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Zacks Small-Cap Research

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Expion360 Inc (XPON-NASDAQ)

XPON: The RV market recovery remains elusive. Substantially adjusting our valuation target and estimates to reflect significant dilution and recent reverse stock split.

As a result of the increased share count, the 1-for-100 reverse stock split and the continued weakness in the company's core battery business, we are significantly adjusting our valuation and eps projections. We now believe that the company is likely to trade in line with its competitors. We are lowering our target valuation to $4.00 but we caution that the company may not have adequate cash balances to sustain the business through 2025 so further dilution is

Current Price (11/14/24)	$3.45
Valuation	**$4.00**

OUTLOOK

Expion360's shareholders authorized the company to effect a reverse stock split with a ratio of 1:50 to 1:100 at the annual shareholders meeting on September 27, 2024. The company's Board of Directors decided to implement a 1:100 stock reverse stock split effective October 9, 2024.

The company also reported third quarter 2024 results which again fell short of our forecast. Operating expenses continue to exceed gross sales and the path to generating positive cash flow from operations is uncertain.

We believe that the premium that investors have assigned to Expion360 for most of its time as a public company may no longer likely to exist and the company will more likely trade in line with or at a discount to its competitors. As a result, we are lowering our target valuation substantially to $4.00/share reflecting a lower market multiple and uncertainty around the company's home energy storage initiatives.

SUMMARY DATA

52-Week High	**$620**
52-Week Low	**$2.30**
One-Year Return (%)	**-99%**
Beta	**0.27**
Average Daily Volume (sh)	**1,996,230**
Shares Outstanding (mil)	**2.1**
Market Capitalization ($mil)	**$7.2**
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	**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)
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	1.3 A	1.4 A	1.3 E	5,0 E
2025	1.2 E	1.3 E	1.8 E	1.8 E	6.0 E

	Q1 (Mar)	Q2 (Jun)	Q3 (Sep)	Q4 (Dec)	Year (Dec)
2022	-$16.0 A	-$62.0 A	-$215 A	-$20.0 A	-$123 A
2023	-$29.0 A	-$21.0 A	-$26.0 A	-$31.0 A	-$108 A
2024	-$31.0 A	-$30.0 A	-$24.6 A	-$1.02 E	-$27.6 E
2025	-$0.70 E	-$0.62 E	-$0.63 E	-$0.62 E	-$2.58 E

Quarterly results for 2024 will not add up due to the August financing.

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WHAT'S NEW

Expion360 Reports Third Quarter Results

Expion360 (NASDAQ: XPON) reported third-quarter results after the market close on November 14th which again were slightly short of our forecasts. While the company reported a slight 8.7% sequential increase in revenue at least some portion of that growth appears to have been due to the liquidation of non-core products that were sold to reduce warehouse space requirements. While it is difficult to estimate the impact that these sales had on the company's gross margin, management did indicate that the gross profit of the company would have been $230k higher in the quarter if these liquidations had not taken place. The RV market continues to face a very challenging operating environment as interest rates remain elevated and consumer demand (particularly for high-end RVs) has flatlined. Competition at the low end of the LiFEPO4 market is intense with many companies selling batteries at 30% or less of the cost of an Expion360 battery. We believe that many consumers will still pay for the added features on an Expion360 battery but that market is certainly impacted by lingering high interest rates. RV manufacturers are optimistic about a return to growth for larger RVs in 2025 but the next two quarters are likely to be challenging as the company enters a seasonally slow period for RV sales.

While management has discussed many new initiatives targeting the light electric vehicle market (principally golf carts) and home energy storage, etc. – the company's recent cost-cutting actions (i.e., the early termination of a warehouse lease), while likely a prudent cash management strategy, does not appear to be consistent with a company preparing for its next growth phase.

Our two greatest concerns for investors in Expion360 have been that the company may not reach profitability in its core business before needing additional capital and that the high interest rate environment will dampen sales longer than the industry expects. Unfortunately, both of those risks have played out in 2025 which resulted in the very dilutive financing in August 2024 and the prospect remains that despite that financing the company still does not have adequate resources to reach profitability.

Updates/News:

Home Energy
In an earlier update, we indicated that the future of Expion360 really hinges on a successful launch of its home energy storage business which the company introduced in a press release in late 2023. It is worth noting that while management discussed using a portion of the proceeds from the company's August equity offering will be used to complete UL testing and various other authorities there was very little focus given to this important product line in the company's press release or 10Q. We continue to believe that despite the shifting political climate in Washington, home energy storage and commercial energy storage will be massive markets over the next five to ten years in the US. However, homeowners and business owners looking to invest $10,000+ in a home energy system are likely going to want assurances that the company selling that home energy system is going to be in business to service the system and that seems to be a fair question facing Expion360 right now.

