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

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 001-38858

XPEL, INC.
(Exact name of registrant as specified in its charter)

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 ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate 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 ☒ 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”, “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 shares of common stock outstanding as of November 8, 2023.

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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

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, 2023	Three Months Ended September 30, 2022	Nine Months Ended September 30, 2023	Nine Months Ended September 30, 2022
Revenue				
Product revenue	$ 81,125	$ 72,616	$ 229,339	$ 197,753
Service revenue	21,552	17,142	61,416	47,759
Total revenue	102,677	89,758	290,755	245,512
Cost of Sales				
Cost of product sales	51,876	47,225	143,613	129,646
Cost of service	9,272	6,767	25,660	19,400
Total cost of sales	61,148	53,992	169,273	149,046
Gross Margin	41,529	35,766	121,482	96,466
Operating Expenses				
Sales and marketing	7,730	6,297	22,554	18,515
General and administrative	16,170	12,162	46,180	34,859
Total operating expenses	23,900	18,459	68,734	53,374
Operating Income	17,629	17,307	52,748	43,092
Interest expense	85	391	946	933
Foreign currency exchange loss	398	372	419	833
Income before income taxes	17,146	16,544	51,383	41,326
Income tax expense	3,490	3,226	10,553	8,302
Net income	$ 13,656	$ 13,318	$ 40,830	$ 33,024
Earnings per share				
Basic	$ 0.49	$ 0.48	$ 1.48	$ 1.20
Diluted	$ 0.49	$ 0.48	$ 1.48	$ 1.20
Weighted Average Number of Common Shares				
Basic	27,623	27,616	27,620	27,614
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
Other comprehensive income				
Net income	$ 13,656	$ 13,318	$ 40,830	$ 33,024
Foreign currency translation	(731)	(1,551)	24	(2,821)
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
Balance as of December 31, 2022	27,616	28	11,073	115,824	(2,203)	124,722
Net income	—	—	—	40,830	—	40,830
Foreign currency translation	—	—	—	—	24	24
Stock-based compensation	13	—	977	—	—	977
Balance as of September 30, 2023	27,629	$ 28	$ 12,050	$ 156,654	$ (2,179)	$ 166,553

See notes to condensed consolidated financial statements.

XPEL, INC.

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

	Nine Months Ended September 30, 2023	
	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:		
Accounts receivable	(9,483)	(5,899)
Inventory, net	(11,583)	(18,423)
Prepaid expenses and other assets	(7,288)	(3,982)
Income tax receivable and payable	320	1,077
Accounts payable and accrued liabilities	18,311	(2,505)
Net cash provided by operating activities	38,501	9,696
Cash flows used in investing activities		
Purchase of property, plant and equipment	(4,741)	(5,534)
Proceeds from sale of property and equipment	20	66
Business acquisitions, net of cash acquired	(4,697)	(2,993)
Development of intangible assets	(798)	(1,368)
Net cash used in investing activities	(10,216)	(9,829)
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)
Repayments of notes payable	(77)	(304)
Net cash (used in) provided by financing activities	(26,244)	666
Net change in cash and cash equivalents	2,041	533
Foreign exchange impact on cash and cash equivalents	277	68
Increase in cash and cash equivalents during the period	2,318	601
Cash and cash equivalents at beginning of period	8,056	9,644
Cash and cash equivalents at end of period	$ 10,374	$ 10,245
Supplemental schedule of non-cash activities		
Non-cash lease financing	$ 1,847	$ 5,209
Issuance of common stock for vested restricted stock units	$ 874	$ 222
Supplemental cash flow information		
Cash paid for income taxes	$ 11,144	$ 7,305
Cash paid for interest	$ 1,000	$ 900

See notes to condensed consolidated financial statements.

