

# RESEARCH UPDATE



**USA Technologies, Inc.**  
OTCBB: USTT

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Close as of: March 26, 2002  
DJIA: 10,353.36  
S&P 500: 1,138.49  
NASDAQ Composite: 1,824.17  
Russell 2000: 501.66

## BUY RECOMMENDATION

*Fiscal year ending June 30*

<b>Stock Price:</b>	<b>\$0.41</b>	<b>Shares Outstanding:</b>	<b>35.4 M</b>	<b>Rev(\$MM)</b>	<b>EPS</b>
<b>52 Wk Price Range:</b>	<b>\$0.28-\$1.375</b>	<b>Estimated Float:</b>	<b>29.0 M</b>	<b>2001A</b>	1.5 (0.70)
<b>Industry Sector:</b>	<i>Network Services</i>	<b>Recommendation:</b>	<b>BUY</b>	<b>2002E</b>	1.8 (0.28)
<b>3-Mo. Avg. Daily Vol.:</b>	<b>253,450</b>	<b>6 Mo. Target Price:</b>	<b>\$1.00</b>	<b>2003E</b>	24.4 0.00

*At these price levels, we are maintaining our “Buy” rating on USA Technologies, Inc. (“USA”). In our last update, we mentioned that USA had outperformed most technology stocks in general for roughly the first half of 2001. Currently, the company’s valuation is still holding strong. While the stock price is down about 43% since July ’01, when it had a market cap of \$14,824,400, the market is still valuing USA at \$14,513,713 – virtually identical. We take this as a positive sign, especially given the general decline in the technology market. This is also a positive sign of the company’s ability to raise additional capital at reasonable valuations.*

*It is important to remember that the “intelligent vending” and wireless networking industries are still in their infant stages. Market positioning and technological idiosyncrasies are still being worked out. What this means is that top-line growth might not be consistent with the value of relationships that are formed at this stage of industry development. Obviously, when we first initiated coverage on USTT, we expected a more rapid ramp up in sales and number of installed units (although we discount Q4 ’01 - when growth in terminals was only 7.5% over Q3 – because of 9-11 and the general slowdown in the economy). But, we still believe strongly that USA has the capacity to reach our original revenue projections, and that the issue is more one of timing than amount.*

*The demand for the e-Port technology and related services continues to escalate, and we anticipate positive revenue growth as a result. The company is on track to achieve approximately 2,500 terminal installs this fiscal year and has increased distribution capabilities of the system throughout North America and Europe. As the industry matures, however, we would not be surprised to see the company with an installed base of over two hundred thousand terminals in the next few years. Depending on the number of installs in any given year, this can translate into solid earnings and margins for the company, as the hardware sales cover USA’s operating expenses and the bulk of service and maintenance revenue flows directly to pre-tax profit. Should this happen, we feel the future valuation of the company will certainly reflect this strong growth and profitability, well rewarding investors at these price levels.*

### **Potential Acquisition Furthers Inroads to Intelligent Vending and Wireless Networking Solutions**

Last week, USA announced its intention to acquire a competing firm, Maytag Corporation-backed, Stitch Networks, a leading provider of wireless networking solutions that can be used in the intelligent vending arena for remote management and auditing functionality. Value of the merger would be 24 million shares of USA common stock worth approximately \$10 million. Should the acquisition be consummated, it will make

USA a significantly larger player in terms of Intelligent Vending technological capabilities, and thus, potentially more capable of offering total solutions to meet a wide variety of mobile commerce and wireless networking needs.

This is an important and strategic acquisition of a technology that enables point-of-sale transactions via credit and debit cards, and operates and monitors transactions remotely, plus RFID technology (radio frequency). It also adds human capital - experience, skills and talent - to help drive the company's goal of becoming a leading technology provider of cashless transactions, mobile commerce and wireless networking. While there are no guarantees, we feel the backing from Maytag is a solid confirmation of Stitch's technology and business model. The acquisition would also bring important and strategic relationships with some of the biggest brand names in the manufacturing, distribution and wireless and networking industries, including Maytag-owned, Dixie-Narco, the largest beverage vending machine manufacturer in the world, Eastman Kodak, Texas Instruments and Motorola.

### *Network Expansion Supports Unit Growth*

Recently, the company was selected by three Fortune 50 companies to use e-Port in new vending programs. USA plans to provide further information on these customers in the coming months. USA continues to position itself as a leader in the development of scalable, Linux-based credit card control systems and is poised for future revenue growth through alliances with some of the vending industry's largest players. Through its relationship with IBM, USA has significantly enhanced the e-Port™ network—USALive™ by expanding both capacity and functionality. USALive offers customers the ability to implement multiple payment methods including credit cards, smart cards, mobile commerce, and electronic payment. In addition, the system's open architecture and modular design enables the e-Port network to receive various methods of cashless payment from consumers, as well as to offer auditing and media capabilities to vending customers.

