# 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 March 31, 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” and “smaller reporting company” in Rule 12b-2 of the Exchange Act.:

| | | | |
|---|---|---|---|
| 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 27,618,084 shares of common stock outstanding as of May 9, 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) March 31, 2023 | (Audited) December 31, 2022 |
|---|---|---|
| **Assets** | | |
| **Current** | | |
| Cash and cash equivalents | $ 8,330 | $ 8,056 |
| Accounts receivable, net | 21,353 | 14,726 |
| Inventory, net | 84,594 | 80,575 |
| Prepaid expenses and other current assets | 6,035 | 3,464 |
| **Total current assets** | 120,312 | 106,821 |
| Property and equipment, net | 15,311 | 14,203 |
| Right-of-use lease assets | 15,624 | 15,309 |
| Intangible assets, net | 28,485 | 29,294 |
| Other non-current assets | 1,116 | 972 |
| Goodwill | 26,819 | 26,763 |
| **Total assets** | $ 207,667 | $ 193,362 |
| **Liabilities** | | |
| **Current** | | |
| Current portion of notes payable | $ — | $ 77 |
| Current portion lease liabilities | 4,261 | 3,885 |
| Accounts payable and accrued liabilities | 20,541 | 22,970 |
| Income tax payable | 2,828 | 470 |
| **Total current liabilities** | 27,630 | 27,402 |
| Deferred tax liability, net | 1,935 | 2,049 |
| Other long-term liabilities | 1,105 | 1,070 |
| Borrowings on line of credit | 28,000 | 26,000 |
| Non-current portion of lease liabilities | 12,240 | 12,119 |
| **Total liabilities** | 70,910 | 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; 27,616,064 issued and outstanding | 28 | 28 |
| Additional paid-in-capital | 11,376 | 11,073 |
| Accumulated other comprehensive loss | (1,904) | (2,203) |
| Retained earnings | 127,257 | 115,824 |
| **Total stockholders' equity** | 136,757 | 124,722 |
| **Total liabilities and stockholders' equity** | $ 207,667 | $ 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 March 31, 2023 | Three Months Ended March 31, 2022 |
|---|---|---|
| **Revenue** | | |
| Product revenue | $ 67,308 | $ 58,098 |
| Service revenue | 18,534 | 13,766 |
| **Total revenue** | 85,842 | 71,864 |
| | | |
| **Cost of Sales** | | |
| Cost of product sales | 42,180 | 38,194 |
| Cost of service | 7,702 | 5,953 |
| **Total cost of sales** | 49,882 | 44,147 |
| **Gross Margin** | 35,960 | 27,717 |
| | | |
| **Operating Expenses** | | |
| Sales and marketing | 6,675 | 6,311 |
| General and administrative | 14,354 | 11,369 |
| **Total operating expenses** | 21,029 | 17,680 |
| | | |
| **Operating Income** | 14,931 | 10,037 |
| | | |
| Interest expense | 523 | 220 |
| Foreign currency exchange (gain) loss | (9) | 5 |
| | | |
| **Income before income taxes** | 14,417 | 9,812 |
| Income tax expense | 2,984 | 2,009 |
| | | |
| **Net income** | $ 11,433 | $ 7,803 |
| | | |
| **Earnings per share** | | |
| **Basic** | $ 0.41 | $ 0.28 |
| **Diluted** | $ 0.41 | $ 0.28 |
| **Weighted Average Number of Common Shares** | | |
| **Basic** | 27,616 | 27,613 |
| **Diluted** | 27,626 | 27,613 |

See notes to condensed consolidated financial statements.

