for the financial measures prepared and presented in accordance with GAAP, including the net income or net loss of USAT or net cash provided by (used in) operating activities. Management recognizes that non-GAAP financial measures have limitations in that they do not reflect all of the items associated with USAT's net income or net loss as determined in accordance with GAAP and are not a substitute for or a measure of the Company's profitability or net earnings. These non-GAAP financial measures are not required by or defined under GAAP and may be materially different from the non-GAAP financial measures used by other companies. USAT has provided below in Financial Schedule D the reconciliations of the non-GAAP financial measures to the most directly comparable GAAP financial measures.

As used herein, non-GAAP net income (loss) represents GAAP net income (loss) excluding costs or benefits relating to any non-cash portions of the Company's income tax provision, amortization expense related to our acquisition-related intangibles, non-recurring fees and charges that were incurred in connection with the acquisition and integration of businesses, non-recurring fees and charges that were incurred in connection with the Audit Committee investigation and financial statement restatement activities, class-action litigation and shareholder derivative demand expenses, and stock-based compensation expense. Management believes that non-GAAP net income (loss) is an important measure of USAT's business. Non-GAAP net income (loss) is a non-GAAP financial measure which is not required by or defined under GAAP. Management uses the aforementioned non-GAAP measures to monitor and evaluate ongoing operating results and trends and to gain an understanding of our comparative operating performance. We believe that these non-GAAP financial measures serve as a useful metric for our management and investors because they enable a better understanding of the long-term performance of our core business and facilitate comparisons of our operating results over multiple periods, and when taken together with the corresponding GAAP financial measures and our reconciliations, enhance investors' overall understanding of our current and future financial performance. Additionally, the Company utilizes non-GAAP net income (loss) as a metric in its executive officer and management incentive compensation plans.

As used herein, Adjusted EBITDA represents net loss before interest income, interest expense, income taxes, depreciation, amortization, non-recurring fees and charges that were incurred in connection with the acquisition and integration of businesses, non-recurring fees and charges that were incurred in connection with the Audit Committee investigation and financial statement restatement activities, class action litigation and shareholder derivative demand expenses, and stock-based compensation expense. We have excluded the non-cash expense, stock-based compensation, as it does not reflect the cash-based operations of the Company. We have excluded the non-recurring costs and expenses incurred in connection with the acquisition of business acquisitions in order to allow more accurate comparison of the financial results to historical operations. We have excluded the professional fees incurred in connection with the class action litigation and the shareholder derivative demands as well as the non-recurring costs and expenses related to the Audit Committee investigation and financial statement restatement activities because we believe that they represent charges that are not related to our operations. Adjusted EBITDA is presented because we believe it is useful to investors as a measure of comparative operating performance. Additionally, the Company utilizes Adjusted EBITDA as a metric in its executive officer and management incentive compensation plans.

Forward-looking Statements:

"Safe Harbor" Statement under the Private Securities Litigation Reform Act of 1995: All statements other than statements of historical fact included in this release, including without limitation the business strategy and the plans and objectives of USAT's management for future operations, are forward-looking statements. When used in this release, words such as "anticipate", "believe", "estimate", "expect", "intend", and similar expressions, as they relate to USAT or its management, identify forward looking statements. Such forward-looking statements are based on the beliefs of USAT's management, as well as assumptions made by and information currently available to USAT's management. Actual results could differ materially from those contemplated by the forward-looking statements as a result of certain factors, including but not limited to, the ability of management to accurately predict or forecast future financial results, including earnings or taxable income of USAT; the ability to finalize the negotiation of the new processing agreement referred to above, or if finalized to achieve the anticipated cost savings referred to above; the incurrence by USAT of any unanticipated or unusual non-operational expenses which would require us to divert our cash resources from achieving our business plan; the ability of USAT to retain key customers from whom a significant portion of its revenues is derived; the ability of USAT to compete with its competitors to obtain market share; whether USAT's customers continue to utilize USAT's transaction processing, route scheduling, inventory management, and related services, as our customer agreements are generally cancelable by the customer on thirty to sixty days' notice; the risk associated with the currently pending litigation or possible regulatory action arising from the internal investigation and its findings, from the failure to timely file its periodic reports with the Securities and Exchange Commission, from the restatement of the affected financial statements, from allegations related to the registration statement for the follow-on public offering, or from potential litigation or other claims arising from the shareholder demands for derivative actions; whether the application by USAT to relist its securities on The Nasdaq Stock Market LLC ("Nasdaq") will be granted by Nasdaq or granted in a timely manner; or whether USAT's existing or anticipated customers purchase, rent or utilize ePort or Seed devices or our other products or services in the future at levels currently anticipated by USAT. Readers are cautioned not to place undue reliance on these forward-looking statements. Any forward-looking statement made by us in this release speaks only as of the date of this release. Unless required by law, USAT does not undertake to release publicly any revisions to these forward-looking statements to reflect future events or circumstances or to reflect the occurrence of unanticipated events.

