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Zacks Small-Cap Research

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Expion360 Inc (XPON-NASDAQ)

XPON: Growth resumes despite a challenging economic backdrop.

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 (08/17/23)	$4.92
Valuation	**$5.00**

OUTLOOK

Expion360 is a leading brand in the emerging energy storage market principally serving the RV and marine market today. Competition has intensified in 2023 but the company's industry leading warranty and high quality construction differentiates its products.

This market remains fragmented and we think there will be an opportunity for consolidation if Expion360 choses that path.

Q3 and Q4 should be easier comparisons for the company given the weakness they experienced in 2022. Investors should be aware that a preliminary prospectus has been filed and any offering could impact share price in the near-term.

SUMMARY DATA

52-Week High	**$7.15**
52-Week Low	**$0.90**
One-Year Return (%)	**33%**
Beta	**0.17**
Average Daily Volume (sh)	**42,987**
Shares Outstanding (mil)	**7**
Market Capitalization ($mil)	**$34**
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-Growth**
Industry	**Energy Storage**

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 A	2.1 E	2.1 E	7.4 E
2024	2.2 E	2.4 E	2.7 E	2.8 E	10.1 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 A	-$0.20 E	-$0.20 E	-$0.91 E
2024	-$0.20 E	-$0.19 E	-$0.18 E	-$0.18 E	-$0.74 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 second-quarter revenues slightly ahead of our expectations despite the challenges facing the RV market.

Expion360 (NASDAQ: XPON) reported sequential sales growth for the third consecutive quarter in the second quarter of 2023 with sales of $1.73 million (up 14% sequentially and 1% above our forecast). Revenue growth was driven by new products, additional distribution, and broader adoption by RV manufacturers. The company has expanded its distribution partners (dealers, wholesalers, OEMs, and private label customers) to over 300 up from 231 at the end of 2022. We are encouraged by the expansion of the company's distribution network which further reduces the company's reliance on its relationship with Camping World (NYSE: CWH).

The RV and marine markets have struggled in 2023 as higher interest rates have impacted consumer demand sharply but Expion360 was still able to grow revenues sequentially which we believe is evidence that the company continues to take share from the traditional lead acid battery market.

Pricing across the lithium-ion phosphate battery market continues to soften a bit and we have noted that Expion360 offered some discounts on its direct-to-consumer batteries this summer. Pricing for many of the company's competitor products has also dipped likely due to overall weakness in the RV and marine markets. We've also noted a pretty strong push from several new LiFePO4 companies from China competing on price with some batteries showing up for roughly half the price of those sold by Expion360. We feel that most Expion360 customers value safety and reliability over one-time cost savings, but these new low-priced batteries could be impacting lead acid battery demand.

We believe these pricing pressures and product mix impacted gross margins in the quarter which fell just over 300 basis points when compared to Q1. The prices for lithium-based battery cells, which represent a significant portion of the company's cost of goods, have continued to fluctuate in 2023 but prices are lower than in 2022 so this should flow through the income statement and positively impact the company's margins for the balance of 2023. We believe that the company's ability to offer specialized complete power generation and storage systems and its industry-leading 12-year warranty provides a competitive advantage against some of the lower-priced competitors.

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 be roughly the same with the RV and marine markets facing challenges while the new golf cart market could be a relative pocket of strength.

In July, the company announced that it had expanded its sales and distribution partnership with Meyer Distributing. While Meyer is privately held, we believe that the company has annual revenue of over $600 million and over 90 locations around the country. We are encouraged by the expansion of this partnership because it further validates Expion360's strong market reputation for providing a high-quality product.

In May, The company announced a new agreement to supply Chinook RV with battery storage and power system components for their class B and B+ recreational vehicles. Chinook RVs have a reputation for being high-quality vehicles and have a fairly large and loyal user base. The brand was purchased from the previous owners in 2018 and relaunched soon after. Chinook has had a fair amount of success with mid-sized RVs that retail between $150,000-$200,000. This relationship is for both new vehicles sold by Chinook and as an aftermarket retrofit for owners looking to upgrade from older battery systems.