1. INTERIM FINANCIAL INFORMATION

The accompanying (a) condensed consolidated balance sheet as of December 31, 2022, 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 and 2022 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 as filed with the SEC on February 28, 2023 (the "Annual Report"). These condensed consolidated financial statements also should be read in conjunction with the Management's Discussion and Analysis of Financial Condition and Results of Operations section appearing in this 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. 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. 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 ("CODM") is the Company's 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 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 for expected credit losses and doubtful accounts of $0.2 million and $0.2 million as of September 30, 2023 and December 31, 2022, 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 products. Liability under the warranty policy is based on a review of historical warranty claims. Adjustments are made to the accruals based on actual claims data. The Company's liability for warranties as of September 30, 2023 and December 31, 2022 was $0.4 million and $0.2 million, respectively. The following tables present a summary of the Company's accrued warranty liabilities for the nine months ended September 30, 2023 and the twelve months ended December 31, 2022 (dollars in thousands):

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

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

Recently Adopted Accounting Pronouncements

In June 2016, the FASB issued ASU 2016-13, “Financial Instruments — Measurement of Credit Losses on Financial Instruments”, which requires measurement and recognition of expected credit losses for financial assets held. We adopted this pronouncement effective January 1, 2023 without material impact to 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

- 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

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 from product and services sales are recognized when control of the goods and services is transferred to the customer, which 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 are immaterial. Discounts provided by the Company to customers at the time of sale are recognized as a reduction in sales at the time of the sale.

Warranty obligations associated with the sale of the Company's 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 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 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 ASC 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 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 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 thousands):

Balance, December 31, 2022	$ 261
Revenue recognized related to payments included in the December 31, 2022 balance	(206)
Payments received for which performance obligations have not been satisfied	2,791
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	$ 5,625

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

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

Because many of the Company's 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 estimate of sales by geographic regions based on the Company's 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

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.

4. PROPERTY AND EQUIPMENT, NET

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

	September 30, 2023	December 31, 2022
Furniture and fixtures	$ 3,189	$ 2,667
Computer equipment	4,392	3,455
Vehicles	903	838
Equipment	5,279	4,728
Leasehold improvements	10,276	7,081
Plotters	3,750	2,980
Construction in Progress	351	1,745
Total property and equipment	28,140	23,494
Less: accumulated depreciation	12,450	9,291
Property and equipment, net	$ 15,690	$ 14,203

Depreciation expense for the three months ended September 30, 2023 and 2022 was $1.2 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, respectively.

5. INTANGIBLE ASSETS, NET

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

	September 30, 2023	December 31, 2022
Trademarks	$ 823	$ 686
Software	5,472	4,822
Trade names	1,609	1,451
Contractual and customer relationships	34,724	31,871
Non-compete	439	440
Other	498	497
Total cost	43,565	39,767
Less: Accumulated amortization	14,104	10,473
Intangible assets, net	$ 29,461	$ 29,294

Amortization expense for the three months ended September 30, 2023 and 2022 was $1.3 million and $1.1 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 months ended September 30, 2023 and 2022 (dollars in thousands):

	2023
Balance at December 31, 2022	$ 26,763
Additions and purchase price allocation adjustments	1,875
Foreign Exchange	(36)
Balance at September 30, 2023	$ 28,602

	2022
Balance at December 31, 2021	$ 25,655
Additions and purchase price allocation adjustments	1,826
Foreign Exchange	(718)
Balance at December 31, 2022	$ 26,763

The Company completed one acquisition in the nine months ended September 30, 2023. Refer to Note 13 for discussion of this acquisition.

7. INVENTORIES

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

	September 30, 2023	December 31, 2022
Raw materials	$ 18,741	$ 10,416
Work in process	3,617	6,756
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, 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, the Company had an outstanding balance of $26.0 million under a prior credit agreement which was subsequently repaid and terminated.

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, these rates were 8.5% and 6.3%, 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.

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 Canada, as 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 and December 31, 2022, no balance was outstanding on this line of credit.

As of September 30, 2023 and December 31, 2022, 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 thousands):

	September 30, 2023	December 31, 2022
Trade payables	$ 30,419	$ 16,689
Payroll liabilities	3,236	3,596
Contract liabilities	5,625	261
Acquisition holdback payments	394	191
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.

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

	September 30, 2023	December 31, 2022
Level 3:		
Contingent Liabilities	$ 1,085	$ 955

Increases 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.

