

INITIATING COVERAGE

Equity | Technology/ Battery Manufacturing

**Expion360 Inc.**  
**(NASDAQ:XPON; Target Price: \$12.44)**

The lithium-ion battery as a product is disrupting many industries across the globe given its long life coupled with its ability to carry out safe and secure storage of adequate amount of energy. Some of the key industries being transformed by the lithium-ion battery are automotives, electronics, and industrial manufacturing. Given its growing indispensability, the lithium-ion battery is expected to see its consumption grow at a double-digit pace over the coming decade. Expion360 is among the many lithium-ion battery manufacturers in the market today but it has a clear distinguishing point. The company has a cutting-edge technology and design that caters to the relatively untapped niche of recreational vehicles (RVs), boats, golf carts, industrial applications, residential applications, and off-grid applications.

**INVESTMENT THESIS**

This is our first report on Expion360 and we look to provide a detailed account of the various drivers that will be responsible for the company's growth in the coming years. Expion360 is operating in one of the hottest domains i.e., lithium-ion battery manufacturing. This can be demonstrated by the fact that the company's 2021 revenue of \$4.517 million was three times what it made in 2020. Such an exceptional growth in a domain like lithium-ion batteries should definitely command a higher valuation. It is worth mentioning that Expion360 is contracted to source lithium for the next five years, whereas many of its competitors have difficulty sourcing lithium-based batteries components. Overall, given the fact that the company has a high-quality product and strong IP and caters to a lucrative and expanding niche, we believe Expion360 is a good investment opportunity for small-cap investors. We believe that Expion360 could really become a game changer in this space with its innovative offerings and could have a strong upside. Baptista Research looks to evaluate the different factors that could influence Expion360's price in the near future and attempts to carry out an independent valuation of the company using a Discounted Cash Flow (DCF) methodology to determine a suitable price for the company's stock.

**COMPANY OVERVIEW**

Expion360 designs, manufactures and distributes lithium iron phosphate batteries and related accessories for RVs, golf carts, marine, industrial, domestic, and off-the-grid applications under the VPR 4EVER brand. It also sells a variety of industrial tie-downs, terminal blocks, battery monitors, and bus bars. e360 Home Energy Storage systems are also being developed by the firm. The chemistry of the company's batteries is basically Lithium Iron Phosphate (LiFePO4), designed for high energy density, dependability, longevity, and safety. Expion360 provides services to dealers, wholesalers, and original equipment manufacturers in the United States and around the world. Yozamp Products Company, LLC was renamed Expion360 Inc in November 2021. The company was founded in 2016 in Redmond, Oregon.

**Key Report Highlights**

Industry View:	Attractive
Stock Rating:	Buy
Price Target:	\$12.44
Current Price:	\$4.61
52-Week-Range:	\$4.4 - \$11.29

Annual Income Statement	2019	2020	2021
Revenues	1.41	1.57	4.52
Cost of Goods Sold	-0.92	-1.27	-2.87
Gross Income (excl. D&A)	0.49	0.30	1.65
EBITDA	-0.09	-0.74	-1.20
EBIT (incl. extraordinary exp)	-0.10	-0.75	-1.26
Net Income	-0.20	-0.88	-4.72
Cash from Operations	-0.12	-1.12	-3.90
Free Cash Flows	-0.13	-1.16	-4.01

Growth & Margins	2019	2020	2021
Sales Growth	NA	11.3%	187.9%
EBITDA Margin	-6.4%	-47.1%	-26.5%
EBIT Margin	-7.1%	-47.8%	-27.9%
Net Profit Margin	-14.2%	-56.1%	-104.4%

Valuation Ratios	Current	2022	2023
EV/ Sales	4.4	3.5	2.6
EV/ EBITDA	-16.5	22.1	8.3
EV/ EBIT	-15.7	23.0	8.5
Price/Earnings	-4.2	25.2	15.4