Operating expenses fell back in line with expectations to $1.95 million but remain at more than 300% of gross profits. The company's balance sheet remains strong (cash and inventory exceed $8.6 million), but the company's cash burn will have to be monitored more closely in 2024.

Expion360 ended the first quarter with $3.6 million of cash on the balance sheet or about $0.50/share while inventory has grown to roughly $5.0 million on 6/30/23. The company will likely manage these inventory levels to ensure that it has adequate cash for the balance of 2023. While we believe that the current cash balances should provide the company with sufficient funding into early 2024 in light of the preliminary shelf filing made by the company investors should be aware of the possibility of changes to the company's capital structure (likely either an equity offering, debt issuance or some combination of the two). The company could also utilize proceeds from any offering to accelerate the time to market of its home energy products which are currently slated to be available in the second half of 2024.

Long-term investors should continue to focus on the big picture at Expion360 as they lead the transition from lead acid batteries to LFP batteries, target new markets, and launch new products rather than the quarter-to-quarter fluctuations. Long-term investors can be opportunistic and build positions if the stock trades lower on any fundraising news.

Model changes

The company has given no earnings guidance for 2023 or 2024 but we have adjusted our model only slightly given our expectation that new product shipments can offset the impact of higher interest rates and weaker fundamentals in the core RV and marine business.

We are maintaining our Q3 2023 revenue forecast of $2.1 million which will compare very favorably to $1.4 million in Q3 2022 as we expect shipments of the new golf cart and aura powercap to begin in earnest. For the full year 2023 and at least the first half of 2024, we expect the current trends in the RV market to continue and competition in the battery market to intensify. However, we believe that the growth opportunities in front of the company are so significant that the rising tide of demand for energy storage is going to lift all boats (and RVs) in the industry. Our full-year sales forecast is tweaked only slightly to $7.4 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 continued sequential growth and a return to year-over-year growth.

We have fine-tuned our gross margin assumptions based on lower lithium cells pricing which is offset a bit by shifts in the sales mix. Operating expenses appear to have stabilized and our expectations for cash burn have settled to around $1.7 million per quarter.

Our sales forecast of $10.1 million in 2024 is roughly in line with our previous forecast but if the company accelerates the timeline for its home energy storage products there could be substantial upside to our forecast.

Key reasons to own Expion360 shares:

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

- o Marine – long-term energy storage for live-aboard vessels and propulsion on smaller boats
- o Residential – for both off-grid and backup systems for grid-connected users. Energy storage has been a key missing ingredient in the residential solar generation market.
- o Special purpose vehicles – particularly overland, off-road trailers

➢ Expion360 is one of the few publicly traded pure plays in the energy storage and new battery technology markets that are generating revenues today. We think the company could use its public equity as a tool to consolidate the industry.

ADDITIONAL MARKET OPPORTUNITIES

Marine

The company has recently hired a dedicated salesperson to target the marine market. Live-aboard users who need 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 on a vessel. 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 think the company is fine-tuning its offering for recreational fishermen and we look forward to more news on this front soon. As users continue to experience the superior performance of these batteries relative to the older lead acid alternatives we think the opportunities for LFP batteries only grow.

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 who need safe, reliable energy storage.

Low-Speed EVs

The initial market targeted will be the consumer golf cart market to replace traditional lead acid batteries. Maintaining these batteries has long been a difficult and frustrating process for golf cart users but the new Expion360 offering addresses many of these issues with an integrated Bluetooth monitoring system for the battery and its cells. The golf market is remarkably concentrated on the manufacturing side with the majority of sales residing with three manufacturers – Yamaha, EZ-Go, and Club Car. Ultimately an OEM distribution deal with one or more of these manufacturers would be the goal for Expion360, but in the interim, many dealerships would love to offer an advanced battery for their customers.

