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Zacks Small-Cap Research

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Expion360 Inc (XPON-NASDAQ)

XPON: Demand stabilizes and gross margins improve but challenges remain.

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

Current Price (05/11/23)	$6.18
Valuation	**$5.00**

OUTLOOK

Expion360 is a leading brand in the emerging energy storage market principally serving the RV and marine market today. The company has expanded into new markets like overland trailers and anticipates launching a product for the home energy storage market in 2024.

We believe that Expion360 can continue to gain share from older lead-acid battery technologies.

While the company has roughly met our revenue expectations since we initiated coverage in January, the stock (which has increased over 190% year to date) could take a breather given higher interest rates which are impacting RV demand and the weak stock performance of other emerging battery and energy storage stocks. We are maintaining our price target at $5.00 and will reevaluate this target as new business lines mature.

SUMMARY DATA

52-Week High	**$7.15**
52-Week Low	**$0.97**
One-Year Return (%)	**77.5%**
Beta	**N/A**
Average Daily Volume (sh)	**737,543**
Shares Outstanding (mil)	**7**
Market Capitalization ($mil)	**$42**
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 A	1.7 E	2.1 E	2.2 E	7.5 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	-$0.20 A	-$1.23 A
2023	-$0.29 A	-$0.21 E	-$0.20 E	-$0.20 E	-$0.90 E
2024	-$0.20 E	-$0.19 E	-$0.18 E	-$0.18 E	-$0.80 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 first quarter revenues roughly in line. New markets remain the story of 2023 and beyond

Expion360 (NASDAQ: XPON) reported sequential sales growth for the second consecutive quarter in the first quarter of 2023 with sales of $1.51 million (up 6% sequentially and 3% above our forecast). Revenue growth was driven by new products, additional distribution, and adoption by RV manufacturers. We believe these growth drivers likely offset some weakness at the company's largest distribution partner, Camping World (NYSE: CWH). Camping World recently reported results that were down 10% year-over-year and the composition of used vehicle sales continued to increase at their locations. Historically, new RV sales have been the strongest market for Lithium Iron Phosphate (LFP) batteries, like the ones assembled by Expion360, so as the mix shifts at RV dealers toward used sales versus new vehicle sales, the penetration of LFP batteries is likely lower. The RV market continues to face headwinds from higher interest rates, pockets of weakness in the economy, and the overhang from the COVID-related boom in RV sales. We would note, however, that the company's customer concentration has fallen considerably over the past 12 months. In the first quarter of 2022, 42% of sales were to just one customer, whereas in the first quarter of 2023, sales to the two largest customers only totaled 25%. We view the reduced customer concentration as a net positive for Expion360.

Pricing across the lithium-ion phosphate battery market continues to soften a bit and we have noted that pricing for Expion360's batteries and their principal competitors have fallen slightly. However, gross margins rebounded sharply from the fourth quarter of 2022 likely due to lower lithium prices which enabled the company's gross margin to jump more than 700 basis points from the fourth quarter of 2022. Lithium prices have continued to fall and are currently down more than 60% from their peak in 2022. We have adjusted our model to reflect this change for the balance of 2023.

Expion360's management did not host a conference call to discuss results or provide guidance for the balance of 2023 but we believe that the operating environment in the LFP battery market is likely to remain very similar to the current conditions. The company has not announced any new supplier agreements with manufacturers since the 4 manufacturers added in Q4 2022 and Q1 2023. There are a handful of large OEMs that have not yet signed exclusive deals with an LFP battery company yet so we will watch for developments on this front in 2023.

Operating expenses increased significantly on a sequential and year-over-year basis to $2.12 million and were well above our expectations of $1.73 million. However, included in this line item were higher costs related to legal costs tied to changes in management and litigation costs. When we back out what we believe are one-time costs associated with the management reorganization and legal costs, we estimate that continuing selling, general and operating expenses for the quarter were closer to $1.85 million for the quarter which is much closer to our original estimate.