(A) Balance Sheet
(B) Statements of Operations

(C) Statements of Cash Flows
(D) Reconciliation of GAAP to Non-GAAP Financial Measures

F-USAT

USA Technologies, Inc.
Condensed Consolidated Balance Sheets
(Unaudited)

($ in thousands)	**December 31, 2019**	**June 30, 2019**
Assets		
Current assets:		
Cash and cash equivalents	$ 37,505	$ 27,464
Accounts receivable, less allowance of $6,261 and $4,866, respectively	18,904	21,906
Finance receivables, net	8,232	6,727
Inventory, net	11,324	11,273
Prepaid expenses and other current assets	1,789	1,558
Total current assets	77,754	68,928
Non-current assets:		
Finance receivables due after one year, net	12,127	12,642
Other assets	2,050	2,099
Property and equipment, net	8,961	9,590
Operating lease right-of-use assets	6,281	—
Intangibles, net	24,602	26,171
Goodwill	63,945	63,945
Total non-current assets	117,966	114,447
Total assets	$ 195,720	$183,375
Liabilities, convertible preferred stock and shareholders' equity		
Current liabilities:		
Accounts payable	$ 33,142	$ 27,584
Accrued expenses	24,496	23,351
Capital lease obligations and current obligations under long-term debt	587	12,497
Income taxes payable	258	254
Deferred revenue	1,629	1,681
Total current liabilities	60,112	65,367
Long-term liabilities:		
Deferred income taxes	81	71
Capital lease obligations and long-term debt, less current portion	12,224	276
Operating lease liabilities, non-current	5,299	—
Accrued expenses, less current portion	1,520	100
Total long-term liabilities	19,124	447
Total liabilities	$ 79,236	$ 65,814
Commitments and contingencies (Note 13)		
Convertible preferred stock:		
Series A convertible preferred stock, 900,000 shares authorized, 445,063 issued and outstanding, with liquidation preferences of $20,444 and $20,111 at December 31, 2019 and June 30, 2019, respectively	3,138	3,138
Shareholders' equity:		
Preferred stock, no par value, 1,800,000 shares authorized, no shares issued	—	—
Common stock, no par value, 640,000,000 shares authorized, 64,171,422 and 60,008,481 shares issued and outstanding at December 31, 2019 and June 30, 2019, respectively	395,662	376,853
Accumulated deficit	(282,316)	(262,430)
Total shareholders' equity	113,346	114,423
Total liabilities, convertible preferred stock and shareholders' equity	$ 195,720	$183,375

USA Technologies, Inc.
Condensed Consolidated Statements of Operations

(Unaudited)

($ in thousands, except per share data)	Three months ended December 31, 2019	Three months ended December 31, 2018	Six months ended December 31, 2019	Six months ended December 31, 2018
Revenue:				
License and transaction fees	$ 35,754	$ 29,733	$ 70,363	$ 58,404
Equipment sales	8,297	4,753	17,047	9,850
Total revenue	44,051	34,486	87,410	68,254
Costs of sales:				
Cost of services	22,579	19,462	44,668	37,834
Cost of equipment	8,710	5,589	18,564	9,927
Total costs of sales	31,289	25,051	63,232	47,761
Gross profit	12,762	9,435	24,178	20,493
Operating expenses:				
Selling, general and administrative	18,700	10,931	36,807	20,381
Investigation and restatement expenses	738	7,188	4,303	11,714
Integration and acquisition costs	—	181	—	1,103
Depreciation and amortization	1,080	1,143	2,102	2,276
Total operating expenses	20,518	19,443	43,212	35,474
Operating loss	(7,756)	(10,008)	(19,034)	(14,981)
Other income (expense):				
Interest income	283	408	577	897
Interest expense	(833)	(819)	(1,298)	(1,605)
Total other income (expense), net	(550)	(411)	(721)	(708)
Loss before income taxes	(8,306)	(10,419)	(19,755)	(15,689)
Provision for income taxes	(72)	(19)	(131)	(37)
Net loss	(8,378)	(10,438)	(19,886)	(15,726)
Preferred dividends	—	—	(334)	(334)
Net loss applicable to common shares	$ (8,378)	$ (10,438)	$ (20,220)	$ (16,060)
Net loss per common share				
Basic	$ (0.13)	$ (0.17)	$ (0.33)	$ (0.27)
Diluted	$ (0.13)	$ (0.17)	$ (0.33)	$ (0.27)
Weighted average number of common shares outstanding				
Basic	63,664,256	60,059,936	61,891,197	60,056,924
Diluted	63,664,256	60,059,936	61,891,197	60,056,924

USA Technologies, Inc.
Condensed Consolidated Statements of Cash Flows
(Unaudited)

