REFINITIV

# DELTA REPORT

## 10-Q

XPEL - XPEL, INC.

10-Q - MARCH 31, 2024 COMPARED TO 10-Q - SEPTEMBER 30, 2023

The following comparison report has been automatically generated

| TOTAL DELTAS | 972 |
|---|---|
| CHANGES | 143 |
| DELETIONS | 504 |
| ADDITIONS | 325 |

# UNITED STATES
# SECURITIES AND EXCHANGE COMMISSION
**Washington, D.C. 20549**

# FORM 10-Q

(Mark One)

☒ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

**For the quarterly period ended September 30, 2023 March 31, 2024**

**OR**

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

**For the transition period from to**

**Commission file number File Number: 001-38858**

# XPEL, INC.

(Exact name of registrant as specified in its charter)

XPEL Logo.jpg

| | |
|---|---|
| **Nevada** | **20-1117381** |
| (State or other jurisdiction of incorporation or organization) | (I.R.S. Employer Identification No.) |

| | | | |
|---|---|---|---|
| **711 Broadway St., Suite 320** | **San Antonio** | **Texas** | **78215** |
| (Address of Principal Executive Offices) | | | (Zip Code) |

Registrant's telephone number, including area code: **(210) 678-3700**

Securities registered pursuant to Section 12(b) of the Act:

| Title of each class | Trading Symbol | Name of each exchange on which registered |
|---|---|---|
| Common Stock, par value $0.001 per share | XPEL | The Nasdaq Stock Market LLC |

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports); and (2) has been subject to such filing requirements for the past 90 days. Yes x No ☐

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate web Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of “large accelerated filer,” “accelerated filer”, and “smaller reporting company” and "emerging growth company" in Rule 12b-2 of the Exchange Act. (Check one):

| | | | |
|---|---|---|---|
| Large accelerated filer | ☒ | Accelerated filer | ☐ |
| Non-accelerated filer | ☐ | Smaller reporting company | ☐ |
| Emerging growth company | ☐ | | |

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes ☐ No ☒

The registrant had 27,628,953 27,633,935 shares of common stock outstanding as of November 8, 2023 May 9, 2024.

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## Part I. Financial Information

### Item 1. Financial Statements

**XPEL, INC.**

**Condensed Consolidated Balance Sheets**
**(In thousands, except share and per share data)**

| | (Unaudited) September 30, 2023 | (Audited) December 31, 2022 |
|---|---|---|
| **Assets** | | |
| **Current** | | |
| Cash and cash equivalents | $ 10,374 | $ 8,056 |
| Accounts receivable, net | 24,115 | 14,726 |
| Inventories | 92,458 | 80,575 |
| Prepaid expenses and other current assets | 11,091 | 3,464 |
| **Total current assets** | 138,038 | 106,821 |
| Property and equipment, net | 15,690 | 14,203 |
| Right-of-use lease assets | 14,014 | 15,309 |
| Intangible assets, net | 29,461 | 29,294 |
| Other non-current assets | 971 | 972 |
| Goodwill | 28,602 | 26,763 |
| **Total assets** | $ 226,776 | $ 193,362 |
| **Liabilities** | | |
| **Current** | | |
| Current portion of notes payable | $ — | $ 77 |
| Current portion of lease liabilities | 3,650 | 3,885 |
| Accounts payable and accrued liabilities | 42,059 | 22,970 |
| Income tax payable | 836 | 470 |
| **Total current liabilities** | 46,545 | 27,402 |
| Deferred tax liability, net | 1,205 | 2,049 |
| Other long-term liabilities | 950 | 1,070 |
| Borrowings on line of credit | — | 26,000 |
| Non-current portion of lease liabilities | 11,523 | 12,119 |
| **Total liabilities** | 60,223 | 68,640 |
| **Commitments and Contingencies (Note 11)** | | |
| **Stockholders' equity** | | |
| Preferred stock, $0.001 par value; authorized 10,000,000; none issued and outstanding | — | — |
| Common stock, $0.001 par value; 100,000,000 shares authorized; 27,628,953 and 27,616,064 issued and outstanding, respectively | 28 | 28 |
| Additional paid-in-capital | 12,050 | 11,073 |
| Accumulated other comprehensive loss | (2,179) | (2,203) |
| Retained earnings | 156,654 | 115,824 |
| **Total stockholders' equity** | 166,553 | 124,722 |
| **Total liabilities and stockholders' equity** | $ 226,776 | $ 193,362 |

| | (Unaudited) March 31, 2024 | (Audited) December 31, 2023 |
|---|---|---|
| **Assets** | | |
| **Current** | | |
| Cash and cash equivalents | $ 8,614 | $ 11,609 |
| Accounts receivable, net | 28,569 | 24,111 |

| | | |
|---|---|---|
| Inventory, net | 110,171 | 106,509 |
| Prepaid expenses and other current assets | 5,578 | 3,529 |
| Income tax receivable | — | 696 |
| **Total current assets** | 152,932 | 146,454 |
| Property and equipment, net | 17,624 | 16,980 |
| Right-of-use lease assets | 15,471 | 15,459 |
| Intangible assets, net | 33,938 | 34,905 |
| Other non-current assets | 863 | 782 |
| Goodwill | 37,664 | 37,461 |
| **Total assets** | $ 258,492 | $ 252,041 |
| **Liabilities** | | |
| **Current** | | |
| Current portion of notes payable | $ 63 | $ 62 |
| Current portion lease liabilities | 3,946 | 3,966 |
| Accounts payable and accrued liabilities | 27,611 | 32,444 |
| Income tax payable | 201 | — |
| **Total current liabilities** | 31,821 | 36,472 |
| Deferred tax liability, net | 2,459 | 2,658 |
| Other long-term liabilities | 682 | 890 |
| Borrowings on line of credit | 24,000 | 19,000 |
| Non-current portion of lease liabilities | 12,814 | 12,715 |
| Non-current portion of notes payable | 293 | 317 |
| **Total liabilities** | 72,069 | 72,052 |
| **Commitments and Contingencies (Note 11)** | | |
| **Stockholders' equity** | | |
| Preferred stock, $0.001 par value; authorized 10,000,000; none issued and outstanding | — | — |
| Common stock, $0.001 par value; 100,000,000 shares authorized; 27,631,097 and 27,630,025 issued and outstanding, respectively | 28 | 28 |
| Additional paid-in-capital | 13,176 | 12,546 |
| Accumulated other comprehensive loss | (2,071) | (1,209) |
| Retained earnings | 175,290 | 168,624 |
| **Total stockholders' equity** | 186,423 | 179,989 |
| **Total liabilities and stockholders' equity** | $ 258,492 | $ 252,041 |

See notes to condensed consolidated financial statements.

**XPEL, INC.**
**Condensed Consolidated Statements of Income (Unaudited)**
**(In thousands, except per share data)**

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2023 | 2022 | 2023 | 2022 |
| | Three Months Ended March 31, | | | |
| | Three Months Ended March 31, | | | |

| | Three Months Ended March 31, | | | | | | |
|---|---|---|---|---|---|---|---|
| | 2024 | | | | | 2024 | 2023 |
| Revenue | Revenue | | | | | | |
| Product revenue | | | | | | | |
| Product revenue | | | | | | | |
| Product revenue | Product revenue | $81,125 | $72,616 | $229,339 | $197,753 | | |
| Service revenue | Service revenue | 21,552 | 17,142 | 61,416 | 47,759 | | |
| **Total revenue** | **Total revenue** | 102,677 | 89,758 | 290,755 | 245,512 | | |
| **Cost of Sales** | **Cost of Sales** | | | | | | |
| **Cost of Sales** | | | | | | | |
| **Cost of Sales** | | | | | | | |
| Cost of product sales | | | | | | | |
| Cost of product sales | | | | | | | |
| Cost of product sales | Cost of product sales | 51,876 | 47,225 | 143,613 | 129,646 | | |
| Cost of service | Cost of service | 9,272 | 6,767 | 25,660 | 19,400 | | |
| **Total cost of sales** | **Total cost of sales** | 61,148 | 53,992 | 169,273 | 149,046 | | |
| **Gross Margin** | **Gross Margin** | 41,529 | 35,766 | 121,482 | 96,466 | | |
| **Operating Expenses** | **Operating Expenses** | | | | | | |
| **Operating Expenses** | | | | | | | |
| **Operating Expenses** | | | | | | | |
| Sales and marketing | | | | | | | |
| Sales and marketing | | | | | | | |
| Sales and marketing | Sales and marketing | 7,730 | 6,297 | 22,554 | 18,515 | | |
| General and administrative | General and administrative | 16,170 | 12,162 | 46,180 | 34,859 | | |
| **Total operating expenses** | **Total operating expenses** | 23,900 | 18,459 | 68,734 | 53,374 | | |
| **Operating Income** | **Operating Income** | 17,629 | 17,307 | 52,748 | 43,092 | | |
| **Operating Income** | | | | | | | |
| **Operating Income** | | | | | | | |
| Interest expense | Interest expense | 85 | 391 | 946 | 933 | | |
| Foreign currency exchange loss | | 398 | 372 | 419 | 833 | | |
| Interest expense | | | | | | | |
| Interest expense | | | | | | | |
| Foreign currency exchange loss (gain) | | | | | | | |
| **Income before income taxes** | | | | | | | |
| **Income before income taxes** | | | | | | | |
| **Income before income taxes** | **Income before income taxes** | 17,146 | 16,544 | 51,383 | 41,326 | | |

| | | | | | |
|---|---|---|---|---|---|
| Income tax expense | Income tax expense | 3,490 | 3,226 | 10,553 | 8,302 |
| **Net income** | **Net income** | $13,656 | $13,318 | $ 40,830 | $ 33,024 |
| **Earnings per share** | **Earnings per share** | | | | |
| **Earnings per share** | | | | | |
| **Earnings per share** | | | | | |
| **Basic** | | | | | |
| **Basic** | | | | | |
| **Basic** | **Basic** | $ 0.49 | $ 0.48 | $ 1.48 | $ 1.20 |
| **Diluted** | **Diluted** | $ 0.49 | $ 0.48 | $ 1.48 | $ 1.20 |
| **Weighted Average Number of Common Shares** | **Weighted Average Number of Common Shares** | | | | |
| **Basic** | **Basic** | 27,623 | 27,616 | 27,620 | 27,614 |
| **Basic** | | | | | |
| **Basic** | | | | | |
| **Diluted** | **Diluted** | 27,644 | 27,620 | 27,634 | 27,615 |

See notes to condensed consolidated financial statements.

**XPEL, INC.**

**Condensed Consolidated Statements of Comprehensive Income (Unaudited)**
**(In thousands)**

| | | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|---|
| | | **2023** | **2022** | **2023** | **2022** |
| | | **Three Months Ended March 31,** | | | |
| | | **Three Months Ended March 31,** | | | |
| | | **Three Months Ended March 31,** | | | |
| | **2024** | | | **2024** | **2023** |
| **Other comprehensive income** | **Other comprehensive income** | | | | |
| Net income | | | | | |
| Net income | | | | | |
| Net income | Net income | $13,656 | $13,318 | $40,830 | $33,024 |
| Foreign currency translation | Foreign currency translation | (731) | (1,551) | 24 | (2,821) |
| **Total comprehensive income** | **Total comprehensive income** | $12,926 | $11,767 | $40,854 | $30,203 |

See notes to condensed consolidated financial statements.

**XPEL, INC.**

**Condensed Consolidated Statements of Changes in Stockholders' Equity (Unaudited)**
**(In thousands)**

**Stockholders' Equity - Three Months Ended September 30**

| | Common Stock | | Additional Paid-in-Capital | Retained Earnings | Accumulated Other Comprehensive Income (Loss) | Total Stockholders' Equity |
|---|---|---|---|---|---|---|
| | Shares | Amount | | | | |
| **Balance as of June 30, 2022** | 27,613 | $ 28 | $ 10,760 | $ 94,149 | $ (1,860) | $ 103,077 |
| Net income | — | — | — | 13,318 | — | 13,318 |
| Foreign currency translation | — | — | — | — | (1,551) | (1,551) |
| Stock-based compensation | 3 | — | 109 | — | — | 109 |
| **Balance as of September 30, 2022** | 27,616 | 28 | 10,869 | 107,467 | (3,411) | 114,953 |
| **Balance as of June 30, 2023** | 27,620 | 28 | 11,730 | 142,998 | (1,448) | 153,308 |
| Net income | — | — | — | 13,656 | — | 13,656 |
| Foreign currency translation | — | — | — | — | (731) | (731) |
| Stock-based compensation | 9 | — | 320 | — | — | 320 |
| **Balance as of September 30, 2023** | 27,629 | $ 28 | $ 12,050 | $ 156,654 | $ (2,179) | $ 166,553 |

**Stockholders' Equity - Nine Months Ended September 30**

| | Common Stock | | Additional Paid-in-Capital | Retained Earnings | Accumulated Other Comprehensive Income (Loss) | Total Stockholders' Equity |
|---|---|---|---|---|---|---|
| | Shares | Amount | | | | |
| **Balance as of December 31, 2021** | 27,613 | $ 28 | $ 10,581 | $ 74,443 | $ (590) | $ 84,462 |
| Net income | — | — | — | 33,024 | — | 33,024 |
| Foreign currency translation | — | — | — | — | (2,821) | (2,821) |
| Stock-based compensation | 3 | — | 288 | — | — | 288 |
| **Balance as of September 30, 2022** | 27,616 | 28 | 10,869 | 107,467 | (3,411) | 114,953 |

**Stockholders' Equity - Three Months Ended March 31**

**Stockholders' Equity - Three Months Ended March 31**

| | Common Stock | | Additional Paid-in-Capital | Retained Earnings | Accumulated Other Comprehensive Loss | Total Stockholders' Equity |
|---|---|---|---|---|---|---|
| | Shares | | | | | |
| **Balance as of December 31, 2022** | | | | | | |
| **Balance as of December 31, 2022** | | | | | | |
| **Balance as of December 31, 2022** **Balance as of December 31, 2022** | 27,616 | 28 | 11,073 | 115,824 | (2,203) | 124,722 |
| Net income Net income | — | — | — | 40,830 | — | 40,830 |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| Foreign currency translation | Foreign currency translation | — | — | — | — | 24 | 24 |
| Stock-based compensation | Stock-based compensation | 13 | — | 977 | — | — | 977 |
| **Balance as of September 30, 2023** | | 27,629 | $ 28 | $ 12,050 | $ 156,654 | $ (2,179) | $ 166,553 |
| **Balance as of March 31, 2023** | | | | | | | |
| **Balance as of December 31, 2023** | | | | | | | |
| **Balance as of December 31, 2023** | | | | | | | |
| **Balance as of December 31, 2023** | | | | | | | |
| Net income | | | | | | | |
| Foreign currency translation | | | | | | | |
| Stock-based compensation | | | | | | | |
| **Balance as of March 31, 2024** | | | | | | | |

See notes to condensed consolidated financial statements.

