November 14, 2023

Zacks Small-Cap Research

Sponsored – Impartial - Comprehensive

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

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

Expion360 Inc (XPON-NASDAQ)

XPON: The RV market continues down a bumpy road.

We use a 3x multiple of 2025 revenues to arrive at our $5.00 target price. Expansion into the residential energy storage market in 2024 provides further upside to our estimates. Investors should be aware that the company will likely need a capital infusion in 2024 to sustain operations as the company is still burning cash.

Current Price (11/13/23)	$4.12
Valuation	**$5.00**

OUTLOOK

Expion360 is a leading brand in the emerging energy storage market principally serving the RV and marine market today with an eye toward the residential energy storage market in 2024. The company still reported Q3 revenues nearly in line with our model despite weakness in the RV market.

While the company has significantly increased its profile in the industry and made investments in new products, the company's cash burn remains high and the financial condition will likely become a focus for investors.

Given the relative outperformance of Expion360's shares in 2023 and the anticipated need for new capital, we think investors should be aware of the possibility of an equity offering in the near term.

SUMMARY DATA

52-Week High	**$6.71**
52-Week Low	**$0.97**
One-Year Return (%)	**208%**
Beta	**0.51**
Average Daily Volume (sh)	**18,885**
Shares Outstanding (mil)	**7**
Market Capitalization ($mil)	**$28.5**
Short Interest Ratio (days)	**N/A**
Institutional Ownership (%)	**2%**
Insider Ownership (%)	**31%**
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	1.9 A	1.9 E	7.0 E
2024	2.0 E	2.2 E	2.5 E	2.5 E	9.2 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 A	-$0.26 A	-$0.23 E	-$1.00 E
2024	-$0.22 E	-$0.21 E	-$0.22 E	-$0.21 E	-$0.86 E

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

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

© Copyright 2023, Zacks Investment Research. All Rights Reserved.

WHAT'S NEW

Expion360 reports third-quarter revenues slightly below expectations as the RV market remains challenging.

Expion360 (NASDAQ: XPON) reported sequential sales growth for the fourth consecutive quarter in Q3 2023 with sales of $1.89 million (up 36.7% year over year and 9.6% sequentially but below our optimistic forecast). Revenue growth was particularly impressive considering the incredibly challenging macroeconomic backdrop where sharply higher interest rates have resulted in a nearly 50% decline in RV unit shipments forecast for 2023 from the peak of 2021. As a reminder RV shipments topped over 600,000 units in 2021, before falling sharply this year with the current industry forecast being just 297,000 units for 2023, however, sales are projected to rebound roughly 22-24% in 2024.[1] In light of a 50% decline in the primary end market for the company's products, the fact that we are projecting just a slight decline versus 2022 revenues (2022 RV sales were nearly 60% higher than 2023) is a testament to the success that the company has had at establishing itself as a premium brand and its early successes entering new markets.

Sales growth continues to be driven by a more complete product lineup, broader distribution, and additional OEM partnerships. The company highlighted that its distribution partners (dealers, wholesalers, OEMs, and private label customers) now stand at over 300 which further reduces the company's reliance on its relationship with Camping World (NYSE: CWH). While the company did not provide any details, management noted that they anticipate golf cart battery sales to continue to experience "upward momentum".

The end markets for the company's batteries remain primarily the RV and marine markets which are struggling in today's high interest rate environment. Lithium Ion batteries have obvious technical advantages over traditional lead acid batteries but in today's market consumers have become increasingly price sensitive and that has made it a very difficult operating environment for all suppliers of premium batteries like Expion360. The fact that the company was still able to achieve revenue growth in this environment (albeit from a smaller base) is encouraging if the market improves in 2024.

Discounting in the lithium-ion phosphate battery market has increased in recent months and Expion360 is offering some slight discounts on its direct-to-consumer batteries for the holidays (10-20%). While buyers are price sensitive to a degree, the fact that a battery system is essential to the RV or marine activities that they power and most buyers value safety over saving a few dollars upfront we feel like Expion360 can weather the current downturn in the market.

We believe some pricing pressure and the revenue mix shift in the quarter pushed down the gross margin to 25% (down 134 basis points from Q2 and down over 400 basis points from a year ago). While we believe that the cost of the company's inputs – principally battery cells – has likely eased since 2022, the additional sales of products like solar panels and accessories (which carry a sharply lower margin) impacted the overall gross margin.

Expion360's management did not provide guidance for the balance of 2023 we are forecasting a continued difficult operating environment in the market for LFP batteries for the RV and marine markets. We do anticipate a rebound in 2024 currently, but this will largely be a function of the trend in interest rates and the overall health of the US economy.