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):

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

13. BUSINESS ACQUISITIONS

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” 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 highly dependent on automotive sales and production volumes.
- We currently rely on one distributor for sales of our products in China.
- A material portion of our business is in China, which may be an unpredictable market and is currently suffering trade tensions with the U.S.
- We must continue to attract, retain and develop key personnel.
- We could be impacted by disruptions in supply.
- Our accounting estimates and risk management processes rely on assumptions or models that may prove inaccurate.
- We must maintain an effective system of internal control over financial reporting to keep stockholder confidence.
- Our industry is highly competitive.
- Our North American market is currently designed for the public's use of car dealerships to purchase automobiles which may dramatically change.
- Our revenue could be impacted by growing use of ride-sharing or other alternate forms of car ownership.
- We must be effective in developing new lines of business and new products to maintain growth.
- Any disruptions in our relationships with independent installers and new car dealerships could harm our sales.
- Our strategy related to acquisitions and investments could be unsuccessful or consume significant resources.
- We must maintain and grow our network 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 international trade compliance, anti-corruption, economic, intellectual property, cybersecurity, data protection and other regulatory regimes.
- We may seek to incur substantial indebtedness in the future.
- Our growth may be dependent on the availability of capital and funding.
- Our Common Stock could decline or be downgraded at any time.

- Our stock price has been, and may continue to be, volatile.
- 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 global, economic and business conditions, including the risk of inflation in various markets.

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 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 and incorporated in Nevada in 2003, XPEL has grown from an automotive product design software company to a global provider of after-market automotive products, including automotive surface 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.

XPEL 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 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 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 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 in furtherance of this objective.

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 depreciation and amortization, (b) interest expense, net, and (c) income tax expense.

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

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

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 usefulness as a comparative measure.

Results of Operations

The following tables summarize the Company's consolidated results of operations for the three and nine months ended September 30, 2023 and 2022 (dollars 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 %

	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 revenue results for the three and nine months ended September 30, 2023 and 2022 (dollars 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	
	2023	2022	Inc (Dec)	2023	2022
Product Revenue					
Paint protection film	$ 165,016	$ 146,465	12.7 %	56.8 %	59.7 %
Window film	54,055	42,711	26.6 %	18.6 %	17.4 %
Other	10,268	8,577	19.7 %	3.5 %	3.4 %
Total	$ 229,339	$ 197,753	16.0 %	78.9 %	80.5 %
Service Revenue					
Software	$ 4,656	$ 3,804	22.4 %	1.6 %	1.5 %
Cutbank credits	13,253	11,459	15.7 %	4.6 %	4.7 %
Installation labor	41,781	31,371	33.2 %	14.4 %	12.8 %
Training and other	1,726	1,125	53.4 %	0.5 %	0.5 %
Total	$ 61,416	$ 47,759	28.6 %	21.1 %	19.5 %
Total	$ 290,755	$ 245,512	18.4 %	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 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 and 2022 (dollars in thousands):

	Three Months Ended September 30,		%	% of Total Revenue	
	2023	2022	Inc (Dec)	2023	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,		%	% of Total Revenue	
	2023	2022	Inc (Dec)	2023	2022
United States	$ 169,228	$ 142,275	18.9 %	58.2 %	58.0 %
Canada	31,914	29,773	7.2 %	11.0 %	12.1 %
China	24,992	27,772	(10.0)%	8.6 %	11.3 %
Continental Europe	26,354	18,671	41.1 %	9.1 %	7.6 %
Middle East/Africa	11,514	8,025	43.5 %	4.0 %	3.3 %
United Kingdom	10,220	7,505	36.2 %	3.5 %	3.1 %
Asia Pacific	9,192	6,549	40.4 %	3.2 %	2.7 %
Latin America	6,617	4,033	64.1 %	2.3 %	1.6 %
Other	724	909	(20.4)%	0.2 %	0.3 %
Total	$ 290,755	$ 245,512	18.4 %	100.0 %	100.0 %

Product Revenue. Product revenue for the three months ended September 30, 2023 increased 11.7% over 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. Revenue from our paint protection film product line increased 8.8% over the three months ended September 30, 2022. Paint protection film sales represented 57.4% and 60.4% of our total consolidated revenues for the three months ended September 30, 2023 and 2022, respectively. The total increase in paint protection film sales was due to increased demand for our film products across multiple regions partially offset by a decrease in sales to China resulting from lingering impacts of the COVID-19 pandemic.

Revenue from our window film product line grew 21.9% for the three months ended September 30, 2023 compared to the three months ended September 30, 2022. Window film sales represented 18.3% and 17.1% of our total consolidated revenues for the three 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 49.9% compared 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. This increase was driven by demand for our architectural window films as we continue to pursue this large addressable market.

