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Zacks Small-Cap Research

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Brian Lantier
312-265-9470
blantier@zacks.com

scr.zacks.com
10 S. Riverside Plaza, Chicago, IL 60606

Expion360 Inc (XPON-NASDAQ)

XPON: Reports 4th quarter revenues in line. Industry-wide weakness offset by new market opportunities in 2023

We use a 3x multiple of 2024 revenues and the company's strong balance sheet (cash adds $0.50/share) to arrive at our new $5.00 target price. Expansion into new markets in 2024 may provide further upside to our estimates and target.

Current Price (03/31/23)	$4.84
Valuation	**$5.00**

OUTLOOK

Expion360 is an emerging provider of energy storage solutions for off-grid users. The company appears to be pushing into additional markets, like marine and overland trailers based on recent trade show attendance and new hires which could provide additional growth opportunities.

While we remain optimistic about Expion360's prospects we think it is possible the stock takes a pause given weaker forecasted RV sales in 2023. We have updated our price target to $5.00 to reflect our 2024 revenue estimates.

SUMMARY DATA

52-Week High	**$7.93**
52-Week Low	**$0.97**
One-Year Return (%)	**N/A**
Beta	**N/A**
Average Daily Volume (sh)	**2,329,163**
Shares Outstanding (mil)	**7**
Market Capitalization ($mil)	**$39**
Short Interest Ratio (days)	**N/A**
Institutional Ownership (%)	**9.4%**
Insider Ownership (%)	**22.7%**
Annual Cash Dividend	**$0.00**
Dividend Yield (%)	**0.00**
5-Yr. Historical Growth Rates	
Sales (%)	**N/A**
Earnings Per Share (%)	**N/A**
Dividend (%)	**N/A**
P/E using TTM EPS	**N/A**
P/E using 2023 Estimate	**N/A**
P/E using 2024 Estimate	**N/A**
Zacks Rank	**N/A**

Risk Level	**High**
Type of Stock	**Small-Value**
Industry	**N/A**

ZACKS ESTIMATES

Revenue
(in millions of $)

	Q1 (Mar)	Q2 (Jun)	Q3 (Sep)	Q4 (Dec)	Year (Dec)
2021	1 A	1 A	1 A	1 A	5 A
2022	2.2 A	2.2 A	1.4 A	1.4 A	7.2 A
2023	1.5 E	1.7 E	2.1 E	2.1 E	7.3 E
2024	2.2 E	2.5 E	2.8 E	2.8 E	10.2 E

	Q1 (Mar)	Q2 (Jun)	Q3 (Sep)	Q4 (Dec)	Year (Dec)
2021					-$1.63 A
2022	-$0.16 A	-$0.62 A	-$0.19 A	-0.23 E	-1.23 A
2023	-$0.21 E	-$0.21 E	-$0.20 E	-0.20 E	-0.82 E
2024	-$0.18 E	-$0.18 E	-$0.17 E	-0.16 E	-0.69 E

Zacks Projected EPS Growth Rate - Next 5 Years % **N/A**

*Quarterly estimates may not sum to annual EPS due to rounding.

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WHAT'S NEW

Expion360 Reports 4th quarter revenues in line. Industry-wide weakness offset by new market opportunities in 2023

Expion360 reported sales growth of 8% year over year for the fourth quarter of 2022 and sales were up 3% sequentially from Q3 to $1.42 million. Growth was driven by additional distribution, new product offerings which have been well accepted by consumers, and further OEM penetration. We believe that some weakness in new RV sales at Camping World (NYSE: CWH) weighed on results, but this was countered by new distribution agreements. Pricing across the lithium-ion phosphate battery market has been soft in recent months so we suspect units were up more than 8% in the quarter while OEM pricing may have fallen. Gross margins were down again in Q4 versus December 2021 and September 2022 quarterly results, principally due to higher input costs (principally Lithium-Ion cells), higher facility costs, and labor costs.