($ in thousands)	Six months ended December 31, 2019	Six months ended December 31, 2018
OPERATING ACTIVITIES:		
Net loss	$(19,886)	$(15,726)
Adjustments to reconcile net loss to net cash (used in) provided by operating activities:		
Non-cash stock based compensation	2,032	972
Loss (gain) on disposal of property and equipment	41	(29)
Non-cash interest and amortization of debt discount	732	45
Bad debt expense	862	1,308
Provision for inventory reserve	(514)	1,211
Depreciation and amortization	3,493	3,972
Non-cash lease expense	1,021	—
Deferred income taxes	10	9
Changes in operating assets and liabilities:		

Accounts receivable	2,133	4,332
Finance receivables, net	(990)	(109)
Inventory, net	465	284
Prepaid expenses and other assets	(411)	(1,588)
Accounts payable and accrued expenses	1,999	(11,095)
Operating lease liabilities	(776)	—
Deferred revenue	(52)	(201)
Income taxes payable	4	25
Net cash used in operating activities	(9,837)	(16,590)
INVESTING ACTIVITIES:		
Purchase of property and equipment, including rentals	(1,361)	(2,324)
Proceeds from sale of property and equipment, including rentals	31	82
Net cash used in investing activities	(1,330)	(2,242)
FINANCING ACTIVITIES:		
Proceeds from long-term debt and equity issuance by Antara	34,950	—
Repayment of revolving credit facility	(10,000)	—
Repayment of capital lease obligations and long-term debt	(2,109)	(1,928)
Payment of debt and equity issuance costs	(1,633)	(53)
Proceeds from exercise of common stock options	—	42
Net cash provided by (used in) financing activities	21,208	(1,939)
Net (decrease) increase in cash and cash equivalents	10,041	(20,771)
Cash and cash equivalents at beginning of year	27,464	83,964
Cash and cash equivalents at end of period	$ 37,505	$ 63,193
Supplemental disclosures of cash flow information:		
Debt and equity issuance costs incurred but not yet paid related to Antara issuance	$ (3,170)	$ —
Interest paid in cash	$ 565	$ 1,503
Income taxes paid in cash	$ 33	$ 12

Reconciliation of Net Loss to Adjusted EBITDA

	Three months ended December 31,	
($ in thousands)	**2019**	**2018**
Net loss	$ (8,378)	$ (10,438)
Less: interest income	(283)	(408)
Plus: interest expense	833	819
Plus: income tax provision	72	19
Plus: depreciation expense	1,053	1,204
Plus: amortization expense	784	793
EBITDA	(5,919)	(8,011)
Plus: stock-based compensation	1,742	557
Plus: litigation related professional expenses	1,115	97
Plus: investigation and restatement expenses	738	7,188
Plus: integration and acquisition costs	—	181
Adjustments to EBITDA	3,595	8,023
Adjusted EBITDA	$ (2,324)	$ 12

Reconciliation of Net Loss to Non-GAAP Net Income (Loss)

	Three months ended December 31,	
($ in thousands)	**2019**	**2018**
Net loss	$ (8,378)	$ (10,438)
Non-GAAP adjustments:		
Non-cash portion of income tax provision	5	5
Amortization expense	784	793
Stock-based compensation	1,742	557
Litigation related professional fees	1,115	97
Investigation and restatement expenses	738	7,188

Integration and acquisition costs	—	181
Non-GAAP net (loss) income	$ (3,994)	$ (1,617)

Reconciliation of Net Loss to Adjusted EBITDA

	Six months ended December 31,	
($ in thousands)	**2019**	**2018**
Net loss	$ (19,886)	$ (15,726)
Less: interest income	(577)	(897)
Plus: interest expense	1,298	1,605
Plus: income tax provision	131	37
Plus: depreciation expense	1,924	2,387
Plus: amortization expense	1,569	1,585
EBITDA	(15,541)	(11,009)
Plus: stock-based compensation	2,032	972
Plus: litigation related professional expenses	1,229	103
Plus: investigation and restatement expenses	4,303	11,714
Plus: integration and acquisition costs	—	1,103
Adjustments to EBITDA	7,564	13,892
Adjusted EBITDA	$ (7,977)	$ 2,883

Reconciliation of Net Loss to Non-GAAP Net Income (Loss)

	Six months ended December 31,	
($ in thousands)	**2019**	**2018**
Net loss	$ (19,886)	$ (15,726)
Non-GAAP adjustments:		
Non-cash portion of income tax provision	10	9
Amortization expense	1,569	1,585
Stock-based compensation	2,032	972
Litigation related professional fees	1,229	103
Investigation and restatement expenses	4,303	11,714
Integration and acquisition costs	—	1,103
Non-GAAP net (loss) income	$ (10,743)	$ (240)

View source version on businesswire.com: https://www.businesswire.com/news/home/20200218006168/en/

Source: USA Technologies, Inc.

Investors:
Monica Gould
The Blueshirt Group
Tel: +1 212-871-3927
monica@blueshirtgroup.com

Lindsay Savarese
The Blueshirt Group
Tel: +1 212-331-8417
lindsay@blueshirtgroup.com

Media:
Joele Frank, Wilkinson Brimmer Katcher
Tim Lynch / Meaghan Repko
212-355-4449