### *Key Alliances Provide Solutions for Consumers, More Pending Installs*

**IBM:** Last year, USA formed a strategic alliance with IBM. This relationship has been crucial to the further development of the company's technology and marketing efforts. IBM has been progressively selling e-Port product along with other IBM services into the vending arena. Though the scope is hard to define, we expect this agreement to broadly strengthen the marketing and sales of the two companies' combined intelligent vending solutions.

**Marconi:** USA also formed a strategic alliance with Marconi Online, an ASP to the unattended point-of-sale (POS) and wholesale distribution markets, and the exclusive provider of intelligent vending technology to Coca-Cola. Through Marconi, USA could have the opportunity to integrate its e-Port transaction technology in Coca-Cola vending machines around the world.

**Mars Electronics, Inc. (MEI):** USA has signed an agreement with MEI, a wholly-owned subsidiary of M&M/Mars, to market credit card payment systems with related financial services. The credit card payment solution will be integrated with the MEI EASITRAX™, which is a vending management system comprised of a comprehensive suite of software and hardware products that allows for vending machine transaction data to be captured by operators and transferred to computer systems for analysis of purchasing patterns. MEI is a leading manufacturer and pioneer of electronic bill acceptors, coin mechanisms, and electronic payment systems for the vending industry, and has the world's largest installed base of electronic coin mechanisms.

There has been a surge to incorporate cashless transactions payment options within the vending industry recently as major beverage and consumer products companies and manufacturers of vending machines are being pressured to react to strong consumer demand for the convenience of cashless payment options for everyday transactions. In fact, CBS Market Watch predicts that credit card vending is going to become commonplace over

the next few years, and USA Technologies has positioned itself to take advantage of that opportunity and be the undisputed leader in cashless transactions. The alliance between USA and MEI is expected to have a positive influence on the vending industry by providing consumers with cashless payment options and simultaneously promoting profitability for operators. As a result of adding convenient credit card payment options for consumers, 15 to 20 percent increases in sales revenues have been reported by USA.

**CineMachine™:** USA and its business partners unveiled the vending industry's widest variety of intelligent vending solutions at the National Automatic Merchandising Association (NAMA) Expo, including a unique vending machine targeted toward the entertainment industry. The USA exhibit also included the IBM Concept Machine, which demonstrates many of the leading edge vending technologies that are offered and available from IBM and USA. Purchases may be activated with a smart card, a hotel room key or employee ID, PDA/infrared, or a cell phone. The Concept Machine is all about intelligent vending, wireless payments, and automated retailing.

The CineMachine™, developed by Virtual Concepts Corp. with the help of USA Technologies and Automatic Products International, has attracted the attention of America's major film studios and movie theater chains. The vending machine dispenses entertainment products such as DVDs, CDs and video games and is being promoted as a virtual video, music and game store without employees. A key component of the CineMachine is the e-Port, designed by USA that allows consumers to make purchases using a credit card or with their cellular telephone.

Virtual Concepts and USA are pinpointing new and expanded market opportunities and revenue streams by extending cashless vending to the entertainment industry. Targeted locations for the CineMachine include theaters, airports, train and bus stations, theme parks, hotels, grocery stores and office buildings. The vending machine is capable of not only dispensing numerous entertainment products, but also playing movie trailers, game previews, music and movie soundtracks on a liquid display screen and audio technology via USA's e-Port. In addition, the CineMachine offers a means of advertising trailers that are run on the screen imbedded in the system, and displaying print and photo advertisements that can be posted on the sides and front of the machine.

### *Conclusion*

We feel that even though USA has not shown the sales growth and installs that we expected, the company continues to position itself as a leader in the Intelligent Vending industry. While all stock market investors have seen companies that simply tell a constantly-updated story, we believe that USA has built a solid foundation – with the technology, partners and strategic backers to execute. We attribute most, if not all, of the company's lack of revenue growth to industry dynamics. The intelligent vending market is still very young, and the participants are trying to see what the future holds. But, no one argues that the potential markets are vast – and while they are in their early stages of adoption – we believe that the rate of adoption of the company's products should significantly increase.

The bottom line is that the vending market is huge, and USA is making a name for itself with the industry's dominant players. These things take time. The point now being that the company is establishing itself as a technology leader, with 15 patents issued, 45 pending in the U.S and 16 pending internationally. In continuing to follow the company, we will look first to growth in its installed base. Next, these installs need to translate into dollars and cents, which we believe they will. The company derives revenue from not only sales of its hardware, licensing and processing fees, and maintenance contracts, but in the future could see significant revenue from advertising and e-commerce as well.

All in all, we still believe that the company is undervalued relative to its market potential, and thus are maintaining our BUY recommendation with a 6-month, non-dilutive price target of \$1.00.