## KEY FACTORS DRIVING THE COMPANY'S PERFORMANCE

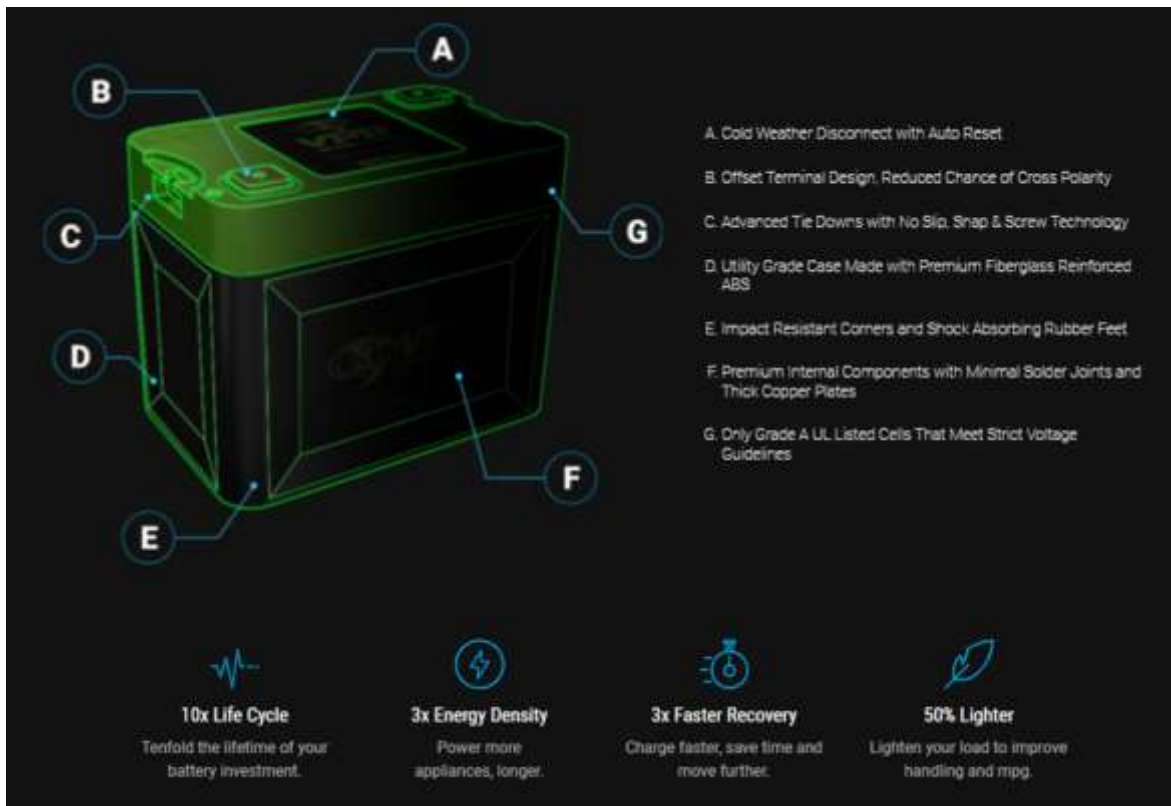
<b>1.</b>	<b>UNIQUE PRODUCT OFFERING</b>
<b>2.</b>	<b>BOX DESIGN RELATED INTELLECTUAL PROPERTY</b>
<b>3.</b>	<b>GROWTH STRATEGY &amp; TARGET MARKET</b>
<b>4.</b>	<b>KEY MACRO-ECONOMIC DRIVERS</b>
<b>5.</b>	<b>EXPERIENCED MANAGEMENT TEAM</b>

### Unique Product Offering

- Expion360's technology, specifically its industry-leading battery pack flexibility for efficient energy storage, has the potential to power large vehicles such as RVs and recreational boats.
- The company should benefit significantly from these trends because lithium battery packs are compact and flexible, making them easy to install in RVs and boats.
- Expion360 is focused on expanding its market share in the off-grid, deep cycle, and stationary energy storage markets. The team believes that its products and vision are perfectly aligned with the National Blueprint for Lithium Batteries released by the Biden Administration.
- The company is different from its competitors because a number of factors provide them with long-term competitive advantages. Previously, lead-acid batteries have always been the standard in RV and marine vehicles.
- However, in terms of capacity, Expion360's lithium-ion batteries outperform their lead-acid competitors. The company's lithium-iron-phosphate batteries are expected to last for about 12 years, three to four times longer than some lead-acid batteries and ten times as many charging cycles.
- Furthermore, despite being half the weight of a lead-acid battery, their typical battery produces three times the power. Its battery packs are also extremely adaptable, allowing them to be moved and used in a wide range of applications with ease.

- The management is confident about their designs and construction methods and intends to offer a 12-year warranty on their batteries, which is the longest in the industry.

## Box Design Related Intellectual Property



Source: Company Presentation

- As a part of technology, Expion360 uses the highest-grade lithium cells in the manufacturing process, which are fully listed and comply with the UL1642 standard. This increases the reliability of the overall product.
- The company also designs innovative box, which are a key component of their intellectual property and completely change the scope of the industry.
- The boxes use colour and texture throughout the process, from concept to commodity. Instead of the foam filler used by most of Expion360's competitors, the X, Y, and Z-axis within the interior space are structurally secured with moulded ribs.
- The company's mil-spec battery case meets UL-94 VO for fire retardant rating and uses only the highest-grade ABS plastics with 10% glass fill.