The company's principal market, RV buyers, is still rebalancing after the covid-related boom in spending in 2021. We anticipate that the domestic RV market will continue to adjust over the next two years (likely experiencing a shift in the industry toward a higher proportion of pre-owned vehicles in the near term) before resuming normal growth. We also believe that higher interest rates are having an impact on all large consumer purchases that require financing such as RVs or recreational boats. Companies in the RV industry like Thor (NYSE: THO) and Camping World have already indicated that a combination of pulled-forward demand during the COVID era and higher interest rates is having an impact on current operating results.

Expion360's management did not provide 2023 guidance but we believe that many of the conditions that existed in Q4 2022 have continued into early 2023 and we have adjusted our model as discussed below. The company added exclusive supplier agreements with 4 manufacturers in recent months and the company anticipates recognizing revenues from these relationships in Q2 and Q3 of 2023. Expion360 continues to successfully compete with its larger competitors on the strength of its warranty and the quality of its batteries. We are encouraged by these wins but will remain cautious when forecasting the potential revenue impact until we have further color on pricing and deliveries anticipated in 2023 and 2024.

Q4 Ending December 31, 2022
The December quarter marked the end of the company's fiscal year and the first year-end since the company's IPO in April 2022. Revenues stabilized and were roughly in line with our expectations for the quarter despite industry-wide pricing pressure. We believe that this growth was achieved through higher unit sales at slightly lower prices based on other information we have gleaned from competitors in the LiFePO battery market. While the company's growth has rebounded from a summer lull, we remind investors that the company is still principally an energy storage provider focused on the RV industry and as such, Expion360's results are likely to be highly correlated with domestic economic activity and impacted by the direction of interest rates on consumer loans.

Gross margins declined another 680 basis points in the quarter likely as a result of lower average unit prices and higher facility and labor costs as the company continues to expand in anticipation of future growth. It will be important for the company to grow into its larger operations and leverage recent investments if they are to achieve higher gross margins in 2023 and beyond.

Operating expenses increased slightly in the quarter to $1.8 million largely due to investments in new sales and business development staff added as Expion360 targets markets like marine and overland camping. The marine market is likely to see increased competition as the RV market slows, but the industry is much earlier in the conversion process from lead acid batteries to LiFePO so we anticipate ample growth opportunities for most of the market leaders including Expion360 in the coming years.

The combination of a lower gross margin and higher operating expenses led to a net loss of ($0.23)/share which was below our expectations for a net loss of ($0.16)/share. Despite this miss, we do not believe

investors should focus on near-term earnings as the Expion360 story is about gaining market share for LiFePO batteries relative to older lead acid alternatives.

The company ended 2022 with $7.2 million of cash on the balance sheet or just over $1.05/share. These cash balances should provide the company with sufficient funding for slightly less than 2 years of operations at the current burn rate.

Model changes
The company has provided no guidance for 2023 or 2024 so we have based most of our model updates on information gleaned from competitors and RV OEMs.

We are now forecasting basically flat revenues in Q1 2023 of $1.46 million vs $1.42 million in Q4 2022. For the full year 2023, we expect the sustained period of high interest rates to impact the RV market and battery sales as a result. We are now forecasting full-year sales of $7.33 million (up just 2% versus 2022) but we are expecting stronger sequential results in the second half of the year which should be encouraging to investors as new products hit the market and new distribution deals begin.

In 2024, we are now forecasting sales to reach $10.2 million as the company expands into rapidly growing markets like the off-grid home storage market.

Key reasons to own Expion360 shares:

➢ There is a large and growing demand for modern energy storage solutions like those offered by Expion360. In the deep cycle storage market, existing lead acid technology should lose market share over time to advanced batteries like those sold by Expion360.

➢ Expion360 has a strong distribution relationship with Camping World, the largest RV retailer in the US.

➢ Expansion opportunities exist in new markets

- o Marine – long-term storage and propulsion.
- o Residential – both off-grid and backup systems
- o Special purpose vehicles – overland trailers

➢ Expion360 is one of the few pure plays in the energy storage market that has revenues today investors can own.

ADDITIONAL MARKET OPPORTUNITIES

Marine

The company has recently hired a dedicated salesperson to target the marine market. It appears that some early insurance concerns around using LiFePO batteries onboard boats have been addressed and this market will be a focus of Expion360. Live onboard users who use batteries to meet their power needs and recreational fishermen who utilize battery banks to power trolling motors present a significant opportunity for all LiFePO battery suppliers including Expion360.