The combination of higher operating expenses and a litigation settlement of $281,680 pushed the net loss for the quarter to $1.98 million or ($0.29)/share which was below our expectations for a net loss of ($0.21)/share. However, the company indicated that $552,000 (or $0.08/share) of the loss in the first quarter was due to one-time costs which, if excluded, would have led to an inline earnings result for the quarter.

The company ended the first quarter with $5.7 million of cash on the balance sheet or just over $0.84/share. These cash balances should provide the company with sufficient funding into 2024 but we believe the prospect of a stock offering exists in 2023.

Investors should continue to focus on the big picture at Expion360 as they target new markets and launch new products rather than quarter-to-quarter performance at this stage of the company's history.

Model changes
The company has given no earnings guidance for 2023 or 2024 but we have adjusted our model to reflect recent trends in the RV industry, results from public competitors, and from Expion360's latest quarter.

We are maintaining our Q2 2023 revenue forecast of $1.7 million vs $2.2 million in Q2 2022 which marked the previous cycle peak for Expion360's revenues. For the full year 2023, we expect trends in the RV market to continue and competitive pricing in the battery market but strong demand in new markets (principally, the marine market) will offset these trends. We are increasing our full-year sales forecast slightly to $7.45 million for 2023. We believe the growth that we are projecting in the third and fourth quarters of 2023 will be important for the company because it will demonstrate to investors not only sequential growth but a return to year-over-year growth.

We have significantly increased our gross margin assumptions based on sharply lower input costs (principally lithium cells). Lithium prices have slumped sharply in 2023 and that is likely leading to lower costs for the cells in Expion360's batteries. We will monitor prices closely given the volatility that the lithium market has experienced lately and the impact that these prices have on the company's margins. While our sales forecast for 2023 remains the same we have increased our gross profit for the full year to $2.0 million from our previous forecast of $1.7 million as a result of the anticipated margin improvement for the balance of the year.

Operating expenses came in significantly higher than we had originally modeled but at least a portion of those costs appear to be non-recurring so we are forecasting that operating expense fall in the second quarter before resuming a normal growth rate for the balance of the year.

We are maintaining our sales forecast of $10.2 million in 2024 for the time being but we think the home energy storage market provides upside to our forecast and we look forward to the company's entry into this market.

Key reasons to own Expion360 shares:

➢ While the company's existing market – energy storage for recreational vehicle owners and off-grid use – has stabilized after the covid related boom, several new markets that can benefit from high-quality, safe Lithium Iron Phosphate (LFP) batteries. Lead acid batteries remain the dominant storage technology in many markets (marine, small vehicle, industrial machines, transportation) but we believe LFP batteries will take share in those markets over time.

- o Marine – for long-term storage in large vessels and propulsion (ie, trolling motors).
- o Residential – for both off-grid, backup systems and the home solar generation market (see below).
- o Special purpose vehicles – particularly overland, off-road trailers

➢ Expion360 is one of the few pure plays in the energy storage and new battery technology markets that is generating revenues today.

ADDITIONAL MARKET OPPORTUNITIES

Marine

The company has recently hired a dedicated salesperson to target the marine market. Live-onboard users who use batteries to meet their power needs are a small but attractive market for LFP battery manufacturers like Expion360 because the small footprint and energy density of an LFP battery is very valuable when space is at a premium. Additionally, these buyers tend to be less price sensitive so they are more likely to invest in a battery with a ten-year life. Recreational fishermen who utilize battery banks to power their trolling motors have rapidly begun the transition to LiFePO4 batteries. We believe this transition will have additional positive impacts in other markets as users continue to experience the superior performance of these batteries relative to the older lead acid alternatives.

Off-Grid Market

Like the traditional RV market, the off-grid and tiny home trend that emerged during Covid appears to be stabilizing. While it is a relatively small market today, we think the future is bright for LFP batteries in this market as people see the value offered by LFP batteries and their longer useful life attracts value-conscious consumers.

Home Storage

Expion360 has recently begun to detail exactly how they will market a solution to the home energy storage market in 2024 and we believe that there are a number of factors at play that could make this an attractive market.