- They also use rubber feet in every battery box, helping to eliminate vibration and sliding issues. It is worth highlighting that Expion360 are the only company to use it for the first time in the industry.
- Furthermore, for a sleek and sophisticated profile, the team uses rounded corners as it adds dimension and strengthens the edges. They also use connection pads on their oversized terminals, which are 96.7% larger than those on standard terminals.
- This forward-thinking strategy boosts strength and structural reliability by permitting better heat tolerance and a 19% surge in current-carrying volume. Cross polarity dangers are reduced thanks to opposing terminal connection pads.
- On the other hand, Expion360's interior pack design has eliminated nearly all solder points. Mechanical connections are the best effective way to transport power and decrease resistance and heat build-up, so all cells are firmly welded through thick copper or tin machined collector plates.
- The company's collector plates are heavier than the industry standard and are press broken at each end to form a mechanical backbone for connecting to the BMS.
- Throughout the interior, high-grade wire, heat shrink, and ring terminals are used extensively. For long-term corrosion protection and durability, all terminal connections are coated with an industrial epoxy.
- With a plethora of features, "smart" is at the heart of the company's BMS design. Expion360 have also included a low-temperature discharge and charge auto-shutoff for the cold-weather enthusiast.
- In addition, BMS controls low and high-voltage shutoffs, short circuit protection, and the overcurrent disconnect function. While some may overlook the significance of fundamentally securing the BMS board for safety reasons, the company uses a bolted motif that creates a single cohesive pack.
- Lastly, their BMS's reliability has been enhanced by the addition of mechanical connections and an oversized heatsink, ensuring years of trouble-free operation.
- Since the management is confident in their designs and construction techniques, they plan to offer an industry-leading 12-year warranty on their batteries.

## Growth Strategy & Target Market

- Expion360's primary target markets are the RV and marine industries. The company's management believes that the rapid transition from lead-acid to lithium batteries as the primary power source in these industries will benefit the company.

## DEALER LOCATOR

The screenshot displays a web-based dealer locator interface. At the top, there are search filters: "Find dealers near this location" (with a location input field), "Postal/Zip Code" (with an input field), "Distance" (set to "25 Mi" with a dropdown arrow), and "Results" (set to "25" with a dropdown arrow). A "Search" button is located to the right of these filters. Below the filters, on the left side, there is a list of four dealer entries, each with a green location pin icon, the dealer name, and address details:

- Gander RV of Wichita**  
3928 South Oak Street  
Wichita Kansas 67217 United States
- Camping World of Council Bluffs**  
2802 South 21st Street  
Council Bluffs Iowa 51501 United States
- Wholesale Batteries Inc**  
605 Kansas Ave  
Kansas City Kansas 66105 United States  
<http://wholesalebatteries.net>
- Camping World of Kansas City**  
3001 Northeast Jefferson Road  
Grain Valley Missouri 64029 United States

On the right side of the interface is a map of the United States and parts of Canada and Mexico. The map is overlaid with numerous green circular markers, representing the locations of dealers across the country. The map includes standard navigation controls like zoom in (+) and zoom out (-) buttons, and a "Map" vs "Satellite" toggle. The Google logo is visible in the bottom left corner of the map area.

Source: Company Presentation

- We can see from the above snapshot that the company has a solid nationwide dealer network. The management believes that the e360 Home Energy Storage system has high revenue potential as well as recurring revenue opportunities for them and their sales partners.
- The Smart Talk product, which allows multiple batteries in a bank to communicate as a single unit and connect to a network, is another intriguing development in their pipeline. Once development is complete, management plans to file for IP protection for Smart Talk.
- Their scalable pricing model allows them to increase the number of customers and prospects managed on their CXM Platform and provide additional functionality through higher price tiers and add-ons.
- As a result, the company's customer relationships have a significantly higher lifetime value.