Other product revenue for the three months ended September 30, 2023 increased 13.1% compared 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 and represented 11.9% of total window film revenue and 2.2% of total revenue. This increase was driven by increased 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 to the nine months ended September 30, 2022 to $4.5 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 nine months ended September 30, 2023. The U.S. region, our largest region, grew 18.9% due primarily to increasing attach rates. Outside the U.S., most regions saw strong growth due primarily to increased product awareness and attach rates.

Service revenue. Service revenue consists of revenue from fees for DAP software access, 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 and revenue from training services provided to our customers.

Service revenue grew 25.7% over the three months ended September 30, 2022. Within this category, software revenue increased 22.3% over the three months ended September 30, 2022. This increase was due to an increase in total subscribers to our DAP software. Cutbank credit revenue increased 4.0% from the three months ended September 30, 2022 due to associated product revenue growth. Installation labor revenue increased 34.2% over the three months ended September 30, 2022 due mainly to increased demand 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 increased 15.7% over the nine months ended September 30, 2022 due to 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 dealership service and OEM networks.

Total installation revenue (labor and product combined) increased 34.2% over the three months ended September 30, 2022. This represented 17.2% and 14.7% of our total consolidated revenue for the three 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. 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 the three months ended September 30, 2022. Adjusted product revenue increased 16.0% versus the nine months ended September 30, 2022. 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 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 the three months ended September 30, 2023 increased 9.9% over the three months ended September 30, 2022. Cost of product sales represented 50.5% and 52.6% of total revenue in the three months ended September 30, 2023 and 2022, respectively. Cost of service revenue grew 37.0% during the three 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.

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% and 52.8% 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 to the three months ended September 30, 2022. For the three months ended September 30, 2023, gross margin represented 40.4% of revenue compared to 39.8% 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 and services for the three and nine months ended September 30, 2023 and 2022 (dollars 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 %

Product gross margin for the three months ended September 30, 2023 increased approximately $3.9 million, or 15.2%, 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. This represented 57.0% and 60.5% of total service revenue for the three months ended September 30, 2023 and 2022, respectively. The decrease in service gross margin percentage for the three months ended September 30, 2022 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.

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.

Operating Expenses

Sales and marketing expenses for the three months ended September 30, 2023 increased 22.8% 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. These expenses represented 7.5% and 7.0% of total consolidated revenue for the three months ended September 30, 2023 and 2022, 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 due to increased personnel and marketing costs incurred to support the ongoing growth 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.

General and administrative expenses grew approximately $4.0 million, or 33.0% over the three 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 15.7%

and 13.6% 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.

Income Tax Expense

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

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% to $13.7 million.

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

Liquidity and Capital Resources

Our primary sources of liquidity are available cash and cash equivalents, cash flows provided by operations and borrowings under our credit facilities. As of September 30, 2023, we had cash and cash equivalents of $10.4 million. For the nine months ended September 30, 2023, cash provided by operations was $38.5 million. We currently have $128.3 million of credit 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 available cash, internally generated funds, and borrowings from our committed credit facilities to be sufficient to support working capital needs, capital expenditures (including acquisitions), and our debt service obligations. 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 report.

Operating activities. Cash provided by operations for the nine months ended September 30, 2023 was $38.5 million compared to $9.7 million during the nine months ended September 30, 2022. Included in cash provided from operating activities for the nine months ended September 30, 2023 was 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 in net income and changes in other working capital items including reductions in inventory purchases and increases in accounts payable due to payment cycle timing.

Investing activities. Cash used in investing activities totaled approximately $10.2 million during the nine months ended September 30, 2023 compared to $9.8 million during the nine months ended September 30, 2022. This was due primarily to higher acquisition-related payments made during 2023.

Financing 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 in the prior year of $0.7 million. This change was due primarily to repayments on our committed credit facility in 2023 as compared to borrowings in the prior year.

Debt and contingent obligations as of September 30, 2023 and December 31, 2022 totaled approximately $1.1 million and $27.0 million, respectively.

Future liquidity and 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. 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. In the long-term, we are contractually obligated to make lease payments, payments for contingent liabilities, and repayments 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, no balance was outstanding under this agreement. Borrowings under this facility are subject to the terms of the Credit Agreement.

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, these rates were 8.5% and 6.3%, 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.

The Company also has a CAD $4.5 million revolving credit facility through a financial institution in Canada, as 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 and December 31, 2022, no balance was outstanding on this line of credit.

Critical Accounting Policies

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

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 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.

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.

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, 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

(Authorized Officer and Principal Financial and Accounting Officer)

November 8, 2023