The Expion360 system as described by management will likely be a portable unit (or perhaps multiple units for large systems) that would serve 3 roles:

- Provide energy for an RV/trailer as the existing Expion360 batteries have for years.
- Act as an emergency power source for the home (effectively, replacing a generator) when needed.
- And finally, act as a home storage solution for the power generated by the homeowner's solar panels in light of recent policy changes.

This final point is particularly interesting and warrants further discussion. In April 2023, the California Public Utilities Commission voted to eliminate an incentive that paid customers who generated excess solar power for the power they sold back to the grid. The incentives had been established to help spur solar investments in the state and it did contribute to 1.5 million homes adding solar panels to their homes.

Under the new pricing plan, there are additional incentives offered for energy sold back to the grid during evening hours which will likely require battery systems to be installed. While many technical hurdles remain and there are no incentives currently for battery systems, there are many customers in California who would likely benefit from a plan where they generate solar during the day and store that excess electricity in their own battery pack before returning it to the grid later in the evening when rates are more favorable for the consumer.

There are still many open questions regarding how these systems would work but we do believe, home-based energy storage has the potential to grow significantly as a result of this policy change, and next-generation battery technologies like LFP from Expion360 should be well-positioned to participate in that growth. We will watch for news from Expion360 on this front particularly if they can partner with an existing solar installer to offer a complete energy generation and storage solution.

VALUATION

As of 3/31/23, Expion360 had $5.7 million in cash on its balance sheet and had boosted its inventory and prepaid inventory levels to $5.15 million to ensure an adequate supply of materials to meet demand. This balance sheet provides investors with a measure of protection though we believe that at the current burn rate cash levels may become a concern in 2024 (see "Other Considerations" below).

Key valuation considerations:

1) The company has continued to meet our revenue expectations and we believe some softening of demand from the RV market is being offset by growth in other markets such as the marine market. We believe that the recent changes in California's net metering rule could be a significant driver of sales in 2024 but we will hold off adjusting our model until we see the company's planned product or see an announcement regarding a potential solar partner.

2) We continue to value the company at 3x 2024 sales (forecast to be $10.2 million) which values the company at roughly $4.50/share. We believe that this valuation could be impacted by growth in the home energy storage market which could be a positive catalyst for the shares.

3) The company's cash balances and inventory total over $1.50 a share as of 3/31/23 and 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 2023 Expion360's shares have significantly outperformed its peer group and the broader stock market more than doubling to over $6 while the S&P 500 was up just 8% during the same period.

   We do not cover Dragonfly Energy (NASDAQ: DFLI), the largest company in the LiFePO4 battery market and Dragonfly has not yet released Q1 results but Dragonfly's shares have fallen roughly 73% year-to-date despite their position as the dominant market player.

   To recap the market backdrop, the dominant player in the industry has seen its stock fall by 70%+ while Expion360's stock has risen by 190% year to date. Expion360 has roughly met our revenue expectations but it appears as though the fundamental outlook in the near term for Expion360 and the stock's performance remain significantly disconnected.

