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Zacks Small-Cap Research

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Expion360 Inc (XPON-NASDAQ)

XPON: Addresses immediate financing needs with a $10 million offering. Dilution substantially exceeds our expectations. Lowering target valuation to $0.35.

As a result of the latest offering and the prospect of further dilution, we are lowering our target to $0.35/share. Note that we will provide a further update when the terms of the warrants are finalized which could result in a further reduction in this target.

Current Price (08/09/24)	$0.09
Valuation	**$0.35**

OUTLOOK

Expion360 announced the pricing of a $10 million offering which was priced dramatically lower than our expectations resulting in a sharply higher share count. The offering of 50 million units was priced at $0.20/unit consisting of 1 common share (or pre-funded warrant), two Series A warrants, and a Series B warrant.

In the company's preliminary registration statement related to the offering the company also disclosed preliminary Q2 results which were roughly in line with our expectations.

Expion360 has addressed its immediate financing needs and any prospective warrant exercise could improve future cash positions. However, the prospect of further dilution (potentially, substantial dilution) is likely to dampen investor enthusiasm for the company's shares regardless of the fundamentals of the business or the balance sheet.

SUMMARY DATA

52-Week High	**$6.39**
52-Week Low	**$0.08**
One-Year Return (%)	**-98%**
Beta	**0.36**
Average Daily Volume (sh)	**364,311**
Shares Outstanding (mil)*	**57**
Market Capitalization ($mil)	**$5.0**
Short Interest Ratio (days)	**N/A**
Institutional Ownership (%)	**NA**
Insider Ownership (%)	**NA**
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 2024 Estimate	**N/A**
P/E using 2025 Estimate	**N/A**
Zacks Rank	**N/A**

Risk Level	**Above Avg.**
Type of Stock	**Small-Growth**
Industry	**Energy Storage**

ZACKS ESTIMATES

Revenue
(in millions of $)

	Q1 (Mar)	Q2 (Jun)	Q3 (Sep)	Q4 (Dec)	Year (Dec)
2022	2 A	2 A	1 A	1 A	7 A
2023	2 A	2 A	2 A	0.9 A	6.0 A
2024	1.0 A	1.4 E	1.9 E	1.7 E	5,9 E
2025	1.5 E	1.8 E	2.3 E	2.1 E	7.6 E

	Q1 (Mar)	Q2 (Jun)	Q3 (Sep)	Q4 (Dec)	Year (Dec)
2022	-$0.16 A	-$0.62 A	-$2.15 A	-$0.20 A	-$1.23 A
2023	-$0.29 A	-$0.21 A	-$0.26 A	-$0.32 A	-$1.08 A
2024	-$0.31 A	-$0.27 E	-$0.24 E	-$0.23 E	-$1.02 E
2025	-$0.22 E	-$0.21 E	-$0.20 E	-$0.19 E	-$0.82 E

Q2 results to be updated and all eps estimates will be adjusted to reflect higher share count when the June 10-Q is filed.

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WHAT'S NEW

Expion360 Announces $10 Million Financing

On August 7, Expion360 announced the pricing of a $10 million financing. The financing consisted of 50 million units sold at $0.20/unit where each unit consisted of a common share (or prefunded warrant), two Series A warrants (exercisable at $0.24/share), and a Series B warrant.

In the three months before filing the preliminary prospectus for this offering, Expion360's shares had traded between $0.80 and $2.00 per share so the pricing of this transaction is substantially below our expectations and resulted in a drastically higher share count than we anticipated. The company indicated that the new share count after this offering will be roughly 57 million shares.