**XPEL, INC.**

**Condensed Consolidated Statements of Cash Flows (Unaudited)**
**(In thousands)**

| | Three Months Ended March 31, | Three Months Ended March 31, | |
|---|---|---|---|
| | 2024 | 2024 | 2023 |
| **Cash flows from operating activities** | | | |
| Net income | | | |
| Net income | | | |
| Net income | | | |
| Adjustments to reconcile net income to net cash (used in) provided by operating activities: | | | |
| Depreciation of property, plant and equipment | | | |
| Depreciation of property, plant and equipment | | | |
| Depreciation of property, plant and equipment | | | |
| Amortization of intangible assets | | | |
| Gain on sale of property and equipment | | | |
| Stock compensation | | | |

Provision for credit losses

Deferred income tax

| | | Nine Months Ended September 30, 2023 | |
|---|---|---|---|
| Changes in assets and liabilities: | | | |
| | | 2023 | 2022 |
| **Cash flows from operating activities** | | | |
| Net income | | $ 40,830 | $ 33,024 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | | |
| Depreciation of property, plant and equipment | | 3,229 | 2,486 |
| Amortization of intangible assets | | 3,660 | 3,248 |
| Gain on sale of property and equipment, net | | (11) | (10) |
| Stock-based compensation | | 1,144 | 317 |
| Bad debt expense | | 216 | 350 |
| Deferred income taxes | | (844) | 7 |
| Accretion on notes payable | | — | 6 |
| Changes in assets and liabilities: | | | |
| Changes in assets and liabilities: | Changes in assets and liabilities: | | |
| Accounts receivable | Accounts receivable | (9,483) | (5,899) |
| Accounts receivable | | | |
| Accounts receivable | | | |
| Inventory, net | Inventory, net | (11,583) | (18,423) |
| Prepaid expenses and other assets | | (7,288) | (3,982) |
| Income tax receivable and payable | | 320 | 1,077 |
| Prepaid expenses and other current assets | | | |
| Income taxes receivable and payable | | | |
| Accounts payable and accrued liabilities | Accounts payable and accrued liabilities | 18,311 | (2,505) |
| **Net cash provided by operating activities** | | 38,501 | 9,696 |
| Accounts payable and accrued liabilities | | | |
| Accounts payable and accrued liabilities | | | |
| **Net cash (used in) provided by operating activities** | | | |

| | | | |
|---|---|---|---|
| **Net cash (used in) provided by operating activities** | | | |
| **Net cash (used in) provided by operating activities** | | | |
| **Cash flows used in investing activities** | **Cash flows used in investing activities** | | |
| Purchase of property, plant and equipment | Purchase of property, plant and equipment | (4,741) | (5,534) |
| Purchase of property, plant and equipment | | | |
| Purchase of property, plant and equipment | | | |
| Proceeds from sale of property and equipment | Proceeds from sale of property and equipment | 20 | 66 |
| Business acquisitions, net of cash acquired | | (4,697) | (2,993) |
| Acquisition of a business, net of cash acquired | | | |
| Development of intangible assets | Development of intangible assets | (798) | (1,368) |
| **Net cash used in investing activities** | **Net cash used in investing activities** | (10,216) | (9,829) |
| **Cash flows from financing activities** | **Cash flows from financing activities** | | |
| Net (repayments of) borrowings on revolving credit agreement | | (26,000) | 1,000 |
| Restricted stock withholding taxes paid in lieu of issued shares | | (167) | (30) |
| Net borrowings on revolving credit agreement | | | |
| Net borrowings on revolving credit agreement | | | |
| Net borrowings on revolving credit agreement | | | |
| Repayments of notes payable | Repayments of notes payable | (77) | (304) |
| **Net cash (used in) provided by financing activities** | | (26,244) | 666 |
| **Net cash provided by financing activities** | | | |
| **Net cash provided by financing activities** | | | |
| **Net cash provided by financing activities** | | | |

| | | | |
|---|---|---|---|
| Net change in cash and cash equivalents | Net change in cash and cash equivalents | 2,041 | 533 |
| Foreign exchange impact on cash and cash equivalents | Foreign exchange impact on cash and cash equivalents | 277 | 68 |
| Increase in cash and cash equivalents during the period | | 2,318 | 601 |
| (Decrease)/Increase in cash and cash equivalents during the period | | | |
| Cash and cash equivalents at beginning of period | Cash and cash equivalents at beginning of period | 8,056 | 9,644 |
| Cash and cash equivalents at end of period | Cash and cash equivalents at end of period | $ 10,374 | $ 10,245 |
| Supplemental schedule of non-cash activities | Supplemental schedule of non-cash activities | | |
| Supplemental schedule of non-cash activities | | | |
| Supplemental schedule of non-cash activities | | | |
| Non-cash lease financing | | | |
| Non-cash lease financing | | | |
| Non-cash lease financing | Non-cash lease financing | $ 1,847 | $ 5,209 |
| Issuance of common stock for vested restricted stock units | Issuance of common stock for vested restricted stock units | $ 874 | $ 222 |
| Supplemental cash flow information | Supplemental cash flow information | | |
| Cash paid for income taxes | Cash paid for income taxes | $ 11,144 | $ 7,305 |
| Cash paid for income taxes | | | |
| Cash paid for income taxes | | | |
| Cash paid for interest | Cash paid for interest | $ 1,000 | $ 900 |

See notes to condensed consolidated financial statements.

**XPEL, Inc.**

**Notes to Condensed Consolidated Financial Statements**
**(Unaudited)**

**1. INTERIM FINANCIAL INFORMATION**

The accompanying (a) condensed consolidated balance sheet as of December 31, 2022 December 31, 2023, which has been derived from audited financial statements, and (b) unaudited interim condensed consolidated financial statements as of and for the three and nine months ended September 30, 2023 March 31, 2024 and 2022 2023 have been prepared by XPEL, Inc. (“XPEL” or the “Company”) in accordance with accounting principles generally accepted in the United States of America for interim financial information, pursuant to the rules and regulations of the Securities and Exchange Commission (“SEC”). Pursuant to these rules and regulations, certain financial information and footnote disclosures normally included in the financial statements have been condensed or omitted. However, in the opinion of management, the financial statements include all adjustments, consisting of normal recurring accruals, necessary for a fair presentation of the financial position, results of operations and cash flows of the interim periods presented. Operating results for the interim periods presented are not necessarily indicative of results to be expected for the full year or for any other interim period, due to variability in customer purchasing patterns and seasonal, operating and other factors.

These condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and related notes contained in the Company’s Annual Report on Form 10-K for the year ended December 31, 2023 as filed with the SEC on February 28, 2023 February 28, 2024 (the "Annual Report"). These condensed consolidated financial statements also should be read in conjunction and with the Management's Discussion and Analysis of Financial Condition and Results of Operations section appearing elsewhere in this report. Report.

**2. SIGNIFICANT ACCOUNTING POLICIES**

***Nature of Business*** - The Company is based in San Antonio, Texas and sells, distributes, and installs protective films and coatings, including automotive paint protection film, surface protection film, automotive and architectural window films and ceramic coatings. The Company was incorporated in the state of Nevada, U.S.A. U.S.A in October 2003.

***Basis of Presentation*** - The condensed consolidated financial statements are prepared in conformity with United States Generally Accepted Accounting Principles ("U.S. GAAP") and include the accounts of the Company and its wholly-owned subsidiaries. Intercompany accounts and transactions have been eliminated. The functional currency for the Company is the United States ("U.S.") dollar. Dollar. The assets and liabilities of each of its wholly-owned foreign subsidiaries are translated into U.S dollars using the exchange rate at the end of the balance sheet date. Revenues and expenses are translated at the average exchange rates for the period. Gains and losses from translations are recognized in foreign currency translation included in accumulated other comprehensive loss in the accompanying consolidated balance sheets.

***Segment Reporting -*** Management has concluded that XPEL's Chief Operating Decision Maker our chief operating decision maker (“CODM”) is the Company's Chief Executive Officer. our chief executive officer. The Company’s CODM reviews the entire organization’s consolidated results as a whole on a monthly basis to evaluate performance and make resource allocation decisions. Management views the Company’s operations and manages its business as one operating segment.

***Use of Estimates -*** The preparation of these condensed consolidated financial statements in conformity with U.S. GAAP requires management to make judgments and estimates and form assumptions that affect the reported amounts of assets and liabilities at as of the date of the consolidated financial statements and reported amounts of revenues and expenses during the reporting period. Estimates and underlying assumptions are reviewed on an ongoing basis. Actual outcomes may differ from these estimates under different assumptions and conditions.



***Accounts Receivable -*** Accounts receivable are shown net of an allowance allowances for expected credit losses and doubtful accounts of $0.2 million and $0.2 million as of September 30, 2023 March 31, 2024 and December 31, 2022 December 31, 2023, respectively. The Company evaluates the adequacy of its allowances by analyzing the aging of receivables, customer financial condition, historical collection experience, the value of any collateral and other economic and industry



factors. Actual collections may differ from historical experience, and if economic, business or customer conditions deteriorate significantly, adjustments to these reserves may be required. When the Company becomes aware of factors that indicate a change in a specific customer’s ability to meet its financial obligations, the Company records a specific reserve for credit losses. The Company had no significant accounts receivable concentration as of September 30, 2023 or December 31, 2022.

***Provisions and Warranties -*** We provide a warranty on the Company's our products. Liability under the warranty policy is based on a review of historical warranty claims. Adjustments are made to the accruals based on actual as claims data. The Company's and data experience warrant. Our liability for warranties as of September 30, 2023 March 31, 2024 and December 31, 2022 December 31, 2023 was $0.4 million $0.5 million and $0.2 million $0.4 million, respectively. The following tables present a summary of the

Company's our accrued warranty liabilities for the nine three months ended September 30, 2023 March 31, 2024 and the twelve months ended December 31, 2022 (dollars in December 31, 2023 (in thousands):

| | | 2024 |
|---|---|---|
| Warranty liability, January 1 | $ | 422 |
| Warranties assumed in period | | 412 |
| Payments | | (334) |
| Warranty liability, March 31 | $ | 500 |

| | | 2023 |
|---|---|---|
| Warranty liability, January 1 | $ | 234 |
| Warranties assumed in period | | 446 768 |
| Payments | | (306) (580) |
| Warranty liability, September 30 | $ | 374 |

| | | 2022 |
|---|---|---|
| Warranty liability, January 1 | $ | 75 |
| Warranties assumed in period | | 624 |
| Payments | | (465) |
| Warranty liability, December 31 | $ | 234 422 |

Recently Adopted

**Recent Accounting Pronouncements Issued and Not Yet Adopted**

In June 2016, November 2023, the FASB issued ASU 2016-13, “Financial Instruments — Measurement 2023-07, “Improvements to Reportable Segment Disclosures” which makes certain updates to segment reporting. This standard will become effective for our annual reporting for the year beginning January 1, 2024 and for our interim reporting for interim periods beginning January 1, 2025. We do not anticipate implementation of Credit Losses this standard will have a material impact on Financial Instruments” our financial statements.

In December 2023, the FASB issued ASU 2023-09, “Improvements to Income Tax Disclosures”, which requires measurement and recognition makes certain updates to income tax disclosures. This standard becomes effective for our fiscal year beginning January 1, 2025. We do not anticipate implementation of expected credit losses for financial assets held. We adopted this pronouncement effective January 1, 2023 without standard will have a material impact to on our financial statements.



**3. REVENUE**

***Revenue recognition***

The Company recognizes revenue when it satisfies a performance obligation by transferring control of the promised goods and services to a customer, in an amount that reflects the consideration that it expects to receive in exchange for those goods or services. This is achieved through applying the following five-step model:

- Identification of the contract, or contracts, with a customer
- Identification of the performance obligations in the contract

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**(Unaudited)**

- Determination of the transaction price
- Allocation of the transaction price to the performance obligations in the contract
- Recognition of revenue when, or as, the Company satisfies a performance obligation





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The Company generates substantially all of its revenue from contracts with customers, whether formal or implied. Sales taxes collected from customers are remitted to the appropriate taxing jurisdictions and are excluded from sales revenue as the Company considers itself a pass-through conduit for collecting and remitting sales taxes, with the exception of taxes assessed during the procurement process of select inventories. Shipping and handling costs are included in cost of sales.

Revenues Revenue from product and services sales are is recognized when control of the goods, and services or benefit of the service, is transferred furnished to the customer, which customer. This occurs at a point in time, typically upon shipment to the customer or completion of the service. This standard applies to all contracts with customers, except for contracts that are within the scope of other standards, such as leases, insurance, collaboration arrangements and financial instruments.

Based upon the nature of the products the Company sells, its customers have limited rights of return and these rights those present are immaterial. Discounts provided by the Company to customers at the time of sale are recognized as a reduction in sales at as the time of the sale. products are sold.