The company may have to get creative and seek partnerships or potentially white-label its solution to solar companies, EV manufacturers or home appliance companies to scale this business quickly.

New Customer Relationships
Since our last update, the company has announced two additional customer agreements that target the off-grid, truck bed camper market.

The company partnered with Scout Campers to offer Expion360's batteries as a standard option and with Alaskan Camper where the company's 12.8V internally heated battery to come standard on all of their truck campers. We would note that Alaskan Camper makes a high-quality, well-regarded truck bed

camper but it appears that the orders are mostly custom so this is likely a relatively small opportunity for Expion360.

The company indicated in its quarterly press release that a recent RV trade show resulted in "several new relationships with OEMs" and we will look forward to more details on these relationships in Q4.

Dilutive Capital Raise and Reverse Split
We believe that the full degree of the dilution to existing shareholders has been difficult to determine since the company's August capital raise because many of the warrants contained various adjustment clauses that kicked in as the stock price fell this fall and as a result of the company's reverse split.

However, if we review the company's reported share count after each quarter in 2024

	Pre-Split Share Count	Post-Split Share Count
• May 9th 2024	7,445,261	74,453
• August 14th 2024	55,576,947	555,769
• November 14th 2024	209,608,200	2,096,082

This implies that the holders as of May 2024 now own just 3.5% of the company. We've expressed concerns about the dilutive nature of this capital raise and while it did allow the company to retire outstanding debt, this very expensive financing has left the company with $3.3 million as of 9/30/24 which is unlikely to be sufficient to fund the company through to positive cash flows from operations.

We estimate that the company continues to burn about $500,000/month, thus given the balances at 9/30/24, the company likely has a cash runway that will last into early 2025 but additional debt or equity financing is likely to be required in Q2 2025.

Model update
Given the staggering 28x increase in the share count from May 2024 to November 2024, fundamentals are not likely to be the focus of investors in Expion360. Unfortunately, as we've seen with many microcap companies, a good product is not enough to overcome a challenging capital structure.

The company did not provide any forward guidance and did not host a conference call this quarter. We have used inputs from RV manufacturers, other battery companies' forecasts and our assumption that interest rates remain elevated through the end of 2024 to arrive at a Q4 sales estimate of $1.35 million and total revenue for 2024 of just about $5.0 million growing to about $6 million in 2025.

However, as we have noted the company is unlikely to be able to fund its operating losses with cash on hand much beyond the early part of 2025 so the company will likely need additional debt or equity financing in order to sustain operations through 2025.

We caution investors that our EPS estimates for 2024 are impacted by the substantial reverse split and a large derivative liability recorded in Q3 2024 (nearly $6 million). The company has indicated that this expense should reverse in Q4 2024 and when this charge reverses the company will likely record a large gain on this transaction (effectively negating the Q3 charge). The company may report "earnings" per share that could be as high as $3.00/share as a result of reversing this charge, but we believe that this is merely an accounting technicality and should not be viewed as representative of the core operations of the company. Our new Q4 2024 EPS estimate of ($1.02)/share excludes any potential one-time gain from this accounting entry reversal.

VALUATION

Our most recent adjustment to the target valuation to $0.25/share was principally an adjustment to reflect the additional 50 million shares issued as a result of the August offering. However, given that the company has now reported 2.09 million shares outstanding after the 1-for-100 reverse split (209 million pre-split) our estimate of the total share count was off by a significant margin.

The valuations in the battery market have continued to decline in 2024 and expectations remain muted as the RV market recovery remains elusive. Expion360 has traded at a premium to its competitors for most of the past two years but given the uncertainty around the company's future prospects, we do not expect that premium will remain.

We are now assigning a multiple of 1.25x 2025 revenues of $6 million to reach our new target valuation of $4/share but we would continue to advise investors that there remains a great deal of uncertainty regarding the company's financing in 2025 and further dilution is a possibility. We expect that the shares could come under significant pressure given concerns about the company's financial condition and potential tax loss selling as we approach the end of the year.

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 and at this time the company does not have the financial capacity to fund operations through 2025.

- 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.