Operating expenses rebounded to $2.3 million principally due to additional staffing costs and a surprising uptick in legal and professional costs. The company's operating costs continue to run at more than 120% of revenues which we have forecast to fall back under 100% of revenues by the end of 2024. The prolonged period of weakness in the RV/marine markets and continued cash burn will likely become areas of focus for investors.

Expion360 ended the third quarter with $2.9 million of cash on the balance sheet or about $0.40/share while inventory fell to $4.16 million on 9/30/23. As we anticipated, the company slowed itsburn rate by managing inventory levels in the third quarter. We believe that the current cash balances should provide the company with sufficient funding into early 2024, but they will need to complete a financing (equity or debt) before cash balances get too low to ensure smooth operations. While the company has done an admirable job of navigating a challenging market in 2023, the company's stock has been a clear standout. Shares of Expion360 are up over 200% in the past 12 months while the company's clearest comp – Dragonfly (NASDAQ - DFLI) – have seen their shares tumble over 90%. Given the significant outperformance of Expion360's shares, we feel it is likely that an equity offering is the most likely possibility.

Long-term investors can be opportunistic and build positions if the stock trades lower on any fundraising news depending on pricing. We also think that there are likely substantial consolidation opportunities in this market today as most of the leading competitors of Expion360 are privately held.

Model update

We have adjusted our model again to reflect the shift of revenue mix which lowers our margin forecast. Weaker fundamentals in the RV and Marine markets are expected to improve in 2024 and when combined with new product offerings our 2024 revenue forecast is now $9.2 million (down from a previous estimate of $10.1 million). We are not as optimistic as RV industry observers that interest rates will fall quickly enough to spur a sharp jump in sales in the first half of 2024.

We have fine-tuned our gross margin assumptions based on shifts in the company product mix and we expect operating expenses to level out as higher legal and professional fees should not be recurring items.

The company has roughly a 6-9 month runway of cash on the balance sheet but we anticipate that management will address the liquidity issues well before cash levels dip to dangerously low levels.

Key reasons to own Expion360 shares:

➢ While the company's existing market – energy storage for recreational vehicle owners, marine and off-grid use – has experienced a sharp decline after the covid-related boom and interest rates spiked in 2023, 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 like those sold by Expion360 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

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. Several strong players in this market that could make interesting merger partners for Expion360.

Off-Grid Market

Like the traditional RV market, the off-grid and tiny home trend that emerged during the pandemic has cooled off substantially as "return to office" initiatives have become more popular. 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 cart 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, the company is targeting additional relationships with dealers and installers.

Home Storage

Expion360 has provided more details on its entry into the home energy storage market in 2024 and we believe that several factors at play could make this an attractive market.

The Expion360 system can target three markets:

- 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 backup generator) when needed.

- And finally, act as a home storage solution for the power generated by the homeowner, effectively creating a local microgrid.

In October 2023, the company announced a partnership with Renewable Energy Products Manufacturing (REPM) to offer Expion360's new home and commercial energy storage solutions. This program will begin as a pilot with initial installations in the first quarter of 2024. After the successful completion of the pilot program, the Expion360 system will be made available to the entire REPM pipeline.

According to REPM's website, the company is anticipating 3,750 residential installations in the fourth quarter of 2023 and over 6MW of solar installations for the commercial market. We don't have any estimation of pricing in this market yet but we think it's safe to assume residential systems will cost thousands of dollars and commercial systems will be a multiple of that. Even if only a small percentage of

REPM's customers elect to use a system an energy storage system from Expion360, the impact on our revenue model could be significant.

VALUATION

As of 9/30/23, Expion360 had $2.9 million in cash on its balance sheet and total inventory of $4.26 million so we feel confident that the company has sufficient capital to get through the end of the year and into early 2024.

Key valuation considerations:

1) The company has weathered the sharp downturn in the RV market in 2023 by expanding its product offerings and partnering with new distributors. The prospect of delivering a simplified energy storage system through its partnership with REPM offers meaningful upside.

2) We continue to value the company at 3x 2025 sales (We are introducing a 2025 Revenue forecast to be $11.5 million) which values the company at roughly $5.00/share.

3) In 2023 Expion360's shares have significantly outperformed its peer group and the broader stock market nearly doubling to nearly $4.35 while the S&P 500 was up just 15% during the same period.