Warranty obligations associated with the sale of the Company's our products are assurance-type warranties that are a guarantee of the product's intended functionality and, therefore, do not represent a distinct performance obligation within the context of the contract. Warranty expense is included in cost of sales.

We apply a practical expedient to expense direct costs of obtaining a contract when incurred because the amortization period would have been be one year or less.

Under its contracts with customers, the Company stands ready to deliver product upon receipt of a customer's purchase order. Accordingly, the Company has no performance obligations under its contracts until its customers submit a purchase order. The Company does not enter into commitments to provide goods or services that have terms greater than one year. In limited cases, the Company requires does require payment in advance of shipping product. Typically, product is shipped within a few days after prepayment is received. These prepayments are recorded as contract liabilities on the condensed consolidated balance sheet and are included in accounts payable and accrued liabilities (Note 9). As the performance obligation is part of a contract that has an original expected duration of less than one year, the Company has applied the practical expedient under the Accounting Standards Codification Topic 606 ("ASC 606 606") to omit disclosures regarding remaining performance obligations.

When the Company transfers goods or provides services to a customer, payment is due, subject to normal terms, and is not conditional on anything other than the passage of time. Typical payment terms range from due upon receipt to due within 30 days, depending on the type of customer and relationship. At contract inception, the Company expects that the period of time between the transfer of goods to the

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**Notes to Condensed Consolidated Financial Statements**
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customer and when the customer pays for those goods will be less than one year, which is consistent with the Company's standard payment terms. Accordingly, the Company has elected the practical expedient under ASC 606 to not adjust for the effects of a significant financing component. As such, these amounts are recorded as receivables and not contract assets.

The following table summarizes transactions within contract liabilities for the three and nine months ended September 30, 2023 (dollars in March 31, 2024 (in thousands):

**XPEL, Inc.**
**Notes to Condensed Consolidated Financial Statements**
**(Unaudited)**

| | | |
|---|---|---|
| Balance, December 31, 2022 December 31, 2023 | $ | 261 761 |
| Revenue recognized related to payments included in the December 31, 2022 December 31, 2023 balance | | (206) (696) |
| Payments received for which performance obligations have not been satisfied | | 2,791 276 |
| Effect of foreign currency translation | | 1 |
| Balance, March 31, 2023 | | 2,847 |
| Revenue recognized related to payments included in the March 31, 2023 balance | | (2,771) |
| Payments received for which performance obligations have not been satisfied | | 3,955 |
| Effect of foreign currency translation | | (4) |
| Balance, June 30, 2023 | | 4,027 |
| Revenue recognized related to payments included in the June 30, 2023 balance | | (3,973) |
| Payments received for which performance obligations have not been satisfied | | 5,575 |
| Effect of foreign currency translation | | (4) |
| Balance, September 30, 2023 March 31, 2024 | $ | 5,625 337 |

The table below sets forth the disaggregation of revenue by product category for the periods indicated below (dollars in (in thousands):

| | | Three Months Ended September 30, 2023 | Three Months Ended September 30, 2022 | Nine Months Ended September 30, 2023 | Nine Months Ended September 30, 2022 |
|---|---|---|---|---|---|
| | | Three Months Ended March 31, | | | |
| | | Three Months Ended March 31, | | | |
| | | Three Months Ended March 31, | | | |
| | | 2024 | | | |
| | | 2024 | | | |
| | | 2024 | | | |
| **Product Revenue** | | | | | |
| **Product Revenue** | | | | | |
| **Product Revenue** | **Product Revenue** | | | | |
| Paint protection film | Paint protection film | $ 58,977 | $ 54,230 | $ 165,016 | $ 146,465 |
| Paint protection film | | | | | |
| Paint protection film | | | | | |
| Window film | | | | | |
| Window film | | | | | |
| Window film | Window film | 18,762 | 15,391 | 54,055 | 42,711 |
| Other | Other | 3,386 | 2,995 | 10,268 | 8,577 |
| Other | | | | | |
| Other | | | | | |
| **Total** | | | | | |
| **Total** | | | | | |
| **Total** | **Total** | $ 81,125 | $ 72,616 | $ 229,339 | $ 197,753 |
| **Service Revenue** | **Service Revenue** | | | | |
| **Service Revenue** | | | | | |
| **Service Revenue** | | | | | |
| Software | | | | | |
| Software | | | | | |
| Software | Software | $ 1,652 | $ 1,351 | $ 4,656 | $ 3,804 |
| Cutbank credits | Cutbank credits | 4,524 | 4,352 | 13,253 | 11,459 |
| Cutbank credits | | | | | |
| Cutbank credits | | | | | |
| Installation labor | | | | | |
| Installation labor | | | | | |
| Installation labor | Installation labor | 14,852 | 11,067 | 41,781 | 31,371 |
| Training and other | Training and other | 524 | 372 | 1,726 | 1,125 |
| Training and other | | | | | |
| Training and other | | | | | |
| **Total** | | | | | |
| **Total** | | | | | |
| **Total** | **Total** | $ 21,552 | $ 17,142 | $ 61,416 | $ 47,759 |
| **Total** | **Total** | $ 102,677 | $ 89,758 | $ 290,755 | $ 245,512 |
| **Total** | | | | | |
| **Total** | | | | | |

Because many of the Company's our international customers require us to ship their orders to freight forwarders located in the United States, we cannot be certain about the ultimate destination of the product. The following table represents the Company's our estimate of sales by geographic regions based on the Company's our understanding of ultimate product destination based on customer interactions, customer locations and other factors (dollars in thousands):

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2023 | 2022 | 2023 | 2022 |
| United States | $ 59,002 | $ 51,522 | $ 169,228 | $ 142,275 |
| Canada | 11,471 | 11,046 | 31,914 | 29,773 |
| China | 10,242 | 11,009 | 24,992 | 27,772 |
| Continental Europe | 8,705 | 6,065 | 26,354 | 18,671 |
| Middle East/Africa | 3,909 | 3,322 | 11,514 | 8,025 |
| United Kingdom | 3,499 | 2,482 | 10,220 | 7,505 |
| Asia Pacific | 3,233 | 2,540 | 9,192 | 6,549 |
| Latin America | 2,325 | 1,468 | 6,617 | 4,033 |
| Other | 291 | 304 | 724 | 909 |
| **Total** | $ 102,677 | $ 89,758 | $ 290,755 | $ 245,512 |

ultimate product destination based on customer interactions, customer locations and other factors (in thousands):

XPEL's largest customer accounted for 10.0% and 12.3% of the Company's net sales during the three months ended September 30, 2023 and 2022, respectively and 8.6% and 11.3% of the Company's net sales during the nine months ended September 30, 2023 and 2022, respectively.

| | Three Months Ended March 31, | |
|---|---|---|
| | 2024 | 2023 |
| United States | $ 52,048 | $ 51,077 |
| China | 1,450 | 6,647 |
| Canada | 11,080 | 8,592 |
| Continental Europe | 10,216 | 7,960 |
| United Kingdom | 3,486 | 3,091 |
| Middle East/Africa | 5,143 | 3,496 |
| Asia Pacific | 3,750 | 2,645 |
| Latin America | 2,931 | 2,173 |
| Other | — | 161 |
| **Total** | $ 90,104 | $ 85,842 |

**4. PROPERTY AND EQUIPMENT, NET**

Property and equipment consists of the following (dollars in (in thousands):

| | | September 30, 2023 | December 31, 2022 | |
|---|---|---|---|---|
| | | March 31, 2024 | | |
| | | March 31, 2024 | | |
| | | March 31, 2024 | | December 31, 2023 |
| Furniture and fixtures | Furniture and fixtures | $ 3,189 | $ 2,667 | |
| Computer equipment | Computer equipment | 4,392 | 3,455 | |
| Computer equipment | | | | |

| | | | |
|---|---|---|---|
| Computer equipment | | | |
| Vehicles | | | |
| Vehicles | | | |
| Vehicles | Vehicles | 903 | 838 |
| Equipment | Equipment | 5,279 | 4,728 |
| Equipment | | | |
| Equipment | | | |
| Leasehold improvements | | | |
| Leasehold improvements | | | |
| Leasehold improvements | Leasehold improvements | 10,276 | 7,081 |
| Plotters | Plotters | 3,750 | 2,980 |
| Plotters | | | |
| Plotters | | | |
| Construction in Progress | | | |
| Construction in Progress | | | |
| Construction in Progress | Construction in Progress | 351 | 1,745 |
| Total property and equipment | Total property and equipment | 28,140 | 23,494 |
| Total property and equipment | | | |
| Total property and equipment | | | |
| Less: accumulated depreciation | | | |
| Less: accumulated depreciation | | | |
| Less: accumulated depreciation | Less: accumulated depreciation | 12,450 | 9,291 |
| Property and equipment, net | Property and equipment, net | $ 15,690 | $ 14,203 |
| Property and equipment, net | | | |
| Property and equipment, net | | | |

Depreciation expense for the three months ended September 30, 2023 March 31, 2024 and 2022 2023 was $1.2 million $1.3 million and $0.9 million, respectively. For the nine months ended September 30, 2023 and 2022, depreciation expense was $3.2 million and $2.5 million $1.0 million, respectively.

**XPEL, Inc.**
**Notes to Condensed Consolidated Financial Statements**
**(Unaudited)**

### 5. INTANGIBLE ASSETS, NET

Intangible assets consist consists of the following (dollars in (in thousands):

| | September 30, 2023 | December 31, 2022 |
|---|---|---|
| | **March 31, 2024** | |
| | **March 31, 2024** | |

| | | March 31, 2024 | December 31, 2023 |
|---|---|---|---|
| Trademarks | Trademarks | $ 823 | $ 686 |
| Software | Software | 5,472 | 4,822 |
| Trade names | | 1,609 | 1,451 |
| Trade name | | | |
| Contractual and customer relationships | Contractual and customer relationships | 34,724 | 31,871 |
| Non-compete | Non-compete | 439 | 440 |
| Other | Other | 498 | 497 |
| Total cost | | 43,565 | 39,767 |
| Total at cost | | | |
| Less: Accumulated amortization | Less: Accumulated amortization | 14,104 | 10,473 |
| Intangible assets, net | Intangible assets, net | $ 29,461 | $ 29,294 |

Amortization expense for the three months ended September 30, 2023 March 31, 2024 and 2022 2023 was $1.3 million $1.4 million and $1.1 million $1.2 million, respectively. For the nine months ended September 30, 2023 and 2022, amortization expense was $3.7 million and $3.2 million, respectively.

## 6. GOODWILL

The following table summarizes goodwill transactions for the nine three months ended September 30, 2023 March 31, 2024 and 2022 (dollars in the twelve months ended December 31, 2023 (in thousands):

| | | 2023 |
|---|---|---|
| Balance at December 31, 2022 | $ | 26,763 |
| Additions and purchase price allocation adjustments | | 1,875 10,422 |
| Foreign Exchange exchange | | (36) 276 |
| Balance at September 30, 2023 December 31, 2023 | $ | 28,602 37,461 |

| | | 2022 2024 |
|---|---|---|
| Balance at December 31, 2021 December 31, 2023 | $ | 25,655 37,461 |
| Additions and purchase price allocation adjustments | | 1,826 556 |
| Foreign Exchange exchange | | (718) (353) |
| Balance at December 31, 2022 March 31, 2024 | $ | 26,763 37,664 |

The Company Purchase price accounting for acquisitions completed one acquisition during the year ended December 31, 2023 has not yet been finalized pending the completion of valuation models related to the identified intangible assets included in the nine months ended September 30, 2023. Refer to Note 13 for discussion of this acquisition.

these transactions.

**XPEL, Inc.**
**Notes to Condensed Consolidated Financial Statements**
**(Unaudited)**

## 7. INVENTORIES

The components of inventory are summarized as follows (dollars in (in thousands):

| | September 30, 2023 | December 31, 2022 |
|---|---|---|

| | March 31, 2024 | | | March 31, 2024 | December 31, 2023 |
|---|---|---|---|---|---|
| Raw materials | Raw materials | $ 18,741 | $ 10,416 | | |
| Work in process | Work in process | 3,617 | 6,756 | | |
| Finished goods | Finished goods | 70,100 | 63,403 | | |
| | | $ 92,458 | $ 80,575 | | |
| | $ | | | | |

**8. DEBT**

**REVOLVING FACILITIES**

The Company has a revolving credit facility providing for secured revolving loans and letters of credit in an aggregate amount of up to $125.0 million $125 million, which is subject to the terms of a credit agreement dated April 6, 2023 (the "Credit Agreement"). As of September 30, 2023, no balance was outstanding under this agreement. As of December 31, 2022 March 31, 2024 and December 31, 2023, the Company had an outstanding balance balances of $26.0 million $24 million and $19 million under a prior credit this agreement, which was subsequently repaid and terminated. respectively.

Borrowings under the Credit Agreement bear interest, at XPEL's option, at a rate equal to either (a) Base Rate or (b) Adjusted Term SOFR. In addition to the applicable interest rate, the Credit Agreement includes a commitment fee ranging from 0.20% to 0.25% per annum for the unused portion of the aggregate commitment and an applicable margin ranging from 0.00% to 0.50% for Base Rate Loans and 1.00% to 1.50% for Adjusted Term SOFR Loans. At September 30, 2023 March 31, 2024, these rates were 8.5% and 6.3% 6.4%, respectively. Both the margin applicable to the interest rate and the commitment fee are dependent on XPEL's Consolidated Total Leverage Ratio. The Credit Agreement's maturity date is April 6, 2026. All capitalized terms in this description of the credit facility that are not otherwise defined in this report have the meaning assigned to them in the Credit Agreement.

Obligations under the Credit Agreement are secured by a first priority perfected security interest, subject to certain permitted encumbrances, in all of XPEL's material property and assets.