Off-Grid Market

We anticipate that in late 2023 or early 2024, we will begin to see Expion360's off-grid home energy solution. We believe that this will resemble some of the complete solutions that the company has offered for RVs (solar systems, charger controllers, inverters, and battery bank) but the system will likely be larger given the stationary nature of off-grid homes.

MANAGEMENT

After our initiation of coverage in January 2023, the company announced a significant change in its management structure. Mr. John Yozamp, co-founder and prior CEO, moved to the position of Chief Business Development Officer, while Mr. Brian Shaffner, who previously served as the CFO assumed the role of CEO. Additionally, Mr. Greg Aydelott who previously served as the company's Chief Accounting Officer moved into the role of CFO.

We believe these changes allow Mr. Yozamp to work on building additional channel opportunities for the company which is really where his expertise lies.

Brian Schaffner, CEO (previous CFO), joined the company prior to their IPO as its Chief Financial Officer in March 2021. Mr. Schaffner has held a number of senior executive positions including CEO, CFO, CIO, and Controller in retail and senior living/assisted living facilities.

John Yozamp, Co-Founder/Chief Business Development Officer, served as the company's CEO from 2016 until early 2023. Mr. Yozamp has over 30 years of sales and marketing experience as well as two decades plus of work developing products and refining manufacturing processes. Prior to launching Expion360, Mr. Yozamp was the founder, owner, and operator of Zamp Solar, the largest solar manufacturing company in the US focusing on the RV and off-grid markets.

Paul Shoun, COO, has served as Expion360's COO since March 2020. Mr. Shoun has over 30 years of engineering experience with a particular focus on scaling manufacturing by increasing automation.

Greg Aydelott, Chief Financial Officer, previously served as the company's Chief Accounting Officer since May 2022. Mr. Aydelott brings more than two decades of experience in financial management and operations to the role.

VALUATION

As of 12/31/22, Expion360 had $7.2 million in cash on its balance sheet and had boosted its inventory levels to $4.5 million to ensure an adequate supply of raw materials to meet demand. This balance sheet provides investors with a level of protection at the current prices.

Key valuation considerations:

1) We expect revenues to remain relatively flat in 2023 given the softening of demand we see in the RV market and the high-interest rate environment which is giving consumers a reason to pause large purchases. Despite the anticipated slowdown in RV shipments in 2023 we still expect the company to grow substantially in 2024 (modeling sales growth of 40% in 2024 to $10.2 million) as it converts additional lead acid battery owners to LFP batteries and expands into new markets like home energy storage.

2) At 3x 2024 sales, the implied valuation of Expion360 is roughly $4.50/share.

3) The company's strong balance sheet with cash balances and inventory totaling over $1.50 a share at 12/31/22 should provide additional support for investors. As the company will not be cash flow positive in the next 12 months, we are conservatively adding $0.50 to our valuation based on the strength of the balance sheet (for a total target valuation of $5.00).

4) In the two months since our initiation of coverage on Expion360, the stock has significantly outperformed its peer group and the broader stock market more than doubling to $4.84 as of Friday's close while the S&P 500 rose just 2% in the same period (though the stock did retreat roughly 20% after Q4 results were released). While Camping World (NYSE: CWH) is not a pure comparable company for Expion360, the company is a key distributor and their results offer some insight into the prospects for Expion360. Camping World mentioned in its 4th quarter conference call that it was experiencing a "short-term softening of demand" and its shares have fallen 14% in the last two months. As mentioned in our model adjustments, we have modified our Q1 and full-year revenue estimates for Expion360 to reflect this near-term weakness in the market.

Although we do not cover Dragonfly Energy (NASDAQ: DFLI), it is important to note commentary from its management on the market for LiFePO batteries given their dominance in the industry. Dragonfly recently provided guidance for 2023 revenues that was well below the previous street expectations (perhaps as much as 30% lower than previous analyst estimates). In the two months since our initiation of coverage on Expion360, Dragonfly's shares have fallen close to 60% largely due to their falling revenue expectations yet they remain the dominant market player in both the direct-to-consumer and OEM markets.