We estimate that the company will likely receive net proceeds of $8.7 million from this offering and the company will use $3.4 million of the proceeds to repay outstanding debt. We anticipate that the company will add nearly $5.3 million in cash to its balance sheet after this transaction. Since Expion360 is still burning approximately $1.5 million of cash per quarter, this highly dilutive financing ultimately provides less than one year of cash runway. Based on the current margins and operating expenses of the company, the company would need to increase sales to an annual run rate of nearly $28 million to achieve break-even and it seems unlikely to achieve that goal in the next 12 months. Existing investors may have to prepare for even further dilution in 2025 to fund operations or via the exercise of warrants.

Warrants
Expion360's total outstanding share count was just over 7 million shares at the time of its last 10-Q, Expion360 registered an almost unfathomable 576 million shares in association with this offering. This includes 50 million shares attached to the offering, 384 million shares issuable upon the exercise of the Series A warrants and another 142 million shares issuable upon the exercise of the Series B warrants.

The exercise price for the Series A warrants is $0.24 however, in the final version of the registration statement the company indicated that the Series A warrants also have a reset clause. This clause allows that on the 11th trading day after shareholder approval, the exercise price for the Series A warrants will adjust to the lower of:

- The exercise price in effect ($0.24)
- The greater of (a) the lowest daily weighted average price during the 10 days after shareholder approval or (b) $0.13 if before shareholder approval and $0.052 if after shareholder approval.

Given the sharp decline of the company's share price when this offering was announced it does seem likely that the 100 million Series A warrants will reset the exercise price to something closer to the current price. The number of shares issuable will also be adjusted at this time and could result in a substantial increase in the potential total share count if these warrants were ever exercised.

The exercise price of the Series B warrants will be adjusted based on the weighted average price of the stock over a rolling five-day trading period between the issuance date of the warrants and the tenth day after shareholder approval. Again, given the sharp drop in the company's share price this could result in a significantly higher number of Series B warrants attached to this offering.

Preliminary Q2 Results
As part of the company's preliminary prospectus for the latest equity offering, Expion360 released preliminary Q2 operating results which were just slightly below our model at $1.28 million in revenue for the quarter (roughly 6% below our forecast of $1.36 million). The company's gross margin remained stable above 25% and the company had a gross profit of $326 thousand (versus our model of $343 thousand). The company appears to have made some progress controlling operating costs which fell to $2.0 million in the quarter but the company still recorded an operating loss of $1.68 million for the quarter.

We expect that the company may incur additional operating costs in the second half of 2024 as the home energy system enters the market but we will wait for clarification on that front before adjusting our model.

The company continues to burn $1.5 - $2.0 million per quarter and the company will need to generate substantially higher sales to reach break-even. While the latest equity offering provides some cash cushion it is likely less than 12 months of operations at this point.

We will wait for the company's Q2 conference call (anticipated to be held on August 14th) to update our model but we recognize that fundamentals will not be the focus for investors at this time.

Other considerations:
As noted, as part of this offering the company has attached a significant number of warrants with an exercise price just 20% above the price of the units (and potentially could reset at a much lower exercise price). While the capital injection associated with the exercise of the warrants would be welcome and would ensure the company's liquidity, the dilution associated with adding potentially over somewhere between 150 and 500 million new shares would offset any of the benefit for existing shareholders. The reset clause, noted above, will likely result in a significant number of additional warrants issued with a lower exercise price. We believe this is likely to cap any potential price appreciation for Expion360's shares.

At this point, the exercise price of the Series B warrants is yet to be determined but it seems likely to be significantly below the unit price if it is based on the weighted average trading price of the company's shares. We will look for further information on the number of Series B warrants issued and the strike price in subsequent filings.

As recently as two weeks ago, the company's shares were trading around $1 per share and with less than 8 million shares outstanding the company's market capitalization was roughly $8 million. Today, we estimate that with at least 57 million shares outstanding after the offering and a share price of $0.09, the total market cap probably sits at $5 million and existing holders have seen their positions materially diluted.

Ultimately, while this round of financing funds operations for the next 9-12 months we imagine investor confidence in the company is severely shaken. In order, to reach breakeven the company is going to need to grow sales to 4-5 times above their current levels. The hopes for the company are pinned on its home energy storage solutions becoming wildly successful and to date we have not seen anything to give us confidence that this is likely.