## Key Macro-Economic Drivers

- Expion360 has multiple addressable markets such as RVs, boats, industrial handling, and golf carts.
- According to a Mordor Intelligence report, the North American RV market was valued at \$26.7 billion in 2020 and is expected to grow at a 5% CAGR to \$35.7 billion by 2026, which happens to be an area of expertise for the management.
- The reports also said that the United States has nearly 400 national chain RV dealers, indicating a high demand for these vehicles. Because of the impact of the Covid-19 pandemic, families have gradually begun to prefer camping vacations in the mountains/ forests/ by the lake to outstation travel, which is driving RV sales.
- Vehicle electrification is anticipated to be a substantial growth catalyst for lithium compounds in the future. At the crossroads of these trends is the rapidly expanding lithium battery market.
- The lithium-ion battery market is expected to grow at a 12.3% CAGR between 2021 and 2030, according to Markets and Markets, from \$41.1 billion to \$116.6 billion. Global trends that favour clean energy should drive this expansion.
- The Biden Administration has unveiled a bold plan to address the climate crisis and create a new and equitable energy economy by 2035, putting the United States on track to achieve net-zero emissions across the economy.
- Lithium-based batteries are becoming increasingly popular in a variety of applications, including consumer electronics and national defense.
- They also assist in the electrification of transportation and the provision of stationary grid storage, both of which are critical for developing a clean-energy economy. Expion360 is thus operating in a hot market.

## Strong Management Team

- The strength of Expion360's management is a major factor driving the company's growth. The company is spearheaded by CEO and Head of Global Sales, John Yozamp, who has over 30 years of sales and marketing experience, with 24 years of the product concept, development, and manufacturing under his belt.
- Before founding Expion360, John was the founder, owner, and operator of the largest solar manufacturing company – Zamp Solar, which has specialized in the RV and off-grid markets.
- He is ably supported by Paul Shoun, Chief Operating Officer. Paul has over 30 years of engineering experience and has managed a corporate consulting firm for over 17 years.
- His skills include project management, product development, engineering leadership, business accounting, ERP/CRM system management, and product marketing.

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- The company's Chief Financial Officer is Brian Schaffner. He is a seasoned executive who has worked in senior living, assisted living, skilled nursing facilities, and retail stores in various capacities over the last three decades, including CEO, CFO, CIO, and controller.
- Brian has taught accounting, management, personal finance, welding, auto mechanics, and aviation ground school at secondary and university levels. Overall, it is safe to say that the future of Expion360 is in safe hands.

## HISTORICAL FINANCIAL STATEMENTS & PROJECTIONS

Income Statement	12/31/19	12/31/20	12/31/21
<b>Total Revenues</b>	<b>1.41</b>	<b>1.57</b>	<b>4.52</b>
Cost of Goods Sold	-0.92	-1.27	-2.87
<b>Gross Profit</b>	<b>0.49</b>	<b>0.30</b>	<b>1.65</b>
Selling General & Admin Expenses	-0.58	-0.93	-2.85
Other Expenses/ Adjustments	-0.02	-0.13	-0.06
<b>EBITDA</b>	<b>-0.09</b>	<b>-0.74</b>	<b>-1.20</b>
Depreciation & Amortization	0.01	0.02	0.06
Other Operating Expenses/ Income	-0.60	-1.06	-2.91
<b>Operating Income</b>	<b>-0.10</b>	<b>-0.75</b>	<b>-1.26</b>
Interest And Investment Income	0.00	0.00	0.00
Other Non Operating Income (Expenses)	0.00	0.00	0.00
Gain (Loss) On Sale Of Assets	0.00	0.00	0.01
Asset Writedown	0.00	0.00	0.00
Income Tax Expense	0.00	0.00	-0.01
<b>Net Income</b>	<b>-0.2</b>	<b>-0.88</b>	<b>-4.72</b>
<b>Net Income to Common Incl Extra Items</b>	<b>-0.2</b>	<b>-0.88</b>	<b>-4.72</b>
Diluted EPS Excl Extra Items	-2.01	-0.36	-1.63
% Change YoY		82.10%	353.20%
Weighted Average Diluted Shares Outstanding	0.1	2.43	2.89
% Change YoY		2330.50%	18.90%



- Let us start off with analyzing the most recent and historical income statement as reported by the company.
- Expion360 has had decent revenue traction over the years and its top-line has grown from \$1.41 million in 2019 to \$4.52 million in 2021 and its revenues have nearly tripled in the past year.
- The company's revenue momentum is such that we expect it to cross the \$10 million threshold in 2022 itself after an increased push of its battery offerings in RV markets.
- We see a gradual rise in the indirect expenses each year and they were close to the \$0.2 million mark in 2019 but have increased to over \$4 million in the current year.
- Expion360's gross margins are also expected to continue growing and so is its operating income (EBIT) and pre-tax margin as its product gains wider acceptance.
- Non-cash expenses in the form of depreciation and amortization should go up as its intangibles are also increasing through possible acquisitions.