The terms of the Credit Agreement include certain affirmative and negative covenants that require, among other things, XPEL to maintain legal existence and remain in good standing, comply with applicable laws, maintain accounting records, deliver financial statements and certifications on a timely basis, pay taxes as required by law, and maintain insurance coverage, as well as to forgo certain specified future activities that might otherwise encumber XPEL and certain customary covenants. The Credit Agreement provides for two financial covenants, as follows.

As of the last day of each fiscal quarter:

1. XPEL shall not allow its Consolidated Total Leverage Ratio to exceed 3.50 to 1.00, and
2. XPEL shall not allow its Consolidated Interest Coverage Ratio to be less than 3.00 to 1.00. 1.00

The Company also has a CAD $4.5 million (approximately $3.3 million as of September 30, 2023) revolving credit facility through a financial institution in HSBC Bank Canada, as and is maintained by XPEL Canada Corp., a wholly-owned subsidiary of XPEL. This Canadian facility is utilized to fund the Company's working capital needs in Canada. This facility bears interest at HSBC Canada Bank's prime rate plus 0.25% per annum and is guaranteed by the parent company. As of March 31, 2024 and December 31, 2023, no balance was outstanding on this line of credit.



and is guaranteed by the parent company. As of September 30, 2023 March 31, 2024 and December 31, 2022, no balance was outstanding on this line of credit.

As of September 30, 2023 and December 31, 2022 December 31, 2023, the Company was in compliance with all debt covenants.

**9. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES**

The following table presents significant accounts payable and accrued liability balances as of the periods ending (dollars in (in thousands):

| | September 30, 2023 | December 31, 2022 |
|---|---|---|

| March 31, 2024 | March 31, 2024 | December 31, 2023 |
|---|---|---|

| | | | |
|---|---|---|---|
| Trade payables | Trade payables | $ 30,419 | $ 16,689 |
| Payroll liabilities | Payroll liabilities | 3,236 | 3,596 |
| Contract liabilities | Contract liabilities | 5,625 | 261 |
| Acquisition holdback payments | Acquisition holdback payments | 394 | 191 |
| Other liabilities | Other liabilities | 2,385 | 2,233 |
| | | $ 42,059 | $ 22,970 |
| | $ | | |

**10. FAIR VALUE MEASUREMENTS**

ASC 820 prioritizes the inputs to valuation techniques used to measure fair value into the following hierarchy:

Level 1 – Observable inputs such as quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2 – Inputs other than the quoted prices in active markets that are observable either directly or indirectly, including: quoted prices for similar assets and liabilities in active markets; quoted prices for identical or similar assets and liabilities in markets that are not active or other inputs that are observable or can be corroborated by observable market data.

Level 3 – Unobservable inputs that are supported by little or no market data and require the reporting entity to develop its own assumptions.

Financial instruments include cash and cash equivalents, accounts receivable, accounts payable, our line of credit, and long-term debt. The carrying amounts of cash and cash equivalents, accounts receivable, accounts payable, our line of credit, and short-term borrowings approximate fair value because of the near-term maturities of these financial instruments. The carrying value of the Company's notes payable approximates fair value due to the relatively short-term nature and interest rates of the notes. The carrying value of the Company's long-term debt approximates fair value due to the interest rates being market rates.

The estimated fair value of debt is based on market quotes for instruments with similar terms and remaining maturities.

The Company has contingent liabilities related to future internal performance milestones. The fair value of these liabilities was determined using a Monte Carlo Simulation based on the probability and



timing of certain future payments under these arrangements. These liabilities are accounted for as Level 3 liabilities within the fair value hierarchy.

**XPEL, Inc.**
**Notes to Condensed Consolidated Financial Statements**
**(Unaudited)**

Liabilities measured at fair value on a recurring basis as of the dates noted below are as follows (dollars in (in thousands):

| | | | | | |
|---|---|---|---|---|---|
| | | **September 30, 2023** | **December 31, 2022** | | |
| | **March 31, 2024** | | | **March 31, 2024** | **December 31, 2023** |
| Level 3: | Level 3: | | | | |
| Contingent Liabilities | Contingent Liabilities | $ 1,085 | $ 955 | | |
| Contingent Liabilities | | | | | |
| Contingent Liabilities | | | | | |

Increases Decreases in the fair value of level 3 contingent liabilities are reflected in general and administrative expenses in the Consolidated Statements of Income for the three and nine months ended September 30, 2023 March 31, 2024.

### 11. COMMITMENTS AND CONTINGENCIES

In the ordinary course of business activities, the Company may be contingently liable for litigation and claims with customers, suppliers and former employees. Management believes that adequate provisions have been recorded in the accounts where required. Management also has determined that the likelihood of any litigation and claims having a material impact on our results of operations, cash flows or financial position is remote.

### 12. EARNINGS PER SHARE

We compute basic earnings per share by dividing net income by the weighted average number of common shares outstanding during the period. Diluted earnings per common share includes effect of granted incremental restricted stock units.

The following table reconciles basic and diluted weighted average shares used in the computation of earnings per share (dollars in thousands) (in thousands except per share values):

| | | Three Months Ended September 30, | | Nine Months Ended September 30, | | | | |
|---|---|---|---|---|---|---|---|---|
| | Three Months Ended March 31, | | | | | | Three Months Ended March 31, | |
| *Numerator* | *Numerator* | 2023 | 2022 | 2023 | 2022 | *Numerator* | 2024 | 2023 |
| Net income | Net income | $ 13,656 | $ 13,318 | $ 40,830 | $ 33,024 | | | |
| *Denominator* | *Denominator* | | | | | | | |
| Weighted average basic shares | | | | | | | | |
| Weighted average basic shares | | | | | | | | |
| Weighted average basic shares | Weighted average basic shares | 27,623 | 27,616 | 27,620 | 27,614 | | | |
| Dilutive effect of restricted stock units | Dilutive effect of restricted stock units | 21 | 4 | 14 | 1 | | | |
| Weighted average diluted shares | Weighted average diluted shares | 27,644 | 27,620 | 27,634 | 27,615 | | | |
| *Earnings per share* | *Earnings per share* | | | | | | | |
| Basic | Basic | $ 0.49 | $ 0.48 | $ 1.48 | $ 1.20 | | | |
| Basic | | | | | | | | |
| Basic | | | | | | | | |
| Diluted | Diluted | $ 0.49 | $ 0.48 | $ 1.48 | $ 1.20 | | | |

### 13. BUSINESS ACQUISITIONS

**XPEL, Inc.**
**Notes to Condensed Consolidated Financial Statements**
**(Unaudited)**

The Company completed the following acquisition during the nine months ended September 30, 2023 (dollars in thousands):

| Acquisition Date | Name and Location | Purchase Price | | Acquisition Type | Acquisition Purpose |
|---|---|---|---|---|---|
| May 1, 2023 | Protective Solutions, Inc. Holliston, Massachusetts, United States | $ | 5,502 | Share Purchase | Market Expansion |

The following table presents the purchase price allocation for this transaction (dollars in thousands).

| | (Unaudited) | | |
|---|---|---|---|
| | Protective Solutions, Inc. | | |
| **Purchase Price** | | | |
| Cash | $ | 5,502 | * |
| | | | |
| **Allocation** | | | |
| Cash | $ | 411 | |
| Accounts receivable | | 206 | |
| Inventory | | 267 | |
| Prepaid and other assets | | 10 | |
| Fixed assets | | 14 | |
| Trade name | | 150 | |
| Customer relationships | | 2,900 | |
| Goodwill | | 1,875 | |
| Accounts payable and accrued liabilities | | (331) | |
| | $ | 5,502 | |

* Of this cash consideration, $0.4 million was held back for settlement six months after the acquisition date, pending the completion of certain contractual obligations.

Acquired intangible assets have a weighted average useful life of 9 years. These intangible assets will be amortized on a straight line basis over that period.

Goodwill from this acquisition is deductible for tax purposes. The goodwill represents the acquired employee knowledge of the various markets, distribution knowledge by the employees of the acquired business, as well as the expected synergies resulting from the acquisition.

Acquisition costs incurred related to this acquisition were immaterial and were included in selling, general and administrative expenses.

The acquired company was consolidated into the Company's financial statements on its acquisition date. Revenue of $1.0 million and $1.6 million from this acquisition has been consolidated into the Company's financial statements for the three and nine months ended September 30, 2023, respectively. Net income of $0.3 million and $0.3 million from this acquisition has been consolidated into the Company's financial statements for the three and nine months ended September 30, 2023, respectively.

The following unaudited consolidated pro forma combined financial information presents the Company's results of operations, including the estimated expenses relating to the amortization of



intangibles purchased, as if this acquisition had occurred on January 1, 2023 and 2022 (dollars in thousands):

| | Nine Months Ended September 30, | | | |
|---|---|---|---|---|
| | 2023 (unaudited) | | 2022 (unaudited) | |
| Revenue | $ | 291,983 | $ | 248,899 |
| Net income | $ | 40,863 | $ | 33,179 |

The unaudited consolidated pro forma combined financial information does not purport to be indicative of the results which would have been obtained had the acquisition been completed as of the beginning of the earliest period presented or of results that may be obtained in the future. In addition, they do not include any benefits that may result from the acquisition due to synergies that may be derived from the elimination of any duplicative costs.

## 14. SUBSEQUENT EVENTS

***Acquisitions of businesses***

On October 1, 2023, we completed the acquisition of a Canadian-based automotive film distribution and installation business serving primarily automotive dealerships. On October 4, 2023, we completed the acquisition of a European-based automotive paint protection film installation company serving two OEMs. The total purchase price for these transactions was approximately $13.4 million. In connection with these acquisitions, we deposited $7.4 million into an escrow account as of September 30, 2023. This deposit is included in prepaid expenses in our September 30, 2023 Condensed Consolidated Balance Sheet.

**Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations**

*This Management's Discussion and Analysis provides material historical and prospective disclosures intended to enable investors and other users to assess the financial condition and results of operations of XPEL, Inc. ("we", "our", "us", "XPEL" ("XPEL" or the "Company"). Statements that are not historical are forward-looking and involve risks and uncertainties discussed under the heading "Forward-Looking Statements" in this report and under "Business," "Risk Factors," "Management's Discussion and Analysis of Financial Condition and Results of Operations" and "Financial Statements and Supplementary Data" in the Annual Report which is available on the SEC's website at www.sec.gov.*

**Forward-Looking Statements**

This quarterly report on Form 10-Q contains not only historical information, but also forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. These forward-looking statements are subject to the safe harbor created by those sections. In addition, the Company or others on the Company's behalf may make forward-looking statements from time to time in oral presentations, including telephone conferences and/or web casts open to the public, in press releases or reports, on the Company's internet web site, or otherwise. All statements other than statements of historical facts included in this report or expressed by the Company orally from time to time that address activities, events, or developments that the Company expects, believes, or anticipates will or may occur in the future are forward-looking statements, including, in particular, the statements about the Company's plans, objectives, strategies, and prospects regarding, among other things, the Company's financial condition, results of operations and business, and the outcome of contingencies, such as legal proceedings. The Company has identified some of these forward-looking statements in this report with words like "believe," "can," "may," "could," "would," "might," "forecast," "possible," "potential," "project," "will," "should," "expect," "intend," "plan," "predict," "anticipate," "estimate," "approximate," "outlook," or "continue" or the negative of these words or other words and terms of similar meaning. The use of future dates is also an indication of a forward-looking statement. Forward-looking statements may be contained in the notes to the Company's condensed consolidated financial statements and elsewhere in this report, including under the heading "Management's Discussion and Analysis of Financial Condition and Results of Operations."

Forward-looking statements are based on current expectations about future events affecting the Company and are subject to uncertainties and factors that affect all businesses operating in a global market as well as matters specific to the Company. These uncertainties and factors are difficult to predict, and many of them are beyond the Company's control. Factors to consider when evaluating these forward-looking statements include, but are not limited to:

- Our business is We are highly dependent on the automotive industry. A prolonged or material contraction in automotive sales and production volumes. volumes could adversely affect our business, results of operations and financial condition.
- We currently rely on one distributor for sales of our products in China.
- A material portion significant percentage of our revenue is generated from our business is in China, which may be an unpredictable a market and that is currently suffering trade tensions associated with the U.S. certain risks.
- We must continue The loss of one or more of our key personnel or our failure to attract and retain and develop key personnel. other highly qualified personnel in the future, could harm our business.
- We A material disruption from our contract manufacturers or suppliers or our inability to obtain a sufficient supply from alternate suppliers could cause us to be impacted by disruptions in supply. unable to meet customer demands or increase our costs.
- Our asset-light business model exposes us to product quality and variable cost risks.
- Our accounting estimates and risk management processes rely on assumptions or models that may prove inaccurate.
- We must maintain an effective system Fluctuations in the cost and availability of internal control over financial reporting raw materials, equipment, labor and transportation could cause manufacturing delays, increase our costs and/or impact our ability to keep stockholder confidence. meet customer demand.
- Our industry is highly competitive.
- Our North American market is currently designed for Harm to our reputation or the public's use reputation of car dealerships to purchase automobiles which may dramatically change. one or more of our products could have an adverse effect on our business.
- Our revenue and operating results may fluctuate, which may make our results difficult to predict and could cause our results to fall short of expectations.
- Technology could render the need for some of our products obsolete.
- Infringement of our intellectual property could impact our ability to compete effectively.
- If changes to our existing products or introduction of new products or services do not meet our customers' expectations or fail to generate revenue, we could lose our customers or fail to generate any revenue from such products or services and our business may be impacted by growing use of ride-sharing or other alternate forms of car ownership. harmed.
- We must be effective in developing new lines of business and new products to maintain growth.
- Any disruptions in depend on our relationships with independent installers and new car dealerships and their ability to sell and service our products. Any disruption in these relationships could harm our sales.
- Our strategy related We may not be able to identify, finance and complete suitable acquisitions and investments, and any completed acquisitions and investments could be unsuccessful or consume significant resources.
- We must maintain may incur material losses and grow our network costs as a result of sales, distribution channels and customer base to be successful.
- We are exposed to a wide range of risks due to the multinational nature of our business.