Given Expion360's new capital structure, investors need to also consider the possibility that the stock undergo a reverse stock split at some point to maintain its NASDAQ listing and the company could seek additional financing (via warrant exercise or straight equity issuance) in 2025 that could materially dilute existing holders.

VALUATION

Our previous valuation target was based on the existing share count which at the time was just under 7.5 million shares. We assumed that the company would continue to slowly tap its equity line of credit when the markets were favorable to fund operations. In May, our assumption was that the company could add up to 2 million additional shares to fund operations through the end of 2024. The offering of 50 million shares (plus 100 million series A warrants and 50 million series B warrants) is significantly greater than our previous projections and materially impacts our valuation target. The majority of our change in the valuation target is our assumption that the total share count will increase substantially to at least 57 million as a result of this offering (from a previous estimate of 8-10 million at the end of 2024). As a result of this sharply higher share count and the prospect that additional warrants could significantly increase the share count even further, we are lowering our target valuation to $0.35/share. Investors should note that there remain several unknowns about the total number of warrants to be issued and the exercise prices of the warrants and thus, this valuation represents our “best guess” today. We are likely to revise our valuation target when details regarding the number of warrants issued and the exercise price becomes finalized.

Given the challenges in the LiFEPO4 battery market right now we were hopeful that Expion360 would use its public equity as a tool to consolidate the industry. Subsequent to this financing, that does not seem like it will be a possibility and the significant share count means that Expion360 is unlikely to be acquisition candidate either.

RISKS

- The company operates in an extremely competitive industry and pricing pressures have begun to emerge particularly in the lower end of the market.

- 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.

PROJECTED INCOME STATEMENT

Expion360, Inc.