## XPEL, INC.

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

| | Three Months Ended March 31, 2023 | Three Months Ended March 31, 2022 |
|---|---|---|
| **Other comprehensive income** | | |
| Net income | $ 11,433 | $ 7,803 |
| Foreign currency translation | 299 | (95) |
| **Total comprehensive income** | $ 11,732 | $ 7,708 |

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 March 31**

| | Common Stock | | Additional Paid-in-Capital | Retained Earnings | Accumulated Other Comprehensive Loss | Total Stockholders' Equity |
|---|---|---|---|---|---|---|
| | Shares | Amount | | | | |
| **Balance as of December 31, 2021** | 27,613 | $ 28 | $ 10,581 | $ 74,443 | $ (589) | $ 84,463 |
| Net income | — | — | — | 7,803 | — | 7,803 |
| Foreign currency translation | — | — | — | — | (95) | (95) |
| Stock-based compensation | — | — | 70 | — | — | 70 |
| **Balance as of March 31, 2022** | 27,613 | 28 | 10,651 | 82,246 | (684) | 92,241 |
| **Balance as of December 31, 2022** | 27,616 | 28 | 11,073 | 115,824 | (2,203) | 124,722 |
| Net income | — | — | — | 11,433 | — | 11,433 |
| Foreign currency translation | — | — | — | — | 299 | 299 |
| Stock-based compensation | — | — | 303 | — | — | 303 |
| **Balance as of March 31, 2023** | 27,616 | $ 28 | $ 11,376 | $ 127,257 | $ (1,904) | $ 136,757 |

See notes to condensed consolidated financial statements.

XPEL, INC.

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

| | Three Months Ended March 31, | |
|---|---|---|
| | 2023 | 2022 |
| **Cash flows from operating activities** | | |
| Net income | $ 11,433 | $ 7,803 |
| Adjustments to reconcile net income to net cash (used in) provided by operating activities: | | |
| Depreciation of property, plant and equipment | 972 | 756 |
| Amortization of intangible assets | 1,161 | 1,076 |
| Gain on sale of property and equipment | (9) | (14) |
| Stock compensation | 303 | 70 |
| Bad debt expense | 74 | 66 |
| Deferred income tax | (115) | (38) |
| Accretion on notes payable | — | 3 |
| | | |
| Changes in assets and liabilities: | | |
| Accounts receivable | (6,606) | (2,125) |
| Inventory, net | (3,886) | (22,584) |
| Prepaid expenses and other current assets | (2,512) | (78) |
| Income taxes receivable and payable | 2,360 | 1,281 |
| Other assets | — | 74 |
| Accounts payable and accrued liabilities | (2,480) | 9,401 |
| **Net cash provided by (used in) operating activities** | 695 | (4,309) |
| **Cash flows used in investing activities** | | |
| Purchase of property, plant and equipment | (2,055) | (2,271) |
| Proceeds from sale of property and equipment | 12 | 42 |
| Development of intangible assets | (321) | (364) |
| **Net cash used in investing activities** | (2,364) | (2,593) |
| **Cash flows from financing activities** | | |
| Net borrowings on revolving credit agreement | 2,000 | 8,000 |
| Repayments of notes payable | (77) | (108) |
| **Net cash provided by financing activities** | 1,923 | 7,892 |
| **Net change in cash and cash equivalents** | 254 | 990 |
| **Foreign exchange impact on cash and cash equivalents** | 20 | (38) |
| **Increase in cash and cash equivalents during the period** | 274 | 952 |
| **Cash and cash equivalents at beginning of period** | 8,056 | 9,644 |
| **Cash and cash equivalents at end of period** | $ 8,330 | $ 10,596 |
| | | |
| **Supplemental schedule of non-cash activities** | | |
| **Non-cash lease financing** | $ 1,237 | $ 2,389 |
| | | |
| **Supplemental cash flow information** | | |
| **Cash paid for income taxes** | $ 748 | $ 770 |
| **Cash paid for interest** | $ 517 | $ 216 |

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 months ended March 31, 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 for the year ended December 31, 2022 as filed with the SEC on February 28, 2023 (the "Annual Report"). These condensed consolidated financial statements 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 our chief operating decision maker (“CODM”) is our chief executive officer. The Company’s CODM reviews the entire organization’s consolidated results 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 to U.S. GAAP requires management to make judgments and estimates and form assumptions that affect the reported amounts of assets and liabilities 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 allowances for expected credit losses and doubtful accounts of $0.2 million and $0.2 million as of March 31, 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 March 31, 2023 or December 31, 2022.