<b>Balance Sheet</b>	<b>12/31/19</b>	<b>12/31/20</b>	<b>12/31/21</b>
Cash And Equivalents	0.14	0.29	0.77
Accounts Receivable	0.03	0.21	0.78
Other Receivables	0.00	0.00	0.00
Notes Receivable	0.00	0.00	0.00
<b>Total Receivables</b>	<b>0.03</b>	<b>0.21</b>	<b>0.78</b>
Prepaid Expenses	0.00	0.00	0.07
Inventory	0.54	0.72	3.13
<b>Total Current Assets</b>	<b>0.72</b>	<b>1.23</b>	<b>4.75</b>
Gross Property Plant And Equipment	0.16	0.42	1.80
Accumulated Depreciation	-0.05	-0.05	-0.10
<b>Net Property Plant And Equipment</b>	<b>0.12</b>	<b>0.37</b>	<b>1.71</b>
Other Long-Term Assets	0.00	0.01	0.06
<b>Total Assets</b>	<b>0.84</b>	<b>1.60</b>	<b>6.53</b>
Accounts Payable	0.09	0.05	0.06
Accrued Expenses	0.01	0.07	0.10
Short-term Borrowings	0.05	0.83	0.65
Current Portion of Long-Term Debt	0.00	0.02	0.05
Current Portion of Capital Lease Obligations	0.03	0.07	0.22
Unearned Revenue Current	0.00	0.12	0.46
Other Current Liabilities	0.02	0.08	0.03
<b>Total Current Liabilities</b>	<b>0.20</b>	<b>1.23</b>	<b>1.57</b>
Long-Term Debt	1.08	1.60	1.60
Capital Leases	0.06	0.15	1.09
Other Non Current Liabilities	0.00	0.00	0.00

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<b>Total Liabilities</b>	<b>1.34</b>	<b>2.98</b>	<b>4.27</b>
Common Stock	0.00	0.00	0.00
Additional Paid In Capital	0.00	0.00	8.36
Retained Earnings	-0.50	-1.38	-6.10
Comprehensive Income and Other	0.00	0.00	0.00
<b>Total Common Equity</b>	<b>-0.50</b>	<b>-1.38</b>	<b>2.26</b>
<b>Minority Interest</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>
<b>Total Equity</b>	<b>-0.50</b>	<b>-1.38</b>	<b>2.26</b>
<b>Total Liabilities And Equity</b>	<b>0.84</b>	<b>1.60</b>	<b>6.53</b>
<b>Total Shares Out. on Filing Date</b>	<b>4.30</b>	<b>4.30</b>	<b>4.30</b>

- Moving on to the company's historical annualized balance sheet, when we analyze the liquidity, we see that the company has strong cash availability on its balance sheet which increased further after its recent public issue. This means they have enough capital for expansion initiatives.
- The company's long term debt has gone up to around \$1.60 million and might be paid off with the proceeds from the fresh issue. It is unlikely for the management to use debt to fund its working capital required to reach profitability.

<b>Cash Flow Statement</b>	<b>12/31/19</b>	<b>12/31/20</b>	<b>12/31/21</b>
<b>Net Income</b>	<b>-0.2</b>	<b>-0.88</b>	<b>-4.72</b>
Depreciation & Amortization	0.01	0.02	0.06
Amortization of Goodwill and Intangible Assets	0.00	0.00	0.00
<b>Total Depreciation &amp; Amortization</b>	<b>0.01</b>	<b>0.02</b>	<b>0.06</b>
Amortization of Deferred Charges	0.00	0.00	0.21
(Gain) Loss From Sale Of Asset	0.00	0.00	-0.01
Stock-Based Compensation	0.00	0.00	0.19
Other Operating Activities	0.00	0.00	3.01
Change In Accounts Receivable	0.06	-0.18	-0.57
Change In Inventories	-0.06	-0.18	-2.41
Change In Accounts Payable	0.07	-0.03	0.01
Change in Other Net Operating Assets	0.00	0.12	0.33
Change In Income Taxes	0.00	0.00	0.00
Change in Other Net Operating Assets	0.00	0.00	0.00
<b>Cash from Operations</b>	<b>-0.12</b>	<b>-1.12</b>	<b>-3.90</b>
Memo: Change in Net Working Capital	0.07	-0.27	-2.64
Capital Expenditure	-0.01	-0.04	-0.11
Sale of Property, Plant, and Equipment	0.00	0.00	0.00
<b>Cash from Investing</b>	<b>-0.01</b>	<b>-0.04</b>	<b>-0.11</b>
Total Debt Issued	0.21	1.39	4.17
Total Debt Repaid	-0.03	-0.20	-0.31
Issuance of Common Stock	0.00	0.00	0.84
Other Financing Activities	0.00	0.12	-0.20

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<b>Cash from Financing</b>	<b>0.18</b>	<b>1.31</b>	<b>4.49</b>
<b>Net Change in Cash</b>	<b>0.05</b>	<b>0.15</b>	<b>0.48</b>

- Moving on to the company's historical annualized cash flow statement, we see that Expion360 has actually burnt over \$4 million in the past 12 months which was greater than it did in 2020.
- Also, we see a visible investment in working capital in the past 12 months as it continues to build its inventory of batteries.
- We expect the recent equity fundraising to finance the operating cash loss and the investments for the coming few quarters before the company reaches a financial break-even.