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 several factors at play 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

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 6/30/23, Expion360 had $3.6 million in cash on its balance sheet and total inventory of $5.1 million so we feel confident that the company has sufficient capital to get into 2024. The company's balance sheet remains fairly strong but given our current projections, it is likely that the company will need additional capital 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. The first company that can deliver a plug-and-play home energy storage solution, like what we expect Expion360 to bring to market in 2024, will be significant.

2) We continue to value the company at 3x 2024 sales (forecast to be $10.1 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 $1.25 a share as of 6/30/23 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 current 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 nearly $5 while the S&P 500 was up just 13% 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 Q2 results (a notice of late filing of the company's 10-Q was published this week) but Dragonfly's shares have fallen roughly 85% year-to-date despite their position as the dominant market player. Dragonfly's sales are forecast by other analysts to be nearly 10 times the level of Expion360 in 2022 and yet its market capitalization is just 3 times larger than Expion360.

   To recap the market backdrop, the dominant public player in the industry has seen its stock fall by 85%+ while Expion360's stock has risen by 150% year to date.

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 third quarter of 2023 will be roughly $2 million, we believe investors should take note of the preliminary shelf registration filed with the SEC in June. While addressing the company's cash needs and speeding the time to market for new products like their home energy storage offering would be very positive long-term developments for the company, 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.

In late June, the company filed a preliminary prospectus for the sale of up to $50 million of common stock, preferred stock, debt, or warrants. However, it's worth noting that the filing indicated that it would not sell stock in an offering exceeding a third of the company's public float which we estimate to be about 1.6 million shares.

While the company has not discussed acquisitions in the past, we think there is an opportunity to consolidate the LFP battery market and having the financial flexibility to capitalize on this opportunity makes sense. Many of the leading companies in specific verticals (Dakota Lithium, Allied Battery, and Renogy) are privately held and could make for interesting acquisitions or merger partners.

In August, the company's Chairman of the Board, David Hendrickson, resigned to pursue other interests. The company noted in the required SEC filing that his resignation was not a result of a disagreement with the company or the board. The company will be seeking a replacement for its board immediately.

RISKS

- The company operates in an extremely competitive industry and pricing pressures have begun to 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.