To recap the market backdrop, the dominant player in the industry has trimmed its forecast for sales in 2023 and Expion360's largest distribution partner has warned of "softening demand". Expion360 met our Q4 revenue expectations, but margins were compressed, and yet, despite this negative fundamental backdrop, Expion360's stock has more than doubled over the last 2 months. It seems safe to say there is a disconnect between the fundamental outlook in the near term for Expion360 and the stock's performance.

Finally, we believe that given the recent performance of the stock, the fact that the company's cash runway stands at less than two years and management's plans to target new markets, there is a possibility that the company could look to raise capital via an equity offering. While this would likely be a positive development for the long-term prospects of the company, investors should be aware that if the company were to complete an equity offering it may significantly increase its total share count and float which could negatively impact the share price in the near term.

RISKS

- The company operates in an extremely competitive industry and pricing pressures may emerge.
- The company's path to profitability is not assured. The company will need to generate sufficient revenue and manage the growth of expenses to become profitable.
- The company's last audited financial statements were based on 12/31/2021 financial statements – prior to the company's IPO – and the company's auditors indicated at that time that there was a substantial doubt about the company's ability to continue as a going concern.
- The company remains very reliant on their distribution relationship with Camping World. If this relationship were terminated, it would obviously have a material negative impact on the company.
- The company's results could be impacted by the availability and cost of lithium cells and other components for their batteries.
- Supply chain disruptions could impact the company's ability to meet customer demand. Lithium battery cells are manufactured almost exclusively in China and any disruption of the supply chain would limit the company's ability to meet our growth targets.
- The company has a limited operating history as a public entity and the management team has not led a public company before.
- To date the company has principally sold batteries to the RV and marine markets. Expanding beyond these two markets will require the introduction of new products.

PROJECTED INCOME STATEMENT

Expion360, Inc.