- We must continue to manage our rapid growth effectively.
- We are subject to claims and litigation in the ordinary course of our business, including product liability and warranty claims.
- We must comply with a broad and complicated regime of domestic and Our failure to satisfy international trade compliance anti-corruption, economic, intellectual property, cybersecurity, data protection regulations, and other regulatory regimes. changes in U.S. government sanctions, could have a material adverse effect on us.
- We may seek to incur substantial indebtedness in the future.
- Our growth may We cannot be dependent certain that additional financing will be available on the availability of capital and funding. reasonable terms when required, or at all.
- Our Common Stock variable rate indebtedness exposes us to interest rate volatility, which could decline or be downgraded at any time.
- Our stock price has been, and may continue cause our debt service obligations to be, volatile. increase significantly.
- We may issue additional equity securities that may affect the priority of our Common Stock.
- We do not currently pay dividends on our Common Stock.
- Shares eligible for future sale may depress our stock price.
- Anti-takeover provisions could make a third party acquisition of our Company difficult.
- Our directors and officers have substantial control over us.
- Our bylaws may limit investors' ability to obtain a favorable judicial forum for disputes.
- The COVID-19 pandemic could materially affect our business.
- Our business faces unpredictable General global economic and business conditions including the risk affect demand for our products.
- A public health crisis could impact our business
- Economic, political and market conditions can adversely affect our business, financial condition and results of inflation in various markets. operations

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We believe the items we have outlined above are important factors that could cause estimates included in our financial statements to differ materially from actual results and those expressed in a forward-looking statement made in this report or elsewhere by us or on our behalf. We have discussed these factors in more detail in in the Annual Report. These factors are not necessarily all of the factors that could affect us. Unpredictable or unanticipated factors we have not discussed in this report could also have material adverse effects on actual results. We do not intend to update our description of important factors each time a potential important factor arises, except as required by applicable securities laws and regulations. We advise our stockholders shareholders that they should (1) be aware that factors not referred to above could affect the accuracy of our forward-looking statements and (2) use caution when considering our forward-looking statements.

**Company Overview**

Founded in 1997 The Company is a leading provider of protective films and incorporated in Nevada in 2003, XPEL has grown from an coatings, including automotive product design software company to paint protection film, surface protection film, automotive and commercial/residential window films, and ceramic coatings with a global provider footprint, a network of after-market automotive trained installers and proprietary DAP software. The Company is dedicated to exceeding customer expectations by providing high-quality products, including automotive surface leading customer service, expert technical support and paint protection, headlight protection, and automotive window films, as well as a provider of complementary proprietary software. In 2018, we expanded our product offerings to include architectural window film (both commercial and residential) and security film protection for commercial and residential uses, and in 2019 we further expanded our product line to include automotive ceramic coatings. world-class training.

XPEL

The Company began as a software company designing vehicle patterns used to produce cut-to-fit protective film for the painted surfaces of automobiles. In 2007, we began selling automotive surface and paint protection film products to complement our software business. In 2011, we introduced our ULTIMATE protective film product line which, at the time was the industry's first protective film with self-healing properties. The ULTIMATE technology allows the protective film to better absorb the impacts from rocks or and other road debris, thereby fully protecting the painted surface of a vehicle. The film is described as "self-healing" due to its ability to return to its original state after damage from surface scratches. The launch of the ULTIMATE product catapulted XPEL the Company into several years of strong revenue growth.

Our over-arching strategic philosophy stems from our view that being closer to the end customer in terms of our channel strategy affords us a better opportunity to efficiently introduce new products and deliver tremendous value which, in turn, drives more revenue growth for the Company. Consistent with this philosophy, we have executed on several strategic initiatives including:

2014

- We began our international expansion by establishing an office in the United Kingdom.

2015

- We acquired Parasol Canada, a distributor of our products in Canada.

2016

- We opened our XPEL Netherlands office and established our European headquarters

2017

- We continued our international expansion with the acquisition of Protex Canada Corp., or Protex Canada, a leading franchisor of automotive protective film franchises serving Canada

- We opened our XPEL Mexico office.

2018

- We launched our first product offering outside of the automotive industry, a window and security film protection for commercial and residential uses.

- We introduced the next generation of our highly successful ULTIMATE line, ULTIMATE PLUS.

- We acquired Apogee Corporation which led to formation of XPEL Asia based in Taiwan.

2019

- We were approved for the listing of our stock on Nasdaq trading under the symbol "XPEL".

2020

- We acquired Protex Centre, a wholesale-focused paint protection installation business based in Montreal, Canada.
- We expanded our presence in France with the acquisition of certain assets of France Auto Racing.
- We expanded our architectural window film presence with the acquisition of Houston-based Veloce Innovation, a leading provider of architectural films for use in residential, commercial, marine and industrial settings.

2021

- We expanded our presence into numerous automotive dealerships throughout the United States with the acquisition of PermaPlate Film, LLC, a wholesale-focused automotive window film installation and distribution business based in Salt Lake City, Utah.
- We acquired five businesses in the United States and Canada from two sellers as a continuation of our acquisition strategy. These acquisitions allowed us to continue to increase our penetration into mid-range dealerships in the US and solidify our presence in Western Canada.
- We acquired invisiFRAME, Ltd, a designer and manufacturer of paint protection film patterns for bicycles, thus further expanding our non-automotive offerings.

2022

- We expanded our presence in Australia with the purchase of the paint protection film business of our Australian distributor.

**Strategic Overview**

XPEL continues to pursue several key strategic initiatives to drive continued growth. Our global expansion strategy includes establishing a local presence where possible, allowing us to better control the delivery of our products and services. We also add locally-based locally based regional sales personnel, leveraging local knowledge and relationships to expand the markets in which we operate.

We seek to increase global brand awareness in strategically important areas, including pursuing high visibility at premium events such as major car shows and high value placement in advertising media consumed by car enthusiasts, to help further expand the Company's premium brand.

XPEL also continues to expand its delivery channels by acquiring select installation facilities in key markets and acquiring international partners to enhance our global reach. As we expand globally, we strive to tailor our distribution model to adapt to target markets. We believe this flexibility allows us to penetrate and grow market share more efficiently. Our acquisition strategy centers on our belief that the closer the Company is to its end customers, the greater its ability to drive increased product sales. During 2022, we acquired the paint protection film business of our Australian distributor and in May 2023, we acquired a dealership-focused installation business in the greater Boston area completed four acquisitions in furtherance of this objective. We believe our channel strategy uniquely positions us to be wherever the demand takes us and is a key part of our ability to drive sustained growth.

We also continue to drive expansion of our non-automotive product portfolio. Our architectural window film segment continues to gain traction. We believe there are multiple uses for protective films and we continue to explore those adjacent market opportunities.

## Trends and Uncertainties

Macroeconomic uncertainties persist in the U.S. and other parts of the world as inflation, rising interest rates and the changes in value of the U.S. Dollar relative to other major currencies have recently affected the economic environment and consumer behaviors. Additionally, while we have not experienced any material supply chain disruptions directly, the automobile industry has experienced component shortages, increased lead times, cost fluctuations and logistic constraints. Some or all of these could continue throughout the remainder of 2023. This economic uncertainty could impact vehicle sales in the U.S. or other parts of the world, which could adversely affect our business, results of operations and financial condition. See Risk Factors - *"We are highly dependent on the automotive industry. A prolonged or material contraction in the automotive sales and production volumes could adversely affect our business, results of operations and financial condition"* included in Part I, Item 1A - Risk Factors, in the Annual Report.

On September 15, 2023, the United Automobile, Aerospace and Agricultural Implement Workers of America ("UAW") initiated a strike at certain U.S. facilities causing work stoppages to some vehicle production and parts distribution activities. UAW reached a tentative settlement with each targeted automaker that still needs to be ratified by its members. If UAW members fail to ratify the new contract and a pro-longed strike or further work stoppages may continue which could have a material adverse impact on inventories at car dealerships which could, in turn, adversely affect our business, results of operations and financial condition. See Risk Factors - "*We are highly dependent on the automotive industry. A prolonged or material contraction in the automotive sales and production volumes could adversely affect our business, results of operations and financial condition" included in Part I, Item 1A - Risk Factors, in the Annual Report.*

While Russia's invasion of Ukraine has not had a material direct impact on our business, the nature and degree of the effects of that conflict, as well as the other effects of the current business environment over time remain uncertain. See Risk Factors- *"We are exposed to political, regulatory, economic and other risks that arise from operating a multinational business"* included in Part I, Item 1A - Risk Factors, in the Annual Report.

**Key Business Metric - Non-GAAP Financial Measures**

Our management regularly monitors certain financial measures to track the progress of our business against internal goals and targets. We believe that the most important measure to the Company is Earnings Before Interest, Taxes, Depreciation, and Amortization ("EBITDA").

EBITDA is a non-GAAP financial measure. We believe EBITDA provides helpful information with respect to our operating performance as viewed by management, including a view of our business that is not dependent on (i) the impact of our capitalization structure and (ii) items that are not part of our day-to-day operations. Management uses EBITDA (1) to compare our operating performance on a consistent basis, (2) to calculate incentive compensation for our employees, (3) for planning purposes including the preparation of our internal annual operating budget, (4) to evaluate the performance and effectiveness of our operational strategies, and (5) to assess compliance with various metrics associated with the agreements governing our indebtedness. Accordingly, we believe that EBITDA provides useful information in understanding and evaluating our operating performance in the same manner as management. We

define EBITDA as net income plus (a) consolidated total depreciation and amortization, (b) interest expense, net, and (c) income tax expense.

The following table is a reconciliation of Net Income income to EBITDA for the three and nine months ended September 30, 2023 March 31, 2024 and 2022 (dollars in 2023 (in thousands):

| | | (Unaudited) Three Months Ended September 30, | | | (Unaudited) Nine Months Ended September 30, | | |
|---|---|---|---|---|---|---|---|
| | | 2023 | 2022 | % Change | 2023 | 2022 | % Change |
| | | (Unaudited) | | | | | |
| | | (Unaudited) | | | | | |
| | | (Unaudited) | | | | | |
| | | Three Months Ended March 31, | | | | | |
| | | Three Months Ended March 31, | | | | | |
| | | Three Months Ended March 31, | | | | | |
| | | 2024 | | | | | |
| | | 2024 | | | | | |
| | | 2024 | | | | | |
| **Net Income** | | | | | | | |
| **Net Income** | | | | | | | |
| **Net Income** | **Net Income** | $ 13,656 | $ 13,318 | 2.5 % | $ 40,830 | $ 33,024 | 23.6 % |
| **Interest** | **Interest** | 85 | 391 | (78.3) % | 946 | 933 | 1.4 % |
| **Interest** | | | | | | | |
| **Interest** | | | | | | | |
| **Taxes** | | | | | | | |
| **Taxes** | | | | | | | |
| **Taxes** | **Taxes** | 3,490 | 3,226 | 8.2 % | 10,553 | 8,302 | 27.1 % |
| **Depreciation** | **Depreciation** | 1,199 | 890 | 34.7 % | 3,229 | 2,486 | 29.9 % |
| **Depreciation** | | | | | | | |
| **Depreciation** | | | | | | | |
| **Amortization** | | | | | | | |
| **Amortization** | | | | | | | |
| **Amortization** | **Amortization** | 1,288 | 1,117 | 15.3 % | 3,660 | 3,248 | 12.7 % |
| **EBITDA** | **EBITDA** | $ 19,718 | $ 18,942 | 4.1 % | $ 59,218 | $ 47,993 | 23.4 % |
| **EBITDA** | | | | | | | |
| **EBITDA** | | | | | | | |

***Use of Non-GAAP Financial Measures***

EBITDA should be considered in addition to, not as a substitute for, or superior to, financial measures calculated in accordance with GAAP. It is not a measurement of our financial performance under GAAP and should not be considered as alternatives to revenue or net income, as applicable, or any other performance measures derived in accordance with GAAP and may not be comparable to other similarly titled measures of other businesses. EBITDA has limitations as an analytical tool and you should not consider it in isolation or as a substitute for analysis of our operating results as reported under GAAP.

EBITDA does not reflect the impact of certain cash charges resulting from matters we consider not to be indicative of ongoing operations; and other companies in our industry may calculate EBITDA differently than we do, limiting its their usefulness as a comparative measure. measures.