5/14/24

(USD in 000's; December Year-End)	2021	2022A	2023A	Mar 1Q24A	June 2Q24E	Sept 3Q24E	Dec 4Q24E	2024E	Mar 1Q24E	June 2Q24E	Sept 3Q24E	Dec 4Q24E	2025E
Revenues:													
Sales	**4,517.5**	**7,162.8**	**5,981.1**	971.9	1,364.9	1,854.4	1,712.7	**5,903.9**	1,451.8	1,763.7	2,283.7	2,119.7	**7,618.8**
% change (yoy)	**187%**	**59%**	**-16%**	-36%	-21%	-2%	99%	**-1%**	49%	29%	23%	24%	**29%**
Cost of Revenues	2,872	4,874	4,406	749	1,022	1,382	1,276	4,429	1,079	1,310	1,696	1,573	5,659
Gross Profit	1,646	2,288	1,575	223	343	472	437	1,568	372	454	587	547	1,960
% change (yoy)	443%	39%	-31%	-50%	-25%	0%	113%	0%	67%	32%	24%	25%	25%
Gross Profit Margin	**36.4%**	**31.9%**	**26.3%**	**22.9%**	**25.1%**	**25.5%**	**25.5%**	**26.6%**	**25.7%**	**25.7%**	**25.7%**	**25.8%**	**25.7%**
Operating Expenses:													
Selling General and Administrative	2,909	8,242	8,745	2,189	2,320	2,318	2,312	9,140	2,250	2,328	2,352	2,332	9,262
% of Sales	64.4%	115.1%	146.2%	225.3%	170.0%	125.0%	135.0%	154.8%	155.0%	132.0%	103.0%	110.0%	121.6%
Operating Income (Loss)	**(1,263)**	**(5,953)**	**(7,170)**	**(1,967)**	**(1,977)**	**(1,846)**	**(1,876)**	**(7,572)**	**(1,878)**	**(1,874)**	**(1,765)**	**(1,785)**	**(7,302)**
Grant (Income)/Expense	-	(0)	-	0	0	0	0	-	0	0	0	0	-
Net Interest Expense	554	1,606	(1)	(226)	0	0	0	(226)	0	0	0	0	0
Other (Income)/ Loss	2,791	(13)	0	1	0	0	0	0	0	0	0	0	0
Other Expenses	103	(0)	(285)	0	0	0	0	0	0	0	0	0	0
Income before Taxes	**(4,712)**	**(7,545)**	**(7,453)**	**(2,192)**	**(1,977)**	**(1,846)**	**(1,876)**	**(7,798)**	**(1,878)**	**(1,874)**	**(1,765)**	**(1,785)**	**(7,302)**
Income Taxes or Benefit	-	9	-	0	0	0	0	-	0	0	0	0	-
Franchise Taxes	9	0	3	1	0	0	0	0	0	0	0	0	0
Net Income (Loss) reported	**(4,721)**	**(7,537)**	**(7,456)**	**(2,193)**	**(1,977)**	**(1,846)**	**(1,876)**	**(7,798)**	**(1,878)**	**(1,874)**	**(1,765)**	**(1,785)**	**(7,302)**
EPS reported	**(1.63)**	**(1.23)**	**(1.08)**	**(0.31)**	**(0.27)**	**(0.24)**	**(0.23)**	**(1.02)**	**(0.22)**	**(0.21)**	**(0.20)**	**(0.19)**	**(0.82)**
% 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)**	**(6,673)**	**(1,751)**	**(1,733)**	**(1,565)**	**(1,558)**	**(6,513)**	**(1,529)**	**(1,497)**	**(1,369)**	**(1,369)**	**(5,765)**
Depreciation & Amortization	61	174	496	216	244	281	317	1,058	349	377	396	416	1,538
Share-based Compensation Expense	188	2,115	-	-	-	-	-	-					-
EBITDA Adjusted (excl stock comp)	**(1,014)**	**(3,665)**	**(6,673)**	(1,751)	(1,733)	(1,565)	(1,558)	**(6,513)**	(1,529)	(1,497)	(1,369)	(1,369)	**(5,765)**
Diluted Shares (weighted average)	**2888.7**	**6135.9**	**6888.0**	7006.5	7450.0	7825.0	8200.0	**7620.4**	8500.0	8750.0	9000.0	9250.0	**8875.0**
Margins:													
Gross Margin	**36.4%**	**31.9%**	**26.3%**	22.9%	25.1%	25.5%	25.5%	**26.6%**	25.7%	25.7%	25.7%	25.8%	**25.7%**
Selling & Marketing % of Revenues	64.4%	115.1%	146.2%	225.3%	170.0%	125.0%	135.0%	154.8%	155.0%	132.0%	103.0%	110.0%	121.6%