8/17/23

(USD in 000's; December Year-End)	2021	Mar 1Q22A	June 2Q22A	Sept 3Q22A	Dec 4Q22A	2022E	Mar 1Q23A	June 2Q23A	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	1,725.1	2,050.6	2,116.7	**7,399.5**	2,155.7	2,435.9	2,712.4	2,783.4	**10,087.5**
% change (yoy)	**187%**	144%	122%	3.9%	8.7%	**59%**	-30%	-22%	48%	49%	**3%**	43%	41%	32%	31%	**36%**
Cost of Revenues	2,872	1,293	1,496	980	1,104	4,874	1,064	1,271	1,534	1,563	5,431	1,579	1,789	1,985	2,040	7,393
Gross Profit	1,646	862	706	403	317	2,288	443	454	517	554	1,968	576	647	728	743	2,694
% change (yoy)	443%	213.4%	87.7%	-24.6%	-31%	39%	-49%	-36%	28%	74%	-14%	30%	42%	41%	34%	37%
Gross Profit Margin	**36.4%**	**40.0%**	**32.1%**	**29.1%**	**22.3%**	**31.9%**	**29.4%**	**26.3%**	**25.2%**	**26.2%**	**26.6%**	**26.7%**	**26.6%**	**26.8%**	**26.7%**	**26.7%**
Operating Expenses:																
Selling General and Administrative	2,909	1,196	3,622	1,662	1,762	8,242	2,121	1,952	1,928	1,947	7,947	1,962	1,973	1,953	1,998	7,886
% of Sales	64.4%	55.5%	164.4%	120.2%	123.9%	115.1%	140.7%	113.1%	94.0%	92.0%	107.4%	91.0%	81.0%	72.0%	71.8%	78.2%
Operating Income (Loss)	**(1,263)**	**(335)**	**(2,915)**	**(1,259)**	**(1,445)**	**(5,953)**	**(1,677)**	**(1,497)**	**(1,411)**	**(1,394)**	**(5,979)**	**(1,385)**	**(1,326)**	**(1,225)**	**(1,255)**	**(5,192)**
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)	(21)	0	0	(39)	0	0	0	0	(61)
(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)	(3)	0	0	(285)	0	0	0	0	(287)
Income before Taxes	**(4,712)**	**(697)**	**(4,091)**	**(1,279)**	**(1,479)**	**(7,545)**	**(1,977)**	**(1,479)**	**(1,411)**	**(1,394)**	**(6,303)**	**(1,385)**	**(1,326)**	**(1,225)**	**(1,255)**	**(5,540)**
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)**	**(1,479)**	**(1,411)**	**(1,394)**	**(6,303)**	**(1,385)**	**(1,326)**	**(1,225)**	**(1,255)**	**(5,540)**
EPS reported	**(1.63)**	**(0.16)**	**(0.62)**	**(0.19)**	**(0.23)**	**(1.23)**	**(0.29)**	**(0.21)**	**(0.20)**	**(0.20)**	**(0.91)**	**(0.20)**	**(0.19)**	**(0.18)**	**(0.18)**	**(0.79)**
% 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)**	**(1,395)**	**(1,293)**	**(1,261)**	**(5,561)**	**(1,233)**	**(1,154)**	**(1,027)**	**(1,032)**	**(4,731)**
Depreciation & Amortization	61	29	38	48	58	174	67	102	117	133	419	152	172	198	224	460
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)	(1,395)	(1,293)	(1,261)	**(5,561)**	(1,233)	(1,154)	(1,027)	(1,032)	**(4,731)**
Diluted Shares (weighted average)	**2888.7**	4300.0	6638.8	6802.5	6500.0	**6135.9**	6815.0	6910.0	6927.3	6944.6	**6944.6**	6979.3	6979.3	6979.3	6979.3	**6979.3**
Margins:																
Gross Margin	**36.4%**	40.0%	32.1%	29.1%	22.3%	**31.9%**	29.4%	26.3%	25.2%	26.2%	**26.6%**	26.7%	26.6%	26.8%	26.7%	**26.7%**
Selling & Marketing % of Revenues	64.4%	55.5%	164.4%	120.2%	123.9%	115.1%	140.7%	113.1%	94.0%	92.0%	107.4%	91.0%	81.0%	72.0%	71.8%	78.2%