**Results of Operations**

The following tables summarize table summarizes the Company's consolidated results of operations for the three and nine months ended September 30, 2023 March 31, 2024 and 2022 (dollars in 2023 (in thousands):

| | Three Months Ended September 30, 2023 | % of Total Revenue | Three Months Ended September 30, 2022 | % of Total Revenue | $ Change | % Change |
|---|---|---|---|---|---|---|
| Total revenue | $102,677 | 100.0 % | $ 89,758 | 100.0 % | $12,919 | 14.4 % |
| Total cost of sales | 61,148 | 59.6 % | 53,992 | 60.2 % | 7,156 | 13.3 % |
| Gross margin | 41,529 | 40.4 % | 35,766 | 39.8 % | 5,763 | 16.1 % |
| Total operating expenses | 23,900 | 23.3 % | 18,459 | 20.6 % | 5,441 | 29.5 % |
| Operating income | 17,629 | 17.2 % | 17,307 | 19.3 % | 322 | 1.9 % |
| Other expenses | 483 | 0.5 % | 763 | 0.9 % | (280) | (36.7)% |
| Income tax | 3,490 | 3.4 % | 3,226 | 3.6 % | 264 | 8.2 % |
| Net income | $ 13,656 | 13.3 % | $ 13,318 | 14.8 % | $ 338 | 2.5 % |

| Three Months Ended March 31, 2024 | | Three Months Ended March 31, 2024 | | % of Total Revenue | | Three Months Ended March 31, 2023 | | % of Total Revenue | | $ Change | | % Change |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Total revenue | $ 90,104 | 100.0 | 100.0 | % | $ 85,842 | 100.0 | 100.0 | % | $ 4,262 | 5.0 | 5.0 | % |
| Total cost of sales | 52,228 | 58.0 | 58.0 | % | 49,882 | 58.1 | 58.1 | % | 2,346 | 4.7 | 4.7 | % |
| Gross margin | 37,876 | 42.0 | 42.0 | % | 35,960 | 41.9 | 41.9 | % | 1,916 | 5.3 | 5.3 | % |
| Total operating expenses | 28,647 | 31.8 | 31.8 | % | 21,029 | 24.5 | 24.5 | % | 7,618 | 36.2 | 36.2 | % |
| Operating income | 9,229 | 10.2 | 10.2 | % | 14,931 | 17.4 | 17.4 | % | (5,702) | (38.2) | (38.2) | % |
| Other expenses | 745 | 0.8 | 0.8 | % | 514 | 0.6 | 0.6 | % | 231 | 44.9 | 44.9 | % |
| Income tax | 1,818 | 2.0 | 2.0 | % | 2,984 | 3.5 | 3.5 | % | (1,166) | (39.1) | (39.1) | % |
| Net income | $ 6,666 | 7.4 | 7.4 | % | $ 11,433 | 13.3 | 13.3 | % | $ (4,767) | (41.7) | (41.7) | % |

| | Nine Months Ended September 30, 2023 | % of Total Revenue | Nine Months Ended September 30, 2022 | % of Total Revenue | $ Change | % Change |
|---|---|---|---|---|---|---|
| Total revenue | $ 290,755 | 100.0 % | $ 245,512 | 100.0 % | $ 45,243 | 18.4 % |
| Total cost of sales | 169,273 | 58.2 % | 149,046 | 60.7 % | 20,227 | 13.6 % |
| Gross margin | 121,482 | 41.8 % | 96,466 | 39.3 % | 25,016 | 25.9 % |
| Total operating expenses | 68,734 | 23.6 % | 53,374 | 21.7 % | 15,360 | 28.8 % |
| Operating income | 52,748 | 18.1 % | 43,092 | 17.6 % | 9,656 | 22.4 % |
| Other expenses | 1,365 | 0.5 % | 1,766 | 0.7 % | (401) | (22.7)% |
| Income tax | 10,553 | 3.6 % | 8,302 | 3.4 % | 2,251 | 27.1 % |
| Net income | $ 40,830 | 14.0 % | $ 33,024 | 13.5 % | $ 7,806 | 23.6 % |

The following tables summarize consolidated table summarizes revenue results for the three and nine months ended September 30, 2023 March 31, 2024 and 2022 (dollars in 2023 (in thousands):

| | Three Months Ended September 30, | | | | % | % of Total Revenue | |
|---|---|---|---|---|---|---|---|
| | 2023 | | 2022 | | Inc (Dec) | 2023 | 2022 |
| **Product Revenue** | | | | | | | |
| Paint protection film | $ | 58,977 | $ | 54,230 | 8.8 % | 57.4 % | 60.4 % |
| Window film | | 18,762 | | 15,391 | 21.9 % | 18.3 % | 17.1 % |
| Other | | 3,386 | | 2,995 | 13.1 % | 3.3 % | 3.4 % |
| Total | $ | 81,125 | $ | 72,616 | 11.7 % | 79.0 % | 80.9 % |
| **Service Revenue** | | | | | | | |
| Software | $ | 1,652 | $ | 1,351 | 22.3 % | 1.6 % | 1.5 % |
| Cutbank credits | | 4,524 | | 4,352 | 4.0 % | 4.4 % | 4.8 % |
| Installation labor | | 14,852 | | 11,067 | 34.2 % | 14.5 % | 12.3 % |
| Training and other | | 524 | | 372 | 40.9 % | 0.5 % | 0.5 % |
| Total | $ | 21,552 | $ | 17,142 | 25.7 % | 21.0 % | 19.1 % |
| **Total** | $ | 102,677 | $ | 89,758 | 14.4 % | 100.0 % | 100.0 % |

| | | Nine Months Ended September 30, | | % | % of Total Revenue | | | Three Months Ended March 31, | | | % | | % of Total | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | 2023 | 2022 | Inc (Dec) | 2023 | 2022 | | 2024 | | 2023 | Inc (Dec) | | 2024 | |
| **Three Months Ended March 31,** | | | | | | | | | | | | | | |
| 2024 | | | | | | | | | | | | | | |
| **Product Revenue** | **Product Revenue** | | | | | | | | | | | | | |
| Paint protection film | | | | | | | | | | | | | | |
| Paint protection film | | | | | | | | | | | | | | |
| Paint protection film | Paint protection film | $165,016 | $146,465 | 12.7 % | 56.8 % | 59.7 % | | $ 49,011 | $ | $ 49,548 | (1.1) | (1.1) % | 54.4 % | 57.7 % |
| Window film | Window film | 54,055 | 42,711 | 26.6 % | 18.6 % | 17.4 % | Window film | 14,549 | 14,982 | 14,982 | (2.9) | (2.9)% | 16.1 % | 1 |
| Other | Other | 10,268 | 8,577 | 19.7 % | 3.5 % | 3.4 % | Other | 3,292 | 2,778 | 2,778 | 18.5 | 18.5 % | 3.7 % | |
| Total | Total | $229,339 | $197,753 | 16.0 % | 78.9 % | 80.5 % | Total | $66,852 | $ | $67,308 | (0.7) | (0.7) % | 74.2 % | 78. |
| **Service Revenue** | **Service Revenue** | | | | | | | | | | | | | |
| **Service Revenue** | | | | | | | | | | | | | | |
| **Service Revenue** | | | | | | | | | | | | | | |
| Software | | | | | | | | | | | | | | |
| Software | | | | | | | | | | | | | | |
| Software | Software | $ 4,656 | $ 3,804 | 22.4 % | 1.6 % | 1.5 % | | $ 1,928 | $ | $ 1,458 | 32.2 | 32.2 % | 2.1 % | 1.7 % |
| Cutbank credits | Cutbank credits | 13,253 | 11,459 | 15.7 % | 4.6 % | 4.7 % | Cutbank credits | 4,018 | 4,030 | 4,030 | (0.3) | (0.3)% | 4.5 % | |
| Installation labor | Installation labor | 41,781 | 31,371 | 33.2 % | 14.4 % | 12.8 % | Installation labor | 16,706 | 12,399 | 12,399 | 34.7 | 34.7 % | 18.5 % | 1 |
| Training and other | Training and other | 1,726 | 1,125 | 53.4 % | 0.5 % | 0.5 % | Training and other | 600 | 647 | 647 | (7.3) | (7.3)% | 0.7 % | |
| Total | Total | $ 61,416 | $ 47,759 | 28.6 % | 21.1 % | 19.5 % | Total | $23,252 | $ | $18,534 | 25.5 | 25.5 % | 25.8 % | 21. |
| **Total** | **Total** | $290,755 | $245,512 | 18.4 % | 100.0 % | 100.0 % | | | | | | | | |
| **Total** | | | | | | | | | | | | | | |
| **Total** | | | | | | | | $90,104 | | $85,842 | | 5.0 % | 100.0 % | 100.0 |

Because many of our international customers require us to ship their orders to freight forwarders located in the United States, we cannot be certain about the ultimate destination of the product. The following tables represent table represents our estimate of sales by geographic regions based on our understanding of ultimate product destination based on customer interactions, customer locations and other factors for the three and nine months ended September 30, 2023 March 31, 2024 and 2022 (dollars in 2023 (in thousands):

| | Three Months Ended September 30, 2023 | Three Months Ended September 30, 2022 | % Inc (Dec) | % of Total Revenue 2023 | % of Total Revenue 2022 |
|---|---|---|---|---|---|
| United States | $ 59,002 | $ 51,522 | 14.5 % | 57.5 % | 57.4 % |
| Canada | 11,471 | 11,046 | 3.8 % | 11.2 % | 12.3 % |
| China | 10,242 | 11,009 | (7.0)% | 10.0 % | 12.3 % |
| Continental Europe | 8,705 | 6,065 | 43.5 % | 8.5 % | 6.8 % |
| Middle East/Africa | 3,909 | 3,322 | 17.7 % | 3.8 % | 3.7 % |
| United Kingdom | 3,499 | 2,482 | 41.0 % | 3.4 % | 2.8 % |
| Asia Pacific | 3,233 | 2,540 | 27.3 % | 3.1 % | 2.8 % |
| Latin America | 2,325 | 1,468 | 58.4 % | 2.3 % | 1.6 % |
| Other | 291 | 304 | (4.3)% | 0.2 % | 0.3 % |
| **Total** | $ 102,677 | $ 89,758 | 14.4 % | 100.0 % | 100.0 % |

| | | Nine Months Ended September 30, 2023 | Nine Months Ended September 30, 2022 | % Inc (Dec) | % of Total Revenue 2023 | % of Total Revenue 2022 | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Three Months Ended March 31, 2024 | | | | | | | Three Months Ended March 31, 2024 | | Three Months Ended March 31, 2023 | | % Inc (Dec) | % of Total Revenue 2024 | % of Total Revenue 2023 |
| United States | United States | $169,228 | $142,275 | 18.9 % | 58.2 % | 58.0 % | United States | $52,048 | $ | $51,077 | 1.9 | 1.9 % | 57.8 % | 59.5 % |
| China | | | | | | | China | 1,450 | | 6,647 | | (78.2) % | 1.6 % | 7.7 % |
| Canada | Canada | 31,914 | 29,773 | 7.2 % | 11.0 % | 12.1 % | Canada | 11,080 | 8,592 | 8,592 | 29.0 | 29.0 % | 12.3 % | 10.0 % |
| China | | 24,992 | 27,772 | (10.0)% | 8.6 % | 11.3 % | | | | | | | | |
| Continental Europe | Continental Europe | 26,354 | 18,671 | 41.1 % | 9.1 % | 7.6 % | Continental Europe | 10,216 | 7,960 | 7,960 | 28.3 | 28.3 % | 11.3 % | 9.3 % |
| United Kingdom | | | | | | | United Kingdom | 3,486 | | 3,091 | | 12.8 % | 3.9 % | 3.6 % |
| Middle East/Africa | Middle East/Africa | 11,514 | 8,025 | 43.5 % | 4.0 % | 3.3 % | Middle East/Africa | 5,143 | 3,496 | 3,496 | 47.1 | 47.1 % | 5.7 % | 4.1 % |
| United Kingdom | | 10,220 | 7,505 | 36.2 % | 3.5 % | 3.1 % | | | | | | | | |
| Asia Pacific | Asia Pacific | 9,192 | 6,549 | 40.4 % | 3.2 % | 2.7 % | Asia Pacific | 3,750 | 2,645 | 2,645 | 41.8 | 41.8 % | 4.2 % | 3.1 % |
| Latin America | Latin America | 6,617 | 4,033 | 64.1 % | 2.3 % | 1.6 % | Latin America | 2,931 | 2,173 | 2,173 | 34.9 | 34.9 % | 3.2 % | 2.5 % |
| Other | Other | 724 | 909 | (20.4)% | 0.2 % | 0.3 % | Other | — | 161 | 161 | (100.0) | (100.0)% | 0.0 % | 0.2 % |
| **Total** | **Total** | $290,755 | $245,512 | 18.4 % | 100.0 % | 100.0 % | **Total** | $90,104 | $ | $85,842 | 5.0 | 5.0 % | 100.0 % | 100.0 % |

*Product Revenue.* Product revenue decreased 0.7% over the three months ended March 31, 2023. Product revenue represented 74.2% of our total revenue for the three months ended September 30, 2023 increased 11.7% over March 31, 2024 and 78.4% for the three months ended September 30, 2022. Product revenue represented 79.0% of our total revenue compared to 80.9% in the three months ended September 30, 2022 March 31, 2023. Revenue from our paint protection film product line increased 8.8% over decreased 1.1% for the three months ended September 30, 2022 March 31, 2024. Paint protection film sales represented 57.4% 54.4% and 60.4% 57.7% of our total consolidated revenues for the three months ended September 30, 2023 March 31, 2024 and 2022, 2023,

respectively. The total increase in paint protection film sales This decrease was due to increased lower demand for our film products across multiple regions partially offset by a decrease in the U.S., primarily in the after-market channel, and lower sales to XPEL's China resulting from lingering impacts distributor. Sales to China reached a record high in the fourth quarter of 2023. Consequently, first quarter 2024 China sales were negatively impacted as our distributor sold through the COVID-19 pandemic. inventory purchased at the end of last year.

Revenue from our window film product line grew 21.9% declined 2.9% for the three months ended September 30, 2023 compared to the three months ended September 30, 2022 March 31, 2024. Window film sales represented 18.3% 16.1% and 17.1% 17.5% of our total consolidated revenues for the three months ended September 30, 2023 March 31, 2024 and 2022, 2023, respectively. This increase decline was driven by increased demand resulting from increased channel focus and increased product adoption in multiple regions. due mainly to lower revenue into China. Excluding China, total window film revenue grew 10.3%. Architectural window film revenue increased 49.9% compared 33.1% to the three months ended September 30, 2022, to $2.7 million, and represented 14.4% of total window film revenue and 2.6% of total revenue for the three months ended September 30, 2023. $1.8 million. This increase was driven by due mainly to increased product awareness and demand for in most of our architectural window films as we continue to pursue this large addressable market. regions.

Other product revenue for the three months ended September 30, 2023 increased 13.1% compared March 31, 2024 grew 18.5% to the three months ended September 30, 2022 due mainly to continued demand for non-film related products such as ceramic coating, plotters, chemicals, and other film installation tools and accessories. Our FUSION ceramic coating product revenue grew 34.6% compared to the three months ended September 30, 2022 to $1.5 million. This increase was driven primarily by increased channel focus and increased demand for our ceramic coating products.