   We do not cover Dragonfly Energy (NASDAQ: DFLI) the largest public company in the LiFePO4 battery market, but it's worth noting that Dragonfly missed market expectations significantly and guided revenues lower in Q4 2023 principally as a result of the weak outlook for the RV market. Dragonfly's shares have fallen roughly 93% year-to-date despite its position as the dominant market player. While the company didn't share a forecast for 2024 revenues, its sales are still likely to be 8-10 times those of Expion360 in 2024, and yet its market capitalization is just 30% larger than Expion360.

   To recap the market backdrop, the dominant public player in the industry has seen its stock fall by over 90% while Expion360's stock has risen by nearly 90% 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 year will be roughly $1.5 - $2.0 million, we believe investors should be prepared for a likely increase in the company's total share count and float following an equity offering 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 or mergers 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 partners.

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.

[1] https://rvbusiness.com/rv-shipments-expected-to-rise-above-350000-units-in-2024/

PROJECTED INCOME STATEMENT

Expion360, Inc.

11/13/23

(USD in 000's; December Year-End)	2021	2022E	Mar 1Q23A	June 2Q23A	Sept 3Q23E	Dec 4Q23E	2023E	Mar 1Q24E	June 2Q24E	Sept 3Q24E	Dec 4Q24E	2024E	2025E
Revenues:													
Sales	**4,517.5**	**7,162.8**	1,507.2	1,725.1	1,890.1	1,878.0	**7,000.4**	1,958.8	2,213.4	2,464.6	2,529.1	**9,166.0**	**11,457.5**
% change (yoy)	**187%**	**59%**	-30%	-22%	37%	32%	**-2%**	30%	28%	30%	35%	**31%**	**25%**
Cost of Revenues	2,872	4,874	1,064	1,271	1,418	1,387	5,139	1,435	1,625	1,803	1,854	6,718	8,204
Gross Profit	1,646	2,288	443	454	473	491	1,861	524	588	661	675	2,448	3,254
% change (yoy)	443%	39%	-49%	-36%	17%	55%	-19%	18%	29%	40%	37%	32%	521%
Gross Profit Margin	**36.4%**	**31.9%**	**29.4%**	**26.3%**	**25.0%**	**26.1%**	**26.6%**	**26.7%**	**26.6%**	**26.8%**	**26.7%**	**26.7%**	**28.4%**
Operating Expenses:													
Selling General and Administrative	2,909	8,242	2,121	1,952	2,291	2,066	8,429	2,037	2,081	2,169	2,150	8,436	8,774
% of Sales	64.4%	115.1%	140.7%	113.1%	121.2%	110.0%	120.4%	104.0%	94.0%	88.0%	85.0%	92.0%	76.6%
Operating Income (Loss)	**(1,263)**	**(5,953)**	**(1,677)**	**(1,497)**	**(1,818)**	**(1,575)**	**(6,568)**	**(1,514)**	**(1,493)**	**(1,508)**	**(1,475)**	**(5,988)**	**(5,520)**
Grant (Income)/Expense	-	(0)	0	0	0	0	-	0	0	0	0	-	-
Net Interest Expense	554	1,606	(18)	(21)	(6)	0	(45)	0	0	0	0	0	0
(Income)/ Loss from debt settlement	2,791	(13)	0	0	0	0	0	0	0	0	0	0	0
Other Expenses	103	(0)	(282)	(3)	0	0	(285)	0	0	0	0	0	0
Income before Taxes	**(4,712)**	**(7,545)**	**(1,977)**	**(1,479)**	**(1,813)**	**(1,575)**	**(6,897)**	**(1,514)**	**(1,493)**	**(1,508)**	**(1,475)**	**(5,988)**	**(5,520)**
Income Taxes or Benefit	-	9	0	0	0	0	-	0	0	0	0	-	-
Franchise Taxes	9	0	0	0	1	0	1	0	0	0	0	0	0
Net Income (Loss) reported	**(4,721)**	**(7,537)**	**(1,977)**	**(1,479)**	**(1,814)**	**(1,575)**	**(6,899)**	**(1,514)**	**(1,493)**	**(1,508)**	**(1,475)**	**(5,988)**	**(5,520)**
EPS reported	**(1.63)**	**(1.23)**	**(0.29)**	**(0.21)**	**(0.26)**	**(0.23)**	**(1.00)**	**(0.22)**	**(0.21)**	**(0.22)**	**(0.21)**	**(0.86)**	**(0.78)**
% 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**
EBITDA reported	**(1,202)**	**(5,780)**	**(1,611)**	**(1,395)**	**(1,665)**	**(1,401)**	**(6,072)**	**(1,314)**	**(1,267)**	**(1,248)**	**(1,181)**	**(5,443)**	**(5,300)**
Depreciation & Amortization	61	174	67	102	154	174	496	200	226	260	293	546	220
Share-based Compensation Expense	188	2,115	-	-	-	-	-	-	-	-	-	-	-
EBITDA Adjusted (excl stock comp)	**(1,014)**	**(3,665)**	(1,611)	(1,395)	(1,665)	(1,401)	**(6,072)**	(1,314)	(1,267)	(1,248)	(1,181)	**(5,443)**	**(5,300)**
Diluted Shares (weighted average)	**2888.7**	**6135.9**	6815.0	6910.0	6910.7	6928.0	**6928.0**	6962.6	6962.6	6962.6	6962.6	**6962.6**	**7032.2**
Margins:													
Gross Margin	**36.4%**	**31.9%**	29.4%	26.3%	25.0%	26.1%	**26.6%**	26.7%	26.6%	26.8%	26.7%	**26.7%**	**28.4%**
Selling & Marketing % of Revenues	64.4%	115.1%	140.7%	113.1%	121.2%	110.0%	120.4%	104.0%	94.0%	88.0%	85.0%	92.0%	76.6%