<b>Ratios</b>	<b>12/31/19</b>	<b>12/31/20</b>	<b>12/31/21</b>
<b>Return Ratios:</b>			
Return on Assets %	NA	-38.60%	-19.40%
Return on Capital %	-14.20%	-58.60%	-21.50%
Return On Equity %	NA	93.10%	-1076.80%
Return on Common Equity %	NA	93.10%	-1076.80%
<b>Margin Analysis:</b>			
Gross Profit Margin %	35.10%	19.30%	36.40%
SG&A Margin %	41.10%	59.20%	63.10%
EBITDA Margin %	-6.20%	-46.90%	-26.60%
EBITA Margin %	-7.20%	-48.00%	-28.00%
EBIT Margin %	-7.20%	-48.00%	-28.00%
Income From Continuing Operations Margin %	-14.20%	-55.80%	-104.50%
Net Income Margin %	-14.20%	-55.80%	-104.50%
Normalized Net Income Margin %	-8.90%	-37.80%	-25.10%
Net Avail. For Common Margin %	-14.20%	-55.80%	-104.50%
Levered Free Cash Flow Margin %	NA	-49.00%	-77.50%
Unlevered Free Cash Flow Margin %	NA	-41.40%	-74.50%
<b>Asset Turnover:</b>			
Asset Turnover	1.68	0.98	0.69
Fixed Assets Turnover	0.00	6.42	4.34
Receivables Turnover	0.00	13.05	9.18
Inventory Turnover	0.00	2.01	1.49
Working Capital Turnover	2.75	-169.64	1.42
<b>Short Term Liquidity:</b>			
Current Ratio	3.52	0.99	3.02
Quick Ratio	0.84	0.40	0.99
Op Cash Flow to Current Liab	-0.60	-0.91	-2.48
Avg. Cash Conversion Cycle	NA	192.83	280.73
Avg. Days Sales Outstanding	NA	28.04	39.75
Avg. Days Outstanding Inventory	NA	182.28	244.96
Avg. Days Payable Outstanding	NA	17.49	3.98
<b>Long-Term Solvency:</b>			

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Total Debt / Equity	-2.428	-1.932	1.603
Total Debt / Capital	1.7	2.073	0.616
Total Liabilities / Total Assets	1.6	1.86	0.654
EBIT / Interest Expense	-1.03	-3.83	-2.28
EBITDA / Interest Expense	-0.04	-2.99	-1.45
(EBITDA - Capex) / Interest Expense	-0.14	-3.19	-1.66
FFO Interest Coverage	-1.23	-5.7	-7.03
FFO to Total Debt (x)	-0.1	-42.00%	-1.08
Total Debt / EBITDA	-276.58	-4.53	-4.5
Net Debt / EBITDA	-245.00	-4.03	-3.54
Net Debt / (EBITDA - Capex)	-76.14	-3.79	-3.1

- The company does not pay any dividend given that it is a high-growth player looking to invest its profits back into the business.
- The company's return ratios such as RoA and RoE are negative given its lack of profitability but it is only a matter of time before the company starts creating strong value for its shareholders.
- The receivables turnover helps quantify a company's effectiveness in collecting the money owed by clients and demonstrates how well it uses and manages the credit it extends to customers.
- As per the days receivable, the company takes an average period of 1 month to collect money from its clients which appears to be reasonable.
- The fixed asset turnover ratio measures how well a company generates sales from its tangible as well as intangible fixed assets. The higher the ratio, the greater the company's efficiency to its assets to generate revenues.
- Expion360's fixed assets turnover is as high as 4.34x which is a highly positive sign over the past year indicating that the company is generating solid revenues from its fixed assets.
- The total asset turnover ratio measures the value of a company's sales or revenues relative to the value of its assets. The higher the asset turnover ratio, the more efficient a company is, with respect to using its assets to generate revenues. Expion360's total assets turnover is 0.69 which is decently high.
- Expion360 does employ some debt on its balance sheet which explains why the company's Return on Equity is higher than its Return on Assets and this is because it uses debt to maximize shareholder returns.