Geographically, we saw revenue growth in most regions during the three months ended September 30, 2023. The U.S. region, our largest, grew 14.5%, over the three months ended September 30, 2022, due primarily to increasing attach rates. Outside the U.S., most regions saw strong growth due primarily to increased product awareness and attach rates.

Product revenue for the nine months ended September 30, 2023 increased 16.0% over the nine months ended September 30, 2022. Product revenue represented 78.9% of our consolidated revenue compared to 80.5% in the nine months ended September 30, 2022. Revenue from our paint protection film product line increased 12.7% over the nine months ended September 30, 2022. Paint protection film sales represented 56.8% and 59.7% of our consolidated revenues for the nine months ended September 30, 2023 and 2022, respectively. The increase in paint protection film sales was due to additional sales to both new and existing customers across multiple geographical markets.

Revenue from our window film grew 26.6% compared to the nine months ended September 30, 2022. Window film sales represented 18.6% and 17.4% of our total consolidated revenues for the nine months ended September 30, 2023 and 2022, respectively. This increase was driven by increased demand resulting from increased channel focus and increased product adoption in multiple regions. Architectural window film revenue increased 42.2% compared to the nine months ended September 30, 2022 to $6.4 million $3.3 million and represented 11.9% 3.7% of total window film revenue and 2.2% of total revenue. This increase was driven by increased an increase in demand for our architectural window films.

Other product revenue for the nine months ended September 30, 2023 increased 19.7% compared to the nine months ended September 30, 2022 due mainly to continued demand for non-film related products such as ceramic coating, plotters, chemicals and other film installation tools and accessories. Our FUSION ceramic coating product revenue grew 53.6% compared 24.4% to the nine months ended September 30, 2022 to $4.5 million. $1.4 million. This increase was driven primarily by increased channel focus and due mainly to increased demand for our ceramic coating products.

Geographically, outside of the U.S. and China, we saw revenue experienced solid growth in most operating regions during the nine three months ended September 30, 2023. The U.S. region, our largest region, grew 18.9% March 31, 2024, due primarily to increasing attach rates. Outside the U.S., most regions saw strong growth due primarily mainly to increased product awareness and attach rates. adoption.

*Service revenue.* Service revenue consists of revenue from fees for DAP software access and cutbank credit revenue, which represents the value of pattern access provided with eligible product revenue, revenue from the labor portion of installation sales in our Company-owned installation centers, revenue from our dealership services business businesses and revenue from training services provided to our customers.

Service Due mainly to increases in the Company's dealership services business resulting from increased car counts, increased content per vehicle and from our OEM business, service revenue grew 25.7% 25.5% over service revenue for the three months ended September 30, 2022 March 31, 2023. Within this category, software Service revenue increased 22.3% over represented 25.8% and 21.6% of our consolidated revenue from the three months ended September 30, 2022 March 31, 2024 and 2023, respectively.

Software revenue increased 32.2% from the three months ended March 31, 2023. This The increase was due primarily to an increase increases in total subscribers to our DAP software. Cutbank credit Software revenue increased 4.0% from represented 2.1% and 1.7% of consolidated revenue for the three months ended September 30, 2022 due to associated product revenue growth. March 31, 2024 and 2023, respectively. Installation labor revenue increased 34.2% over the three months ended September 30, 2022 34.7% due mainly to increased demand labor revenue in our Company-owned installation facilities and across our dealership service and OEM networks.

Service revenue for the nine months ended September 30, 2023 grew 28.6% over the nine months ended September 30, 2022. Within this category, software revenue grew 22.4% over the nine months ended September 30, 2022. This increase was due to an increase in total subscribers to our DAP

software. Cutbank credit revenue services business resulting from increased 15.7% over the nine months ended September 30, 2022 due to car counts associated product revenue growth. Installation labor increased 33.2% over the nine months ended September 30, 2022 due mainly to increased demand in our Company-owned installation facilities and across our with improving U.S. new car dealership service and OEM networks. inventories.

Total installation revenue (labor and product combined) for the three months ended March 31, 2024 increased 34.2% 34.7% over the three months ended September 30, 2022 March 31, 2023. This represented 17.2% 22.1% and 14.7% 17.2% of our total consolidated revenue for the three months ended September 30, 2023 March 31, 2024 and 2022, 2023, respectively. This increase was primarily due to increased demand in our Company-owned installation centers and across our dealership service and OEM networks. Total installation revenue increased 33.2% over the nine months ended September 30, 2022. This represented 17.1% and 15.2% of our total consolidated revenue for the nine months ended September 30, 2023 and 2022, respectively. This increase was primarily due to increased demand in our Company-owned installation centers and across our dealership service and OEM networks. Adjusted product revenue, which combines the cutbank credit revenue service component with product revenue, increased 11.3% over decreased 0.7% in the three months ended September 30, 2022. Adjusted product revenue increased 16.0% March 31, 2024 versus the nine three months ended September 30, 2022 March 31, 2023. For both the three and nine month periods, this growth was due to sustained demand for our various product lines.

***Cost of Sales***

Cost of sales consists of product costs and the costs to provide our services. Product costs consist of material costs, personnel costs related to warehouse personnel, shipping costs, warranty costs and other related costs to provide products to our customers. Cost of service includes the labor costs associated with installation of product in our installation Company-run facilities, costs of labor associated with pattern design for our cutting software and the costs incurred to provide training for our customers.

Product costs for in the three months ended September 30, 2023 increased 9.9% March 31, 2024 decreased 0.1% over the three months ended September 30, 2022. March 31, 2023 commensurate with our decrease in product sales. Cost of product sales represented 50.5% 46.8% and 52.6% 49.1%

of total revenue in the three months ended September 30, 2023 March 31, 2024 and 2022, 2023, respectively. Cost of service revenue services grew 37.0% 31.0% during the three months ended September 30, 2023. For both product March 31, 2024 and service, cost of sales increased commensurate with the related growth in revenue. Refer to the Gross Margin section below for discussion of this cost relative to revenue.

Product costs for the nine months ended September 30, 2023 increased 10.8% over the nine months ended September 30, 2022. Cost of product sales represented 49.4% 11.2% and 52.8% 9.0% of total revenue in the nine months ended September 30, 2023 and 2022, respectively. Cost of service revenue grew 32.3% during the nine months ended September 30, 2023. For both product and service, cost of sales increased commensurate with the related growth in revenue. Refer to the Gross Margin section below for discussion of this cost relative to revenue.

***Gross Margin***

Gross margin for the three months ended September 30, 2023 grew approximately $5.8 million, or 16.1%, compared March 31, 2024 and 2023, respectively. This increase was due primarily to increased installation labor costs commensurate with the three months ended September 30, 2022. For the three months ended September 30, 2023, growth in installation labor revenue.

***Gross Margin***

The following table summarizes gross margin represented 40.4% of revenue compared to 39.8% for product and services for the three months ended September 30, 2022

Gross margin for the nine months ended September 30, 2023 grew approximately $25.0 million, or 25.9%, compared to the nine months ended September 30, 2022. For the nine months ended September 30, 2023, gross margin represented 41.8% of revenue compared to 39.3% for the nine months ended September 30, 2022.

The following tables summarize gross margin for products March 31, 2024 and services for the three and nine months ended September 30, 2023 and 2022 (dollars in 2023 (in thousands):

| | Three Months Ended September 30, | | % | % of Category Revenue | |
|---|---|---|---|---|---|
| | 2023 | 2022 | Inc (Dec) | 2023 | 2022 |
| Product | $ 29,249 | $ 25,391 | 15.2 % | 36.1 % | 35.0 % |
| Service | 12,280 | 10,375 | 18.4 % | 57.0 % | 60.5 % |
| **Total** | $ 41,529 | $ 35,766 | 16.1 % | 40.4 % | 39.8 % |

| | Nine Months Ended September 30, | | % | % of Category Revenue | |
|---|---|---|---|---|---|
| | 2023 | 2022 | Inc (Dec) | 2023 | 2022 |
| Product | $ 85,726 | $ 68,107 | 25.9 % | 37.4 % | 34.4 % |
| Service | 35,756 | 28,359 | 26.1 % | 58.2 % | 59.4 % |
| **Total** | $ 121,482 | $ 96,466 | 25.9 % | 41.8 % | 39.3 % |

| | Three Months Ended March 31, | | % | % of Category Revenue | |
|---|---|---|---|---|---|
| | 2024 | 2023 | Inc (Dec) | 2024 | 2023 |
| Product margin | $ 24,717 | $ 25,128 | -1.6 % | 37.0 % | 37.3 % |
| Service margin | 13,159 | 10,832 | 21.5 % | 56.6 % | 58.4 % |
| **Total** | $ 37,876 | $ 35,960 | 5.3 % | 42.0 % | 41.9 % |

Product gross margin for the three months ended September 30, 2023 March 31, 2024 decreased $0.4 million, 1.6% compared to the same period in the prior year. The decrease in product gross margin percentages was primarily due to lower product revenue and increases in non bill of material costs contained within product cost of goods sold.

Service gross margin increased approximately $3.9 million $2.3 million, or 15.2% 21.5%, over the three months ended September 30, 2022 and represented 36.1% and 35.0% of total product revenue for the three months ended September 30, 2023 and 2022, respectively. This increase in margin was due primarily to decreases in product costs and improved operating leverage.

Product gross margin for the nine months ended September 30, 2023 increased approximately $17.6 million, or 25.9%, over the nine months ended September 30, 2022 and represented 37.4% and 34.4% of total product revenue for the nine months ended September 30, 2023 and 2022, respectively. This increase in margin was due primarily to decreases in product costs and improved operating leverage.

Service gross margin increased approximately $1.9 million, or 18.4%, over the three months ended September 30, 2022 March 31, 2023. This represented 57.0% 56.6% and 60.5% 58.4% of total service revenue for the three months ended September 30, 2023 March 31, 2024 and 2022, 2023, respectively. The decrease in service gross margin percentage for the three months ended September 30, 2022 was primarily due to a higher percentage mix of lower margin service installation labor revenue mix relative to other higher margin service and cost inefficiencies associated with lower revenue components in the prior year period.

Service gross margin increased approximately $7.4 million, or 26.1%, over the nine months ended September 30, 2022. This represented 58.2% and 59.4% of total service revenue for the nine months ended September 30, 2023 and 2022, respectively. This was primarily due to a higher percentage of lower margin service revenue mix relative to other higher margin service revenue components in the prior year period. our company-owned installation centers.

***Operating Expenses***

Sales and marketing expenses for the three months ended September 30, 2023 March 31, 2024 increased 22.8% $3.7 million, or 55.7%, compared to the same period in 2022. This increase was due to increased personnel and marketing costs incurred to support the ongoing growth of the business. 2023. These expenses represented 7.5% 11.5% and 7.0% 7.8% of total consolidated revenue for the three months ended September 30, 2023 March 31, 2024 and 2022, 2023, respectively.

For the nine months ended September 30, 2023, sales and marketing expenses increased 21.8% compared to the same period in 2022. This increase was primarily due to increased personnel and marketing costs expenses incurred to support during the ongoing growth period for our annual dealer conference which occurred in the second quarter of the business. These expenses represented 7.8% and 7.5% of total consolidated revenue for the nine months ended September 30, 2023 and 2022, respectively. prior year.

General and administrative expenses grew approximately $4.0 million $3.9 million, or 33.0% 27.2%, during the three months ended March 31, 2024 over the three months ended September 30, 2022 March 31, 2023. This These costs represented 20.3% and 16.7% of consolidated revenue for the three months ended March 31, 2024 and 2023, respectively. The increase in cost was due primarily mainly to increases in personnel, occupancy costs, and professional fees to support our the ongoing growth. These costs represented 15.7%

and 13.6% growth of total consolidated revenue for the three months ended September 30, 2023 and 2022, respectively.

General and administrative expenses grew approximately $11.3 million, or 32.5% over the nine months ended September 30, 2022. This increase in cost was due primarily to increases in personnel, occupancy costs and professional fees to support our ongoing growth. These costs represented 15.9% and 14.2% of total consolidated revenue for the nine months ended September 30, 2023 and 2022, respectively. business.

***Income Tax Expense***

Income tax expense for the three months ended September 30, 2023 increased $0.3 million March 31, 2024 decreased $1.2 million from the three months ended September 30, 2022 March 31, 2023. Our effective tax rate was 20.4% 21.4% for the three months ended September 30, 2023 March 31, 2024 compared with 19.5% 20.7% for the three months ended September 30, 2022 March 31, 2023.

***Net Income tax expense for the nine months ended September 30, 2023 increased $2.3 million from the same period in 2022, Our effective tax rate was 20.5% for the nine months ended September 30, 2023 compared with 20.1% for the nine months ended September 30, 2022.***

Net income for the three months ended September 30, 2023 increased 2.5% March 31, 2024 decreased by $4.8 million, or 41.7%, to $13.7 million.

Net income for the nine months ended September 30, 2023 increased 23.6% to $40.8 million $6.7 million.

**Liquidity and Capital Resources**

Our The primary sources source of liquidity are for our business is available cash and cash equivalents, cash flows provided by operations and borrowings borrowing capacity under our credit facilities. facility. As of September 30, 2023 March 31, 2024, we had cash and cash equivalents of $10.4 million $8.6 million. For the nine three months ended September 30, 2023 March 31, 2024, cash provided by used in operations was $38.5 million. We currently have $128.3 million $5.0 million, and as of credit March 31, 2024 we had approximately $104.3 million in funds available ($125.0 million under the Credit Agreement and CAD $4.5 ($3.3 million) under our Canadian credit facility) to us under our committed credit facilities. We expect to continue to have sufficient access to cash to support working capital needs, pay for capital expenditures (including acquisitions), and to pay interest and service debt. We believe we have the ability and sufficient resources to meet these cash requirements by using available cash, internally generated funds and borrowings from our borrowing under committed credit facilities to be sufficient to support working capital needs, capital expenditures (including acquisitions), and our debt service obligations. facilities. We are focused on continuing to generate positive operating cash to fund our operational and capital investment initiatives. We believe we have sufficient liquidity to operate for at least the next 12 months from the date of filing this quarterly report.