OTHER CONSIDERATIONS

Given the recent performance of the company's stock and the fact that the company's cash balances at the end of the second quarter of 2023 will be roughly $5 million, we believe investors should be aware that the company could look to raise capital via an equity offering. While this would be a positive development for the company as they fund expansion into new markets, investors should note that it would likely increase the company's total share count and float which could negatively impact the share price in the short-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 remains very reliant on its distribution relationship with Camping World. If this relationship were terminated, it would 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 1Q23A	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**	1,507.2	1,708.0	2,087.4	2,150.2	**7,452.8**	2,189.8	2,474.5	2,805.4	2,823.5	**10,207.0**
% change (yoy)	**187%**	144%	122%	3.9%	8.7%	**59%**	-30%	-22%	51%	51%	**4%**	45%	45%	34%	31%	**37%**
Cost of Revenues	2,872	1,293	1,496	980	1,104	4,874	1,064	1,259	1,526	1,588	5,437	1,604	1,817	2,053	2,070	7,544
Gross Profit	1,646	862	706	403	317	2,288	443	449	561	562	2,016	585	657	753	754	2,749
% change (yoy)	443%	213.4%	87.7%	-24.6%	-31%	39%	-49%	-37%	39%	77%	-12%	32%	47%	34%	34%	36%
Gross Profit Margin	**36.4%**	**40.0%**	**32.1%**	**29.1%**	**22.3%**	**31.9%**	**29.4%**	**26.3%**	**26.9%**	**26.2%**	**27.0%**	**26.7%**	**26.6%**	**26.8%**	**26.7%**	**26.9%**
Operating Expenses:																
Selling General and Administrative	2,909	1,196	3,622	1,662	1,762	8,242	2,121	1,896	1,962	1,978	7,957	1,993	2,004	2,020	2,027	8,044
% of Sales	64.4%	55.5%	164.4%	120.2%	123.9%	115.1%	140.7%	111.0%	94.0%	92.0%	106.8%	91.0%	81.0%	72.0%	71.8%	78.8%
Operating Income (Loss)	**(1,263)**	**(335)**	**(2,915)**	**(1,259)**	**(1,445)**	**(5,953)**	**(1,677)**	**(1,447)**	**(1,401)**	**(1,416)**	**(5,942)**	**(1,407)**	**(1,347)**	**(1,267)**	**(1,273)**	**(5,295)**
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	(18)	0	0	0	(18)	0	0	0	0	(18)
(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)	(282)	0	0	0	(282)	0	0	0	0	(282)
Income before Taxes	**(4,712)**	**(697)**	**(4,091)**	**(1,279)**	**(1,479)**	**(7,545)**	**(1,977)**	**(1,447)**	**(1,401)**	**(1,416)**	**(6,241)**	**(1,407)**	**(1,347)**	**(1,267)**	**(1,273)**	**(5,595)**
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)**	**(1,977)**	**(1,447)**	**(1,401)**	**(1,416)**	**(6,241)**	**(1,407)**	**(1,347)**	**(1,267)**	**(1,273)**	**(5,595)**
EPS reported	**(1.63)**	**(0.16)**	**(0.62)**	**(0.19)**	**(0.23)**	**(1.23)**	**(0.29)**	**(0.21)**	**(0.20)**	**(0.20)**	**(0.90)**	**(0.20)**	**(0.19)**	**(0.18)**	**(0.18)**	**(0.80)**
% 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)**	**(1,611)**	**(1,372)**	**(1,314)**	**(1,318)**	**(5,615)**	**(1,295)**	**(1,220)**	**(1,121)**	**(1,108)**	**(4,935)**
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)**	(1,611)	(1,372)	(1,314)	(1,318)	**(5,615)**	(1,295)	(1,220)	(1,121)	(1,108)	**(4,935)**
Margins:																
Gross Margin	**36.4%**	40.0%	32.1%	29.1%	22.3%	**31.9%**	29.4%	26.3%	26.9%	26.2%	**27.0%**	26.7%	26.6%	26.8%	26.7%	**26.9%**
Selling & Marketing % of Revenues	64.4%	55.5%	164.4%	120.2%	123.9%	115.1%	140.7%	111.0%	94.0%	92.0%	106.8%	91.0%	81.0%	72.0%	71.8%	78.8%