Source: Zacks SCR, Brian Lantier, Company Filings

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BALANCE SHEET

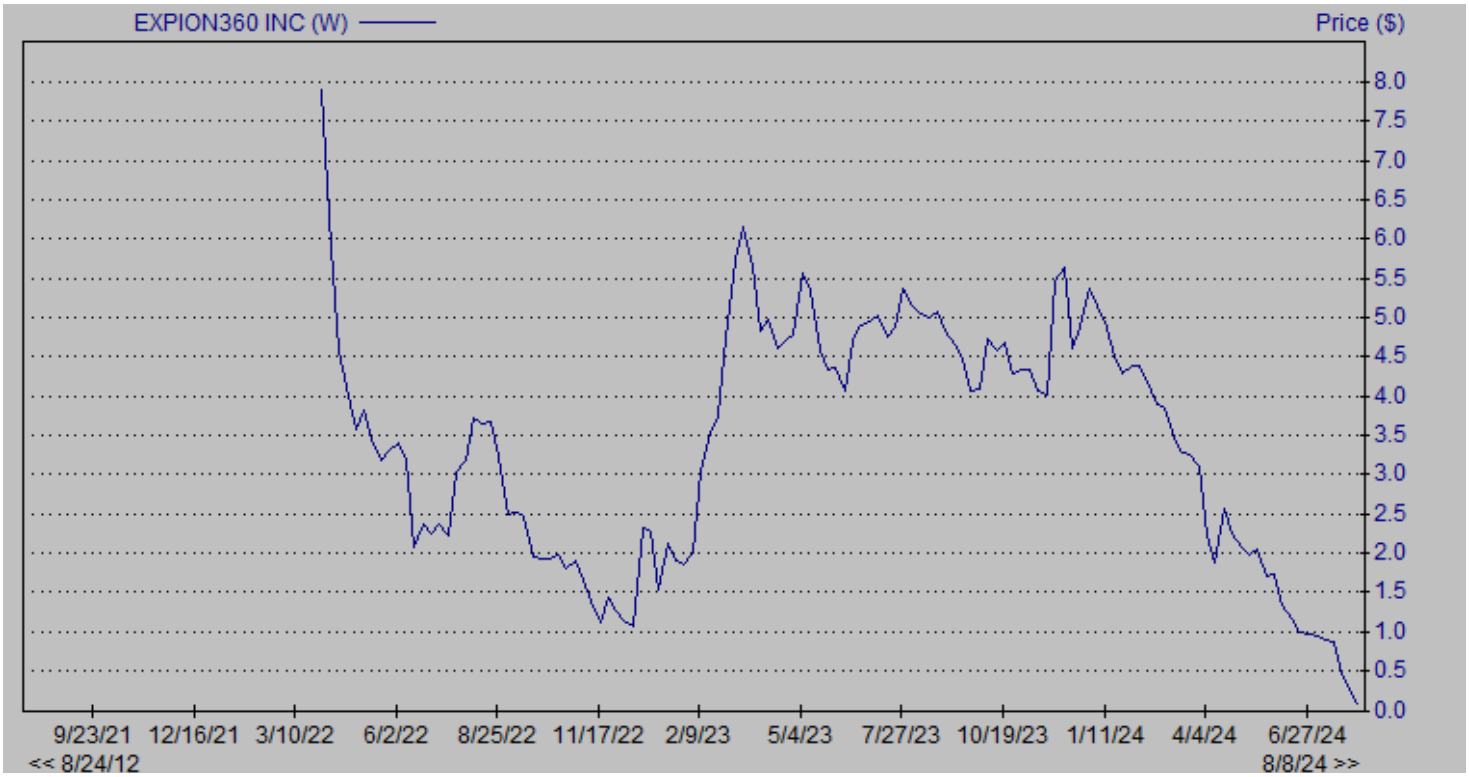
Expion360 , Inc.
Balance Sheet in USD
3/31/24

Assets	
Current Assets	
Cash and Cash Equivalents	2,263
Accounts Receivable (net)	239
Inventory	3,781
Prepaid/in-transit inventory	119
Prepaid expenses and other current assets	233
Total current assets	6,635
Non-Current Assets	
Property & Equipment (net)	791
Operating leases	2,532
Deposits	59
Total non-current assets	3,382
Total Assets	**10,017**
Liabilities	
Current Liabilities	
Accounts payable	282
Customer deposits	11
Accrued expenses and other current liabilities	249
Convertible note	2,206
Current portion of operating lease liability	536
Current portion of stockholder promissory notes	700
Current portion of long-term debt	31
Total current liabilities	4,015
Non-Current Liabilities	
Long-Term Debt	224
Operating lease liability, net of current portion	2103
Shareholder promisory notes	0
Total Liabilities	**6,342**
Shareholder's Equity	
Ordinary Shares	7
Additional Paid-in Capital	26,957
Accumulated deficit	(23,289)
Shareholder's Equity (Deficiency)	**3,675**
Total Liabilities & Shareholder's Equity	**10,017**

Source: Company filing

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