*Operating activities Activities.* . Cash provided by used in operations totaled approximately $5.0 million for the nine three months ended September 30, 2023 was $38.5 million March 31, 2024, compared to $9.7 million during operating cash inflows of $0.7 million for the nine three months ended September 30, 2022 March 31, 2023. Included in cash provided from operating activities for the nine months ended September 30, 2023 This decrease was driven by a one-time payment of $7.4 million related to an acquisition that closed in October (see Note 14). Excluding that payment, cash provided from operations would have been $45.9 million for the 2023 period. The increase was due mainly to growth decline in net income and changes a net increase in other working capital items including reductions in inventory purchases and increases in accounts payable due to payment cycle timing. capital.

*Investing activities Activities.* . Cash flows used in investing activities totaled approximately $10.2 million $3.1 million during the nine three months ended September 30, 2023 March 31, 2024 compared to $9.8 million $2.4 million during the nine three months ended September 30, 2022 March 31, 2023. This was due primarily to higher acquisition-related payments made during 2023.

*Financing activities. Activities.* Cash flows used in financing activities during the nine months ended September 30, 2023 totaled $26.2 million compared to cash flows provided by financing activities during the same period three months ended March 31, 2024 totaled approximately $5.0 million compared to $1.9 million in the prior year of $0.7 million. year. This change increase was due primarily to repayments an increase in borrowings under our credit facility during the 2024 quarter.

Debt obligations, including balances outstanding on our committed credit facility in 2023 as compared to borrowings in the prior year.

Debt facilities and contingent obligations liabilities as of September 30, 2023 March 31, 2024 and December 31, 2022 December 31, 2023 totaled approximately $1.1 million $25.0 million and $27.0 million, $19.9 million, respectively.

**Future liquidity Liquidity and capital resource requirements Capital Resource Requirements**

We expect to fund ongoing operating expenses, capital expenditures, acquisitions, interest payments, tax payments, credit facility maturities, future lease obligations, and payments for other long-term liabilities with cash flow from operations and borrowings under our credit facilities. facility. In the short-term, we are contractually obligated to make lease payments and make payments on contingent liabilities related to certain completed acquisitions in the event they are earned. acquisitions. In the long-term, we are contractually obligated to make lease payments, payments for contingent liabilities, and repayments for repayment of borrowings on our line of credit. We believe that we have sufficient cash and cash equivalents, as well as borrowing capacity, to cover our estimated short-term and long-term funding needs.

**Credit Facilities**

The Company has a revolving credit facility providing for secured revolving loans and letters of credit in an aggregate amount of up to $125.0 million. As of September 30, 2023 $125 million, no balance was outstanding under this agreement. Borrowings under this facility are which is subject to the terms of a credit agreement dated April 6, 2023 (the "Credit Agreement"). As of March 31, 2024 and December 31, 2023, the Credit Agreement. Company had outstanding balances of $24 million and $19 million under this agreement, respectively.

Borrowings under the Credit Agreement bear interest, at XPEL's option, at a rate equal to either (a) Base Rate or (b) Adjusted Term SOFR. In addition to the applicable interest rate, the Credit Agreement includes a commitment fee ranging from 0.20% to 0.25% per annum for the unused portion of the aggregate commitment and an applicable margin ranging from 0.00% to 0.50% for Base Rate Loans and 1.00% to 1.50% for Adjusted Term SOFR Loans. At September 30, 2023 March 31, 2023, these rates were 8.5% and 6.3% 6.4%, respectively. Both the margin applicable to the interest rate and the commitment fee are dependent on XPEL's Consolidated Total Leverage Ratio. The Credit Agreement's maturity date is April 6, 2026. All capitalized terms in this description of the credit facility that are not otherwise defined in this report have the meaning assigned to them in the Credit Agreement.

Obligations under the Credit Agreement are secured by a first priority perfected security interest, subject to certain permitted encumbrances, in all of XPEL's material property and assets.

The terms of the Credit Agreement include certain affirmative and negative covenants that require, among other things, XPEL to maintain legal existence and remain in good standing, comply with applicable laws, maintain accounting records, deliver financial statements and certifications on a timely basis, pay taxes as required by law, and maintain insurance coverage, as well as to forgo certain specified future activities that might otherwise encumber XPEL and certain customary covenants. The Credit Agreement provides for two financial covenants, as follows.

As of the last day of each fiscal quarter:

1. XPEL shall not allow its Consolidated Total Leverage Ratio to exceed 3.50 to 1.00, and
2. XPEL shall not allow its Consolidated Interest Coverage Ratio to be less than 3.00 to 1.00. 1.00

The Company also has a CAD $4.5 million revolving credit facility through a financial institution in HSBC Bank Canada, as and is maintained by XPEL Canada Corp., a wholly-owned subsidiary of XPEL. This Canadian facility is utilized to fund the Company's working capital needs in Canada. This facility bears interest at HSBC Canada Bank's prime rate plus 0.25% per annum and is guaranteed by the parent company. As of September 30, 2023 March 31, 2024 and December 31, 2022 December 31, 2023, no balance was outstanding on this line of credit.

**Critical Accounting Policies Estimates**

There have been no material changes to the Company's critical accounting estimates from the information provided in the Annual Report.

Report on Form 10-K.

**Related Party Relationships**

There are no family relationships between or among any of our directors or executive officers. There are no arrangements or understandings between any two or more of our directors or executive officers, and there is no arrangement, plan or understanding as to whether non-management stockholders will exercise their voting rights to continue to elect the current Board. There are also no arrangements, agreements or understandings between non-management stockholders that may directly or indirectly participate in or influence the management of our affairs.

**Item 3. Quantitative and Qualitative Disclosures about Market Risk**

We have operations that expose us to currency risk in the British Pound Sterling, the Canadian Dollar, the Euro, the Mexican Peso, the New Taiwanese Dollar, and the Australian Dollar. Amounts invested in our foreign operations are translated into U.S. Dollars at the exchange rates in effect at the balance sheet date. The resulting translation adjustments are recorded as accumulated other comprehensive loss, a component of stockholders' equity in our condensed consolidated balance sheets. We do not currently hedge our exposure to potential foreign currency translation adjustments.

Borrowings under our revolving lines of credit or our Credit Agreement (see Note 8) are subject to market risk resulting from changes in interest rates related to our floating rate bank credit facilities. For such borrowings, a hypothetical 200 basis point increase in variable interest rates may result in a material impact to our financial statements. We do not currently have any derivative contracts to hedge our exposure to interest rate risk. During each of the periods presented, we have not experienced a significant effect on our business due to changes in interest rates.

If our costs were to become subject to significant inflationary pressures, we may not be able to fully offset such higher costs through price increases. Our inability or failure to do so could adversely affect our business, financial condition and results of operations.

**Item 4. Controls and Procedures**

**Evaluation of Disclosure Controls and Procedures**

We have established and maintain a system of disclosure controls and procedures that are designed to provide reasonable assurance that information required to be disclosed in our reports filed with the SEC pursuant to the Securities Exchange Act of 1934, as amended ("Exchange Act"), is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the SEC and that such information is accumulated and communicated to our management, including our Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO"), as appropriate, to allow timely decisions regarding required disclosures.

Management, with the participation of our CEO and CFO, has evaluated the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) of the Exchange Act) as of the end of the period covered by this report. Based on such evaluation, our CEO and CFO have each concluded that as of the end of the period covered by this report, our disclosure controls and procedures were effective to provide reasonable assurance that information required to be disclosed by us in reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms and that such information is accumulated and communicated to our management, including the CEO and CFO, as appropriate, to allow timely decisions regarding required disclosures.

Our disclosure controls and procedures are designed to provide reasonable assurance of achieving their objectives as specified above. Management does not expect, however, that our disclosure controls and procedures will prevent or detect all error and fraud. Any control system, no matter how well designed and operated, is based upon certain assumptions and can provide only reasonable, not absolute, assurance that its objectives will be met. Further, no evaluation of controls can provide absolute assurance that misstatements due to error or fraud will not occur or that all control issues and instances of fraud, if any, within the Company have been detected.

**Changes in Internal Control over Financial Reporting**

There were no changes in our internal control over financial reporting that occurred during the last fiscal quarter that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

**Part II. Other Information**

**Item 1. Legal Proceedings**

From time to time, we are made parties to actions filed or have been given notice of potential claims relating to the ordinary conduct of our business, including those pertaining to commercial disputes, product liability, patent infringement and employment matters.

While we believe that a material impact on our financial position, results of operations or cash flows from any such future claims or potential claims is unlikely, given the inherent uncertainty of litigation, it is possible that an unforeseen future adverse ruling or unfavorable development could result in future charges that could have a material adverse impact. We do and will continue to periodically reexamine our estimates of probable liabilities and any associated expenses and receivables and make appropriate adjustments to such estimates based on experience and developments in litigation. As a result, the current estimates of the potential impact on our financial position, results of operations and cash flows for the proceedings and claims described in the notes to our consolidated financial statements could change in the future.

**Item 1A. Risk Factors**

There have been no material changes to the risk factors disclosed in Part I, Item IA of the Annual Report. Report on Form 10-K.

**Item 2. Unregistered Sales of Equity Securities and Use of Proceeds**

None.

**Item 3. Defaults Upon Senior Securities**

Not applicable.

**Item 4. Mine Safety Disclosures**

Not applicable.

**Item 5. Other Information**

On August 31, 2023, Richard Crumly, Director of the Company, adopted a 10b5-1 plan. This plan allows for Mr. Crumly's orderly disposition of 316,912 shares of the Company's Common Stock during the period from December 1, 2023 to December 31, 2024. None.

**Item 6. Exhibits**

The following exhibits are being filed or furnished with this quarterly report on Form 10-Q:

| Exhibit No. | Description | Method of Filing |
|---|---|---|
| 31.1 | Certification of Chief Executive Officer Pursuant to Exchange Act Rules 13a-14(a)/15d-14(a), as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 | Filed herewith |
| 31.2 | Certification of Chief Financial Officer Pursuant to Exchange Act Rules 13a-14(a)/15d-14(a), as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 | Filed herewith |
| 32.1 | Certification of Chief Executive Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 | Furnished herewith |
| 32.2 | Certification of Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 | Furnished herewith |
| 101 | The following materials from XPEL's Quarterly Report on Form 10-Q for the fiscal quarter ended June 30, 2021 March 31, 2020, formatted in XBRL (Extensible Business Reporting Language): (i) the unaudited Consolidated Balance Sheets, (ii) the unaudited Consolidated Statements of Operations, (iii) the unaudited Consolidated Statements of Comprehensive Income, (iv) the unaudited Consolidated Statements of Equity, (v) the unaudited Consolidated Statements of Cash Flows, and (vi) Notes to Consolidated Financial Statements | Filed herewith |

**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

XPEL, Inc. (Registrant)

By: /s/ Barry R. Wood

Barry R. Wood

Senior Vice President and Chief Financial Officer

November 8, 2023 May 9, 2024

(Authorized Officer and Principal Financial and Accounting Officer)

**EXHIBIT 31.1**

**CERTIFICATION PURSUANT TO SECTION 302(A) OF THE SARBANES-OXLEY ACT OF 2002**

I, Ryan L. Pape, certify that:

Date: November 8, 2023 May 9, 2024

1. I have reviewed this Quarterly Report on Form 10-Q of XPEL, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
   a. designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
   b. designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
   c. evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
   d. disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
   a. all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
   b. any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ Ryan L. Pape
Ryan L. Pape
President and Chief Executive Officer
(Principal Executive Officer)

Date: November 8, 2023 May 9, 2024

**EXHIBIT 31.2**

**CERTIFICATION PURSUANT TO SECTION 302(A) OF THE SARBANES-OXLEY ACT OF 2002**

I, Barry R. Wood, certify that:

Date: November 8, 2023 May 9, 2024

1. I have reviewed this Quarterly Report on Form 10-Q of XPEL, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
   a. designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b. designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c. evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d. disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

a. all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b. any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ Barry R. Wood
Barry R. Wood
Senior Vice President and Chief Financial Officer
(Principal Financial Officer)

Date: November 8, 2023 May 9, 2024

100%">

**EXHIBIT 32.1**

**CERTIFICATION PURSUANT TO**
**18 U.S.C. 1350**
**(SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002)**

I, Ryan L. Pape, President and Chief Executive Officer of XPEL, Inc. (the "Company"), certify, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350, that, to my knowledge:

(1) the Quarterly Report on Form 10-Q of the Company for the quarterly period ended September 30, 2023 March 31, 2024 (the "Report") fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m(a) or 78o(d)); and

(2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

This certificate is being furnished solely for the purposes of 18 U.S.C. Section 1350 and is not being filed as part of the Report or as a separate disclosure document.

/s/ Ryan L. Pape
Ryan L. Pape
President and Chief Executive Officer

Date: November 8, 2023 May 9, 2024

**EXHIBIT 32.2**

**CERTIFICATION PURSUANT TO**
**18 U.S.C. 1350**
**(SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002)**

I, Barry R.Wood, Senior Vice President and Chief Financial Officer of XPEL, Inc. (the "Company"), certify, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350, that, to my knowledge:

(1) the Quarterly Report on Form 10-Q of the Company for the quarterly period ended September 30, 2023 March 31, 2024 (the "Report") fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m(a) or 78o(d)); and

(2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

This certificate is being furnished solely for the purposes of 18 U.S.C. Section 1350 and is not being filed as part of the Report or as a separate disclosure document.

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|---|---|
| | /s/ Barry R. Wood |
| | Barry R. Wood |
| Date: November 8, 2023 May 9, 2024 | Senior Vice President and Chief Financial Officer |