Source: Zacks SCR, Brian Lantier, Company Filings

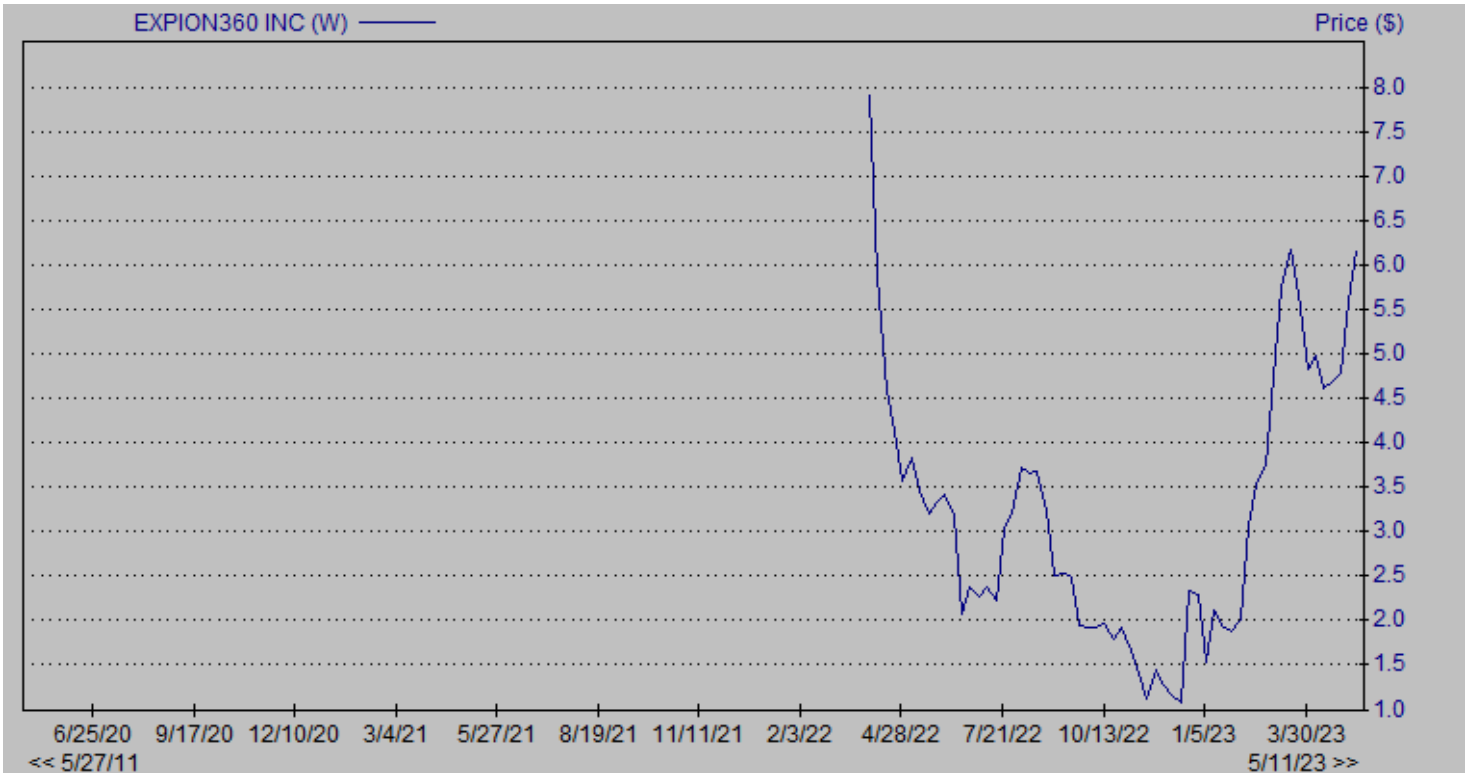
BALANCE SHEET

Expion360 , Inc.
Balance Sheet in USD
3/31/23

Assets	
Current Assets	
Cash and Cash Equivalents	5,726
Accounts Receivable (net)	629
Inventory	3,927
Prepaid/in-transit inventory	1,228
Prepaid expenses and other current assets	239
Total current assets	11,748
Non-Current Assets	
Property & Equipment (net)	1,105
Operating leases	3,036
Deposits	59
Total non-current assets	4,200
Total Assets	**15,948**
Liabilities	
Current Liabilities	
Accounts payable	1,126
Customer deposits	209
Accrued expenses and other current liabilities	326
Current portion of operating lease liability	476
Current portion of long-term debt	679
Total current liabilities	2,815
Non-Current Liabilities	
Long-Term Debt	364
Operating lease liability, net of current portion	2638
Shareholder promisory notes	200
Total Liabilities	**6,017**
Shareholder's Equity	
Ordinary Shares	7
Additional Paid-in Capital	25,541
Accumulated deficit	(15,617)
Shareholder's Equity (Deficiency)	**9,931**
Total Liabilities & Shareholder's Equity	**15,948**

Source: Company filing

HISTORICAL STOCK PRICE



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