3/31/23

(USD in 000's; December Year-End)	2021	Mar 1Q22A	June 2Q22A	Sept 3Q22A	Dec 4Q22A	2022E	Mar 1Q23E	June 2Q23E	Sept 3Q23E	Dec 4Q23E	2023E	Mar 1Q24E	June 2Q24E	Sept 3Q24E	Dec 4Q24E	2024E
Revenues:																
Sales	**4,517.5**	2,155.3	2,202.7	1,383.0	1,421.7	**7,162.8**	1,463.5	1,682.9	2,052.9	2,135.0	**7,334.3**	2,174.4	2,481.8	2,752.3	2,781.8	**10,187.8**
% change (yoy)	**187%**	144%	122%	3.9%	8.7%	**59%**	-32%	-24%	48%	50%	**2%**	49%	47%	34%	30%	**39%**
Cost of Revenues	2,872	1,293	1,496	980	1,104	4,874	1,137	1,316	1,584	1,640	5,677	1,625	1,860	2,051	2,077	7,613
Gross Profit	1,646	862	706	403	317	2,288	326	367	469	495	1,657	549	622	701	705	2,577
% change (yoy)	443%	213.4%	87.7%	-24.6%	-31%	39%	-62%	-48%	16%	56%	-28%	68%	69%	50%	42%	56%
Gross Profit Margin	**36.4%**	**40.0%**	**32.1%**	**29.1%**	**22.3%**	**31.9%**	**22.3%**	**21.8%**	**22.8%**	**23.2%**	**22.6%**	**25.2%**	**25.1%**	**25.5%**	**25.3%**	**25.3%**
Operating Expenses:																
Selling General and Administrative	2,909	1,196	3,622	1,662	1,762	8,242	1,727	1,767	1,786	1,815	7,095	1,739	1,782	1,795	1,794	7,110
% of Sales	64.4%	55.5%	164.4%	120.2%	123.9%	115.1%	118.0%	105.0%	87.0%	85.0%	96.7%	80.0%	71.8%	65.2%	64.5%	69.8%
Operating Income (Loss)	**(1,263)**	**(335)**	**(2,915)**	**(1,259)**	**(1,445)**	**(5,953)**	**(1,401)**	**(1,400)**	**(1,318)**	**(1,320)**	**(5,437)**	**(1,191)**	**(1,160)**	**(1,093)**	**(1,089)**	**(4,533)**
Grant (Income)/Expense	-	0	0	0	(0)	(0)	0	0	0	0	-	0	0	0	0	-
Net Interest Expense	554	362	1,176	34	34	1,606	0	0	0	0	0	0	0	0	0	0
(Income)/ Loss from debt settlement	2,791	0	0	(13)	0	(13)	0	0	0	0	0	0	0	0	0	0
Other Expenses	103	0	0	(0)	0	(0)	0	0	0	0	0	0	0	0	0	0
Income before Taxes	**(4,712)**	**(697)**	**(4,091)**	**(1,279)**	**(1,479)**	**(7,545)**	**(1,401)**	**(1,400)**	**(1,318)**	**(1,320)**	**(5,437)**	**(1,191)**	**(1,160)**	**(1,093)**	**(1,089)**	**(4,533)**
Income Taxes or Benefit	-	0	0	0	0	9	0	0	0	0	-	0	0	0	0	-
Franchise Taxes	9	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Net Income (Loss) reported	**(4,721)**	**(697)**	**(4,091)**	**(1,279)**	**(1,479)**	**(7,537)**	**(1,401)**	**(1,400)**	**(1,318)**	**(1,320)**	**(5,437)**	**(1,191)**	**(1,160)**	**(1,093)**	**(1,089)**	**(4,533)**
EPS reported	**(1.63)**	**(0.16)**	**(0.62)**	**(0.19)**	**(0.23)**	**(1.23)**	**(0.21)**	**(0.21)**	**(0.20)**	**(0.20)**	**(0.82)**	**(0.18)**	**(0.18)**	**(0.17)**	**(0.16)**	**(0.69)**
% change (yoy)		N/A	N/A	N/A	N/A	**N/A**	N/A	N/A	N/A	N/A	**N/A**	N/A	N/A	N/A	N/A	**N/A**
EBITDA reported	**(1,202)**	**(305)**	**(2,877)**	**(1,211)**	**(1,387)**	**(5,780)**	**(1,334)**	**(1,324)**	**(1,231)**	**(1,222)**	**(5,111)**	**(1,078)**	**(1,032)**	**(947)**	**(924)**	**(4,173)**
Depreciation & Amortization	61	29	38	48	58	174	67	75	87	98	327	113	127	146	166	360
Share-based Compensation Expense	188		2,115	-	-	2,115	-	-	-	-	-	-	-	-	-	-
EBITDA Adjusted (excl stock comp)	**(1,014)**	(305)	(762)	(1,211)	(1,387)	**(3,665)**	(1,334)	(1,324)	(1,231)	(1,222)	**(5,111)**	(1,078)	(1,032)	(947)	(924)	**(4,173)**
Margins:																
Gross Margin	**36.4%**	40.0%	32.1%	29.1%	22.3%	**31.9%**	22.3%	21.8%	22.8%	23.2%	**22.6%**	25.2%	25.1%	25.5%	25.3%	**25.3%**
Selling & Marketing % of Revenues	64.4%	55.5%	164.4%	120.2%	123.9%	115.1%	118.0%	105.0%	87.0%	85.0%	96.7%	80.0%	71.8%	65.2%	64.5%	69.8%