11/14/24

(USD in 000's; December Year-End)	2021	2022A	2023A	Mar 1Q24A	June 2Q24A	Sept 3Q24A	Dec 4Q24E	2024E	Mar 1Q25E	June 2Q25E	Sept 3Q25E	Dec 4Q25E	2025E
Revenues:													
Sales	**4,517.5**	**7,162.8**	**5,981.1**	971.9	1,278.1	1,389.5	1,347.8	**4,987.3**	1,151.8	1,285.6	1,757.3	1,818.0	**6,012.7**
% change (yoy)	**187%**	**59%**	**-16%**	-36%	-26%	-26%	57%	**-17%**	19%	1%	26%	35%	**21%**
Cost of Revenues	2,872	4,874	4,406	749	953	1,221	1,065	3,987	898	990	1,357	1,409	4,654
Gross Profit	1,646	2,288	1,575	223	325	169	283	1,000	253	296	401	409	1,359
% change (yoy)	443%	39%	-31%	-50%	-28%	-64%	38%	-37%	14%	-9%	138%	45%	36%
Gross Profit Margin	**36.4%**	**31.9%**	**26.3%**	**22.9%**	**25.5%**	**12.1%**	**21.0%**	**20.1%**	**22.0%**	**23.0%**	**22.8%**	**22.5%**	**22.6%**
Operating Expenses:													
Selling General and Administrative	2,909	8,242	8,745	2,189	2,004	2,096	1,820	8,110	1,728	1,607	1,722	1,727	6,784
% of Sales	64.4%	115.1%	146.2%	225.3%	170.0%	150.9%	135.0%	162.6%	150.0%	125.0%	98.0%	95.0%	112.8%
Operating Income (Loss)	**(1,263)**	**(5,953)**	**(7,170)**	**(1,967)**	**(1,679)**	**(1,928)**	**(1,537)**	**(7,110)**	**(1,474)**	**(1,311)**	**(1,321)**	**(1,318)**	**(5,425)**
Grant (Income)/Expense	-	(0)	-	0	0	0	0	-	0	0	0	0	-
Net Interest Expense	554	1,606	(1)	(226)	(232)	453	0	(5)	0	0	0	0	0
Other (Income)/ Loss	2,791	(13)	0	1	0	(146)	0	(145)	0	0	0	0	0
Other Expenses	103	(0)	(285)	0	(309)	(6,287)	0	(6,596)	0	0	0	0	0
Income before Taxes	**(4,712)**	**(7,545)**	**(7,453)**	**(2,192)**	**(2,220)**	**(8,814)**	**(1,537)**	**(13,856)**	**(1,474)**	**(1,311)**	**(1,321)**	**(1,318)**	**(5,425)**
Income Taxes or Benefit	-	9	-	0	0	0	0	-	0	0	0	0	-
Franchise Taxes	9	0	3	1	0	1	0	0	0	0	0	0	0
Net Income (Loss) reported	**(4,721)**	**(7,537)**	**(7,456)**	**(2,193)**	**(2,220)**	**(8,815)**	**(1,537)**	**(13,856)**	**(1,474)**	**(1,311)**	**(1,321)**	**(1,318)**	**(5,425)**
EPS reported	**(1.63)**	**(1.23)**	**(1.08)**	**(31.29)**	**(30.17)**	**(24.56)**	**(1.02)**	**(27.58)**	**(0.70)**	**(0.62)**	**(0.63)**	**(0.62)**	**(2.58)**
% 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)**	**(1,435)**	**(1,647)**	**(1,219)**	**(6,051)**	**(1,125)**	**(934)**	**(926)**	**(902)**	**(3,888)**
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)	(1,435)	(1,647)	(1,219)	**(6,051)**	(1,125)	(934)	(926)	(902)	**(3,888)**
Diluted Shares (weighted average)	**2888.7**	**6135.9**	**6888.0**	70.1	73.6	358.9	1507.0	**502.4**	2096.0	2101.2	2106.5	2111.8	**2103.9**
Margins:													
Gross Margin	**36.4%**	**31.9%**	**26.3%**	22.9%	25.5%	12.1%	21.0%	**20.1%**	22.0%	23.0%	22.8%	22.5%	**22.6%**
Selling & Marketing % of Revenues	64.4%	115.1%	146.2%	225.3%	170.0%	150.9%	135.0%	162.6%	150.0%	125.0%	98.0%	95.0%	112.8%