Financial Forecasts	2020	2021	2022E	2023E
Total Revenues	1.57	4.52	15.32	24.55
% Change YoY		187.90%	238.94%	60.25%
Cost of Goods Sold	-1.27	-2.87	-9.10	-12.90
% Margin	-80.89%	-63.50%	-59.40%	-52.55%

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Gross Profit	0.3	1.65	6.22	11.65
% Margin	19.11%	36.50%	40.60%	47.45%
EBITDA	-0.74	-1.20	2.42	7.55
% Margin	-47.13%	-26.55%	15.80%	30.75%
Operating Income	-0.75	-1.26	2.32	7.35
% Margin	-47.77%	-27.88%	15.14%	29.94%
Net Income	-0.88	-4.72	2.12	7.05
% Margin	-56.05%	-104.42%	13.84%	28.72%
Cash from Operations	-1.12	-3.90	2.23	7.02
% Margin	-71.34%	-86.28%	14.53%	28.60%
Free Cash Flows	-1.16	-4.01	1.43	6.32
% Margin	-73.89%	-88.72%	9.31%	25.75%

- Now let us move on to Baptista Research's forecasts for Expion360's income statement and cash flows. We forecast a top-line of \$15.32 million for 2022 and \$24.55 million for 2023.
- We expect a gross margin inching towards the 50% mark given the nature of product offering and the industry that Expion360 operates in. This margin should increase in 2023 on account of better scale.
- Expion360's EBIT margin is expected to be close to 157% in 2022, about 30% in 2023.
- Our estimate for the company's Net Income (GAAP) is \$2.12 million in 2022 and \$7.05 million in 2023.
- We expect the overall cash flow growth to follow a similar trend in 2022 and 2023. In terms of the cash flows, we expect Expion360 to generate around \$2.23 million in operating cash flows in 2022 and \$7.02 million in 2023.
- Expion360 is expected to invest a higher amount in capex and other investing activities in 2023.
- Overall, the company is expected to generate free cash flows to the tune of \$1.43 million in 2022 and \$6.32 million in 2023.

## DISCOUNTED CASH FLOW (DCF) VALUATION

### Key DCF Assumptions

WACC	19.3%
CoD	0.0%
CoE	19.9%
Market Rate	6.0%
Risk Free Rate	1.9%
Beta	3.0
Terminal Value	69
Tax Rate	25.0%

- For the purpose of carrying out the discounted cash flow valuation of Expion360, we have used the standard capital asset pricing model (CAPM).
- We have used a 6.0% equity market risk premium based on the S&P 500 returns for the past 5 years. The risk-free rate has been assumed as the 10-year Treasury Constant Maturity Rate of the U.S. at 1.9%.
- As a microcap, the company's stock is expected to be much more volatile than the market as a whole and we assume a beta of 3.0 which we shall use without leveraging the same as we are going for the enterprise value approach.
- This is used in order to arrive at the cost of equity (CoE) of 19.9% which appears reasonable for a company like Expion360.
- Based on the company's long-term debt and interest payments, the cost of debt is 0.0%.
- After incorporating the CoE and the CoD and average tax rate of 25.0%, we arrive at a Weighted Average Cost of Capital (WACC) of 19.9%.
- The terminal value is a key component of any DCF valuation as it accounts for the largest chunk of the total projected value of the company. There are a number of methodologies used to determine the same such as the perpetual growth rate method or the multiples method.
- In this case, we have gone ahead and determined the terminal value by applying the current EV/Sales ratio of 2.55x to our forecasted revenues of 2023.

EV and Market Cap	Current	2022E	2023E
Price (\$)	4.61	12.44	25.30

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Outstanding Number of shares (million)	4.30	4.30	4.30
Total Market Cap (millions)	19.82	53.50	108.81
Net Debt	0.83	-0.10	-0.90
Enterprise Value (millions)	19.82	53.40	62.60

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- After applying the discount rate (WACC) of 19.9%, we arrive at a price target of \$12.44 for 2022.
- Our target price at the end of 2023 is \$25.30 which implies a total appreciation of more than 5x in the coming 3 years in the stock price.
- During this phase, we see the EV/ EBITDA reach 8.29x in 2023. The EV/ EBIT will also become 8.52x in 2023 when the company reaches the above-mentioned valuation.