Source: Zacks SCR, Brian Lantier, Company Filings

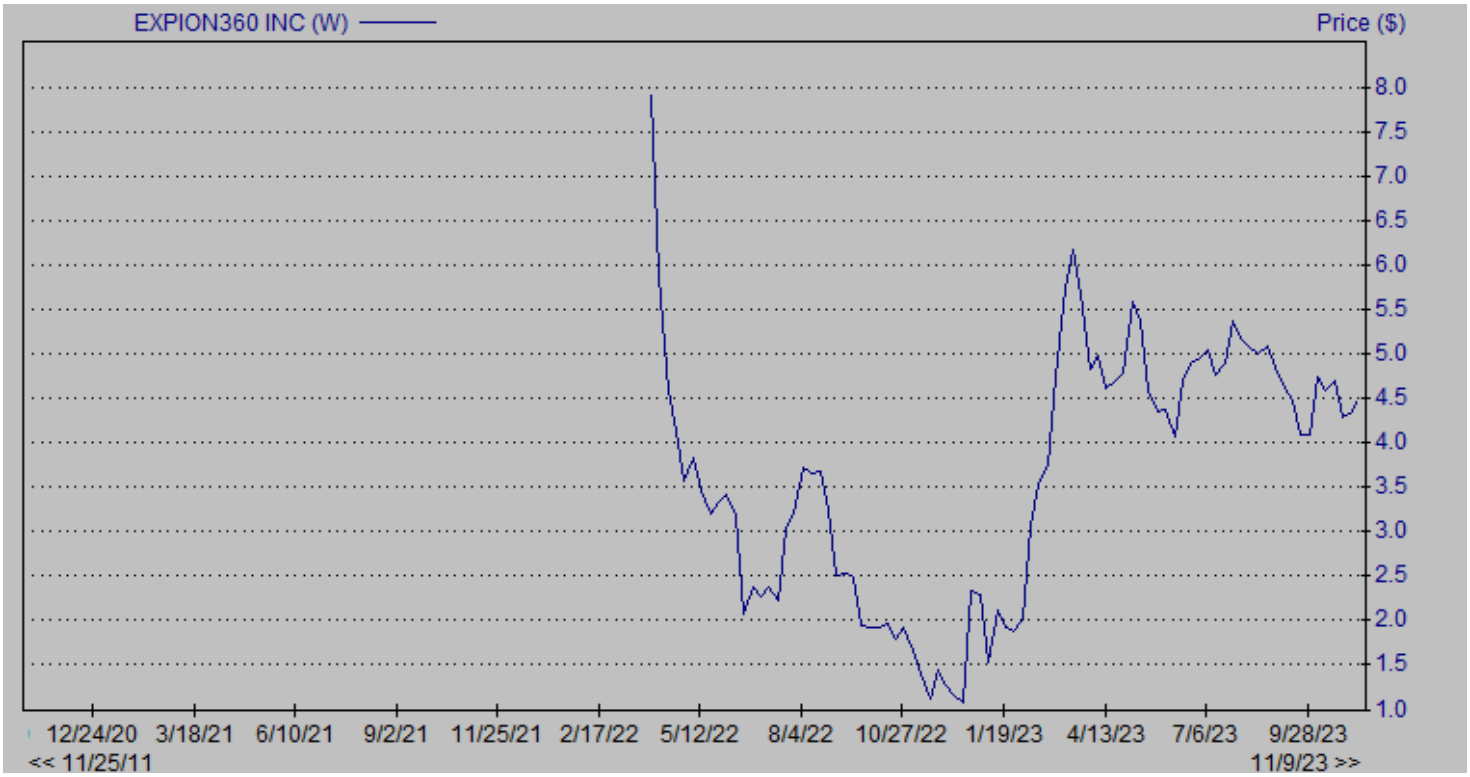
BALANCE SHEET

Expion360 , Inc.
Balance Sheet in USD
9/30/23

Assets	
Current Assets	
Cash and Cash Equivalents	2,911
Accounts Receivable (net)	473
Inventory	4,159
Prepaid/in-transit inventory	103
Prepaid expenses and other current assets	218
Total current assets	7,863
Non-Current Assets	
Property & Equipment (net)	970
Operating leases	2,789
Deposits	59
Total non-current assets	3,818
Total Assets	**11,681**
Liabilities	
Current Liabilities	
Accounts payable	437
Customer deposits	46
Accrued expenses and other current liabilities	300
Current portion of operating lease liability	507
Current portion of stockholder promissory notes	625
Current portion of long-term debt	50
Total current liabilities	1,965
Non-Current Liabilities	
Long-Term Debt	311
Operating lease liability, net of current portion	2376
Shareholder promisory notes	200
Total Liabilities	**4,852**
Shareholder's Equity	
Ordinary Shares	7
Additional Paid-in Capital	25,731
Accumulated deficit	(18,910)
Shareholder's Equity (Deficiency)	**6,828**
Total Liabilities & Shareholder's Equity	**11,680**

Source: Company filing

HISTORICAL STOCK PRICE



DISCLOSURES

The following disclosures relate to relationships between Zacks Small-Cap Research ("Zacks SCR"), a division of Zacks Investment Research ("ZIR"), and the issuers covered by the Zacks SCR Analysts in the Small-Cap Universe.

ANALYST DISCLOSURES

I, Brian Lantier, hereby certify that the view expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the recommendations or views expressed in this research report. I believe the information used for the creation of this report has been obtained from sources I considered to be reliable, but I can neither guarantee nor represent the completeness or accuracy of the information herewith. Such information and the opinions expressed are subject to change without notice.

INVESTMENT BANKING AND FEES FOR SERVICES

Zacks SCR does not provide investment banking services nor has it received compensation for investment banking services from the issuers of the securities covered in this report or article.
Zacks SCR has received compensation from the issuer directly, from an investment manager, or from an investor relations consulting firm engaged by the issuer for providing non-investment banking services to this issuer and expects to receive additional compensation for such non-investment banking services provided to this issuer. The non-investment banking services provided to the issuer includes the preparation of this report, investor relations services, investment software, financial