Source: Zacks SCR, Brian Lantier, Company Filings

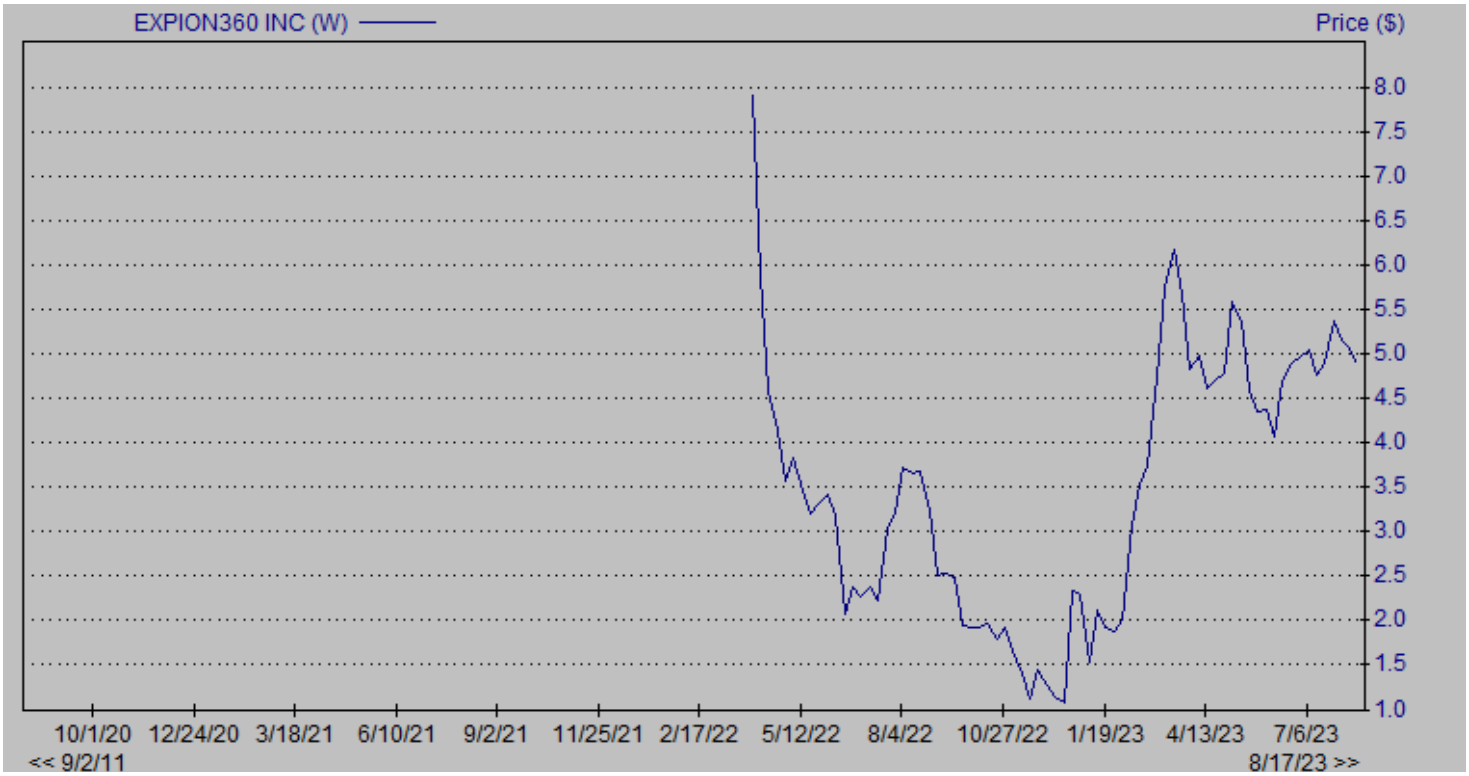
BALANCE SHEET

Expion360 , Inc.
Balance Sheet in USD
6/30/23

Assets	
Current Assets	
Cash and Cash Equivalents	3,596
Accounts Receivable (net)	409
Inventory	4,967
Prepaid/in-transit inventory	161
Prepaid expenses and other current assets	184
Total current assets	9,317
Non-Current Assets	
Property & Equipment (net)	1,035
Operating leases	2,914
Deposits	67
Total non-current assets	4,015
Total Assets	**13,332**
Liabilities	
Current Liabilities	
Accounts payable	219
Customer deposits	157
Accrued expenses and other current liabilities	306
Current portion of operating lease liability	491
Current portion of operating lease liability	125
Current portion of long-term debt	49
Total current liabilities	1,347
Non-Current Liabilities	
Long-Term Debt	324
Operating lease liability, net of current portion	2509
Shareholder promisory notes	700
Total Liabilities	**4,880**
Shareholder's Equity	
Ordinary Shares	7
Additional Paid-in Capital	25,541
Accumulated deficit	(17,096)
Shareholder's Equity (Deficiency)	**8,452**
Total Liabilities & Shareholder's Equity	**13,332**

Source: Company filing

HISTORICAL STOCK PRICE



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