Source: Zacks SCR, Brian Lantier, Company Filings

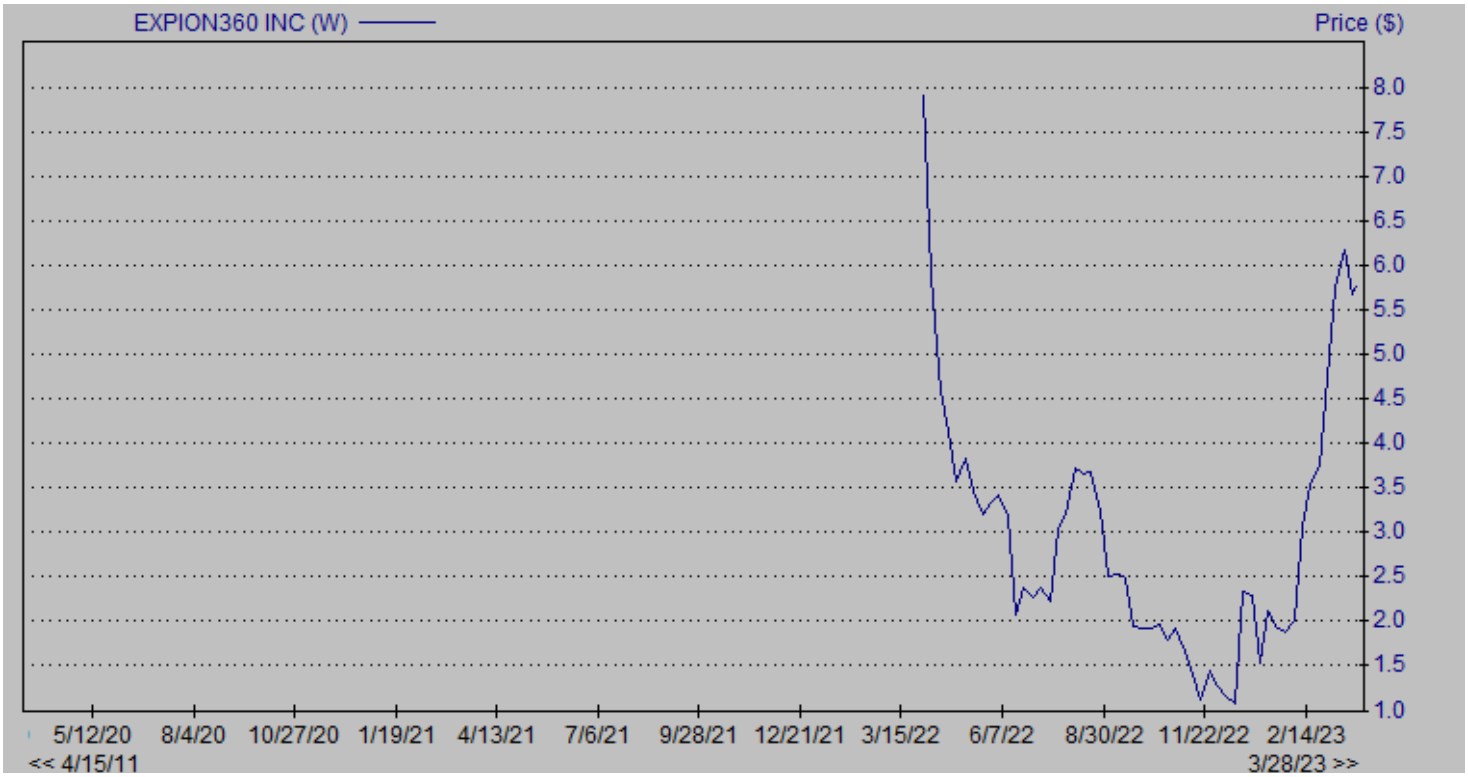
BALANCE SHEET

Expion360 , Inc.
Balance Sheet in USD
12/31/22

Assets	
Current Assets	
Cash and Cash Equivalents	7,201
Accounts Receivable (net)	298
Inventory	4,530
Prepaid/in-transit inventory	142
Prepaid expenses and other current assets	172
Total current assets	12,343
Non-Current Assets	
Property & Equipment (net)	1,144
Operating leases	3,148
Deposits	64
Total non-current assets	4,356
Total Assets	**16,699**
Liabilities	
Current Liabilities	
Accounts payable	230
Customer deposits	0
Accrued expenses and other current liabilities	306
Current portion of operating lease liability	465
Current portion of long-term debt	571
Total current liabilities	1,573
Non-Current Liabilities	
Long-Term Debt	439
Operating lease liability, net of current portion	2755
Shareholder promisory notes	325
Total Liabilities	**5,092**
Shareholder's Equity	
Ordinary Shares	7
Additional Paid-in Capital	25,240
Accumulated deficit	(13,639)
Shareholder's Equity (Deficiency)	**11,607**
Total Liabilities & Shareholder's Equity	**16,699**

Source: Company filing

HISTORICAL STOCK PRICE



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