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Valuation Ratios	Current	2022E	2023E
EV/ Sales	4.39	3.49	2.55
EV/ EBITDA	-16.52	22.07	8.29
EV/ EBIT	-15.73	23.02	8.52
Price/Earnings	-4.20	25.24	15.43

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## KEY RISKS

- It is important to highlight the key risks associated with an investment in Expion360 as well as the inherent risks associated with the financial projections and price forecasts presented in this report.
- Expion360 may be catering to a niche but it operates in a highly competitive lithium-ion battery manufacturing domain with many large incumbents with huge buying power who could penetrate their space.
- To accommodate growth and compete effectively, the management will need working capital to maintain adequate inventory levels, develop additional procedures and controls and increase, train, motivate and manage its work force.
- Expion360 is serving the global market since less than a decade which means it has a very limited operating history. As a result, many potential investors find it difficult to evaluate its business prospects and management.
- Expion360's management may struggle to successfully implement and execute their business tactics, operating strategies and growth initiatives. If the management fails to accomplish their growth and organizational modification effectively, it may destroy their business and operational results.
- Expion360 relies on third parties i.e., manufacturers of lithium-ion batteries in China to grow and scale the company. Therefore, any change in pledged relationships or disruption of service run by these Chinese third-party manufacturers may badly affect them and subject them to liability. There is also the risk of the company's IP i.e., its battery design being infringed.
- One of the most significant risks that the company is currently facing is the ongoing global impact of Covid-19 as well as the geopolitical situation between Russia and Ukraine which could have a material impact on Expion360's research and operations. A negative news associated with the trade ties between U.S. and China could also affect the company.
- There could be a possible dilution and loss of value of their equity shares because the company might require regular infusion of funds through equity issuances for funding their losses until they break even.
- If the management fails to raise additional capital, they may need to reduce, defer, curtail or cease their operations, including the product design, development, and marketing.
- Expion360's ability to continue as a going concern is contingent upon the ability to raise additional capital through the sale of securities and incurrence of debt. Additionally, the future capital requirements of the company depend on many factors including the rate of revenue growth, selling price of the platform subscription and research and development efforts which raise substantial doubt about the company's ability to continue as a going concern.
- It is worth highlighting that the extent to which Covid-19 impacts the financial results of the company is highly uncertain and could significantly disrupt the operations including sales, manufacturing and supply chain-related activities. It could also result in social, economic, and labor instability in the countries where the customers and suppliers operate.



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- With respect to our price projection, we would like to clarify that the valuation of Expion360 in this report is specific to the date of the analysis i.e., 18-04-2022.
- Another one of the biggest risks to Expion360's model is the fact that the company's top-line growth is assumed to be consistently growing by a certain rate in the model. There is a possibility that this assumption might not hold true if the COVID-19 situation persists for too long. With respect to our price projection, we would like to clarify that the valuation of Expion360 in this report is specific to the date of the analysis i.e., 18<sup>th</sup> April 2022.
- We must emphasize that the projected valuation and the share price of Expion360 are dependent on the realization of the revenue growth, free cash flows and the other assumptions taken into account. Our analysis cannot be directed to providing any assurance about the achievability of these financial forecasts. There is a possibility that the actual results of the company are different from the projected results as a result of unexpected events and circumstances such as the realization of the threats mentioned in the paragraph above. Lastly, we would like to clarify that we had no interaction with the management of the company and they did not comment on the achievability or the reasonableness of the assumptions underlying the financial forecasts. Please check out our detailed disclosures at the end for further details.

## **ANALYST RATINGS**

- Buy: Expected to outperform market over next 6 to 12 months. Minimal risk to fundamentals and valuation. Good long-term investment.
- Outperform: Expected to outperform the market over next 6 to 12 months but there is a moderate risk to fundamentals and valuation.
- Sell: Expected to significantly underperform the market over next 6 to 12 months. There is a strong likelihood of the security delivering negative returns and a very high risk to fundamentals and valuation.
- Underperform: Expected to underperform the market over next 6 to 12. There is a moderate to high risk to fundamentals and valuation.
- Hold: Expected to perform in line with the market over next 6 to 12 months. However, there is a moderate to high risk to fundamentals and valuation.

## **ANALYST INDUSTRY VIEWS**

- Attractive: The analyst expects the performance of his or her industry coverage universe over the next 12-18 months to be attractive vs. the relevant broad market benchmark, as indicated below.
- In-Line: The analyst expects the performance of his or her industry coverage universe over the next 12-18 months to be in line with the relevant broad market benchmark, as indicated below.
- Cautious: The analyst views the performance of his or her industry coverage universe over the next 12-18 months with caution vs. the relevant broad market benchmark, as indicated below.
- Benchmarks for each region are as follows: North America - S&P 500; Latin America – MSCI EM Latin America Index; Europe – MSCI Europe; Japan - TOPIX; Asia - relevant country index or sub-regional index. Please contact us to know the relevant index in case it is not specified in the report.

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