database analysis, organization of non-deal road shows, and attendance fees for conferences sponsored or co-sponsored by Zacks SCR. The fees for these services vary on a per-client basis and are subject to the number and types of services contracted. Fees typically range between ten thousand and fifty thousand dollars per annum. Details of fees paid by this issuer are available upon request.

POLICY DISCLOSURES

This report provides an objective valuation of the issuer today and expected valuations of the issuer at various future dates based on applying standard investment valuation methodologies to the revenue and EPS forecasts made by the SCR Analyst of the issuer's business.
SCR Analysts are restricted from holding or trading securities in the issuers that they cover. ZIR and Zacks SCR do not make a market in any security followed by SCR nor do they act as dealers in these securities. Each Zacks SCR Analyst has full discretion over the valuation of the issuer included in this report based on his or her own due diligence. SCR Analysts are paid based on the number of companies they cover. SCR Analyst compensation is not, was not, nor will be, directly or indirectly, related to the specific valuations or views expressed in any report or article.

ADDITIONAL INFORMATION

Additional information is available upon request. Zacks SCR reports and articles are based on data obtained from sources that it believes to be reliable, but are not guaranteed to be accurate nor do they purport to be complete. Because of individual financial or investment objectives and/or financial circumstances, this report or article should not be construed as advice designed to meet the particular investment needs of any investor. Investing involves risk. Any opinions expressed by Zacks SCR Analysts are subject to change without notice. Reports or articles or tweets are not to be construed as an offer or solicitation of an offer to buy or sell the securities herein mentioned.

CANADIAN COVERAGE

This research report is a product of Zacks SCR and prepared by a research analyst who is employed by or is a consultant to Zacks SCR. The research analyst preparing the research report is resident outside of Canada, and is not an associated person of any Canadian registered adviser and/or dealer. Therefore, the analyst is not subject to supervision by a Canadian registered adviser and/or dealer, and is not required to satisfy the regulatory licensing requirements of any Canadian provincial securities regulators, the Investment Industry Regulatory Organization of Canada and is not required to otherwise comply with Canadian rules or regulations.