Source: Zacks SCR, Brian Lantier, Company Filings

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BALANCE SHEET

Expion360 , Inc.
Balance Sheet in USD
9/30/24

Assets	
Current Assets	
Cash and Cash Equivalents	3,325
Accounts Receivable (net)	439
Inventory	3,365
Prepaid/in-transit inventory	1,362
Prepaid expenses and other current assets	278
Total current assets	8,769
Non-Current Assets	
Property & Equipment (net)	509
Operating leases	823
Deposits	27
Total non-current assets	1,359
Total Assets	**10,129**
Liabilities	
Current Liabilities	
Accounts payable	335
Customer deposits	41
Accrued expenses and other current liabilities	214
Convertible note	0
Current portion of operating lease liability	260
Current portion of stockholder promissory notes	0
Derivative liability - warrants	5,887
Current portion of long-term debt	32
Total current liabilities	6,769
Non-Current Liabilities	
Long-Term Debt	208
Operating lease liability, net of current portion	607
Shareholder promisory notes	0
Total Liabilities	**7,584**
Shareholder's Equity	
Ordinary Shares	1
Additional Paid-in Capital	36,868
Accumulated deficit	(34,324)
Shareholder's Equity (Deficiency)	**2,545**
Total Liabilities & Shareholder's Equity	**10,129**

Source: Company filing

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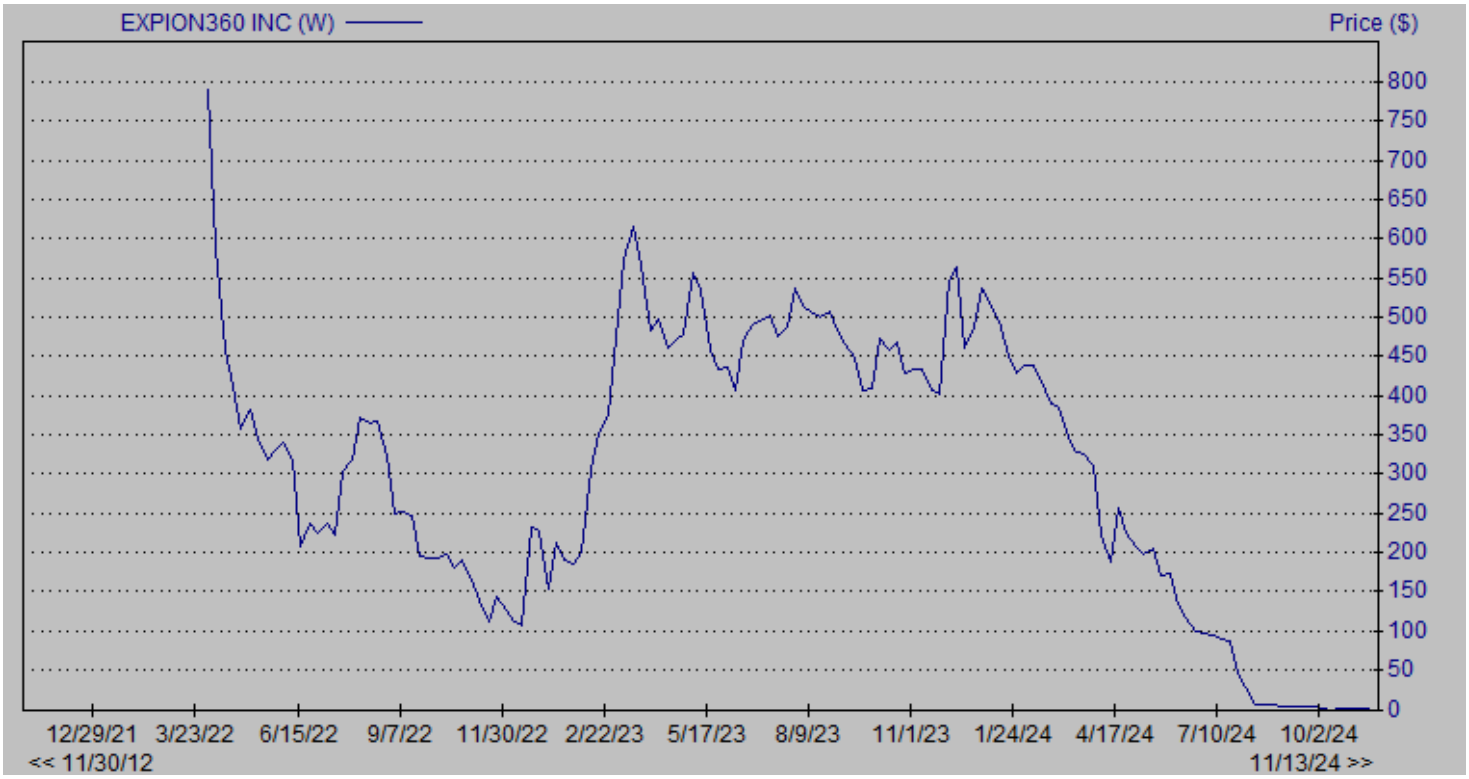

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