***Provisions and Warranties -*** We provide a warranty on our products. Liability under the warranty policy is based on a review of historical warranty claims. Adjustments are made to the accruals as claims and data experience warrant. Our liability for warranties as of March 31, 2023 and December 31, 2022 was $0.2 million and $0.2 million, respectively. The following tables present a summary of our accrued warranty liabilities for the three months ended March 31, 2023 and the twelve months ended December 31, 2021 (in thousands):

| | | 2023 |
|---|---|---|
| Warranty liability, January 1 | $ | 234 |
| Warranties assumed in period | $ | 22 |
| Payments | $ | (7) |
| Warranty liability, March 31 | $ | 249 |

| | | 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.

Revenue from product and services sales is recognized when control of the goods, or benefit of the service, is furnished to the 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 those present are immaterial. Discounts provided by the Company to customers at the time of sale are recognized as a reduction in sales as the products are sold.

Warranty obligations associated with the sale of 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 be one year or less.

Under its contracts with customers, the Company stands ready to deliver product upon receipt of a 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 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") 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 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 months ended March 31, 2023 (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 |

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

| | Three Months Ended March 31, | |
|---|---|---|
| | 2023 | 2022 |
| **Product Revenue** | | |
| Paint protection film | $ 49,548 | $ 43,961 |
| Window film | 14,982 | 11,534 |
| Other | 2,778 | 2,603 |
| **Total** | $ 67,308 | $ 58,098 |
| | | |
| **Service Revenue** | | |
| Software | $ 1,458 | $ 1,207 |
| Cutbank credits | 4,030 | 2,930 |
| Installation labor | 12,399 | 9,256 |
| Training and other | 647 | 373 |
| **Total** | $ 18,534 | $ 13,766 |
| | | |
| **Total** | $ 85,842 | $ 71,864 |

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 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 (in thousands):

| | Three Months Ended March 31, | |
|---|---|---|
| | **2023** | **2022** |
| United States | $ 51,077 | $ 41,587 |
| China | 6,647 | 8,859 |
| Canada | 8,592 | 7,850 |
| Continental Europe | 7,960 | 5,663 |
| United Kingdom | 3,091 | 2,428 |
| Middle East/Africa | 3,496 | 2,049 |
| Asia Pacific | 2,645 | 2,033 |
| Latin America | 2,173 | 1,206 |
| Other | 161 | 189 |
| **Total** | $ 85,842 | $ 71,864 |

Our largest customer accounted for 7.7% and 12.3% of our net sales during the three months ended March 31, 2023 and 2022, respectively.

## 4. PROPERTY AND EQUIPMENT, NET

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

| | March 31, 2023 | December 31, 2022 |
|---|---|---|
| Furniture and fixtures | $ 2,831 | $ 2,667 |
| Computer equipment | 3,685 | 3,455 |
| Vehicles | 851 | 838 |
| Equipment | 4,977 | 4,728 |
| Leasehold improvements | 7,349 | 7,081 |
| Plotters | 3,266 | 2,980 |
| Construction in Progress | 2,624 | 1,745 |
| Total property and equipment | 25,583 | 23,494 |
| Less: accumulated depreciation | 10,272 | 9,291 |
| Property and equipment, net | $ 15,311 | $ 14,203 |

Depreciation expense for the three months ended March 31, 2023 and 2022 was $1.0 million and $0.8 million, respectively.

## 5. INTANGIBLE ASSETS, NET

Intangible assets consists of the following (in thousands):

| | March 31, 2023 | December 31, 2022 |
|---|---|---|
| Trademarks | $ 742 | $ 686 |
| Software | 5,084 | 4,822 |
| Trade name | 1,473 | 1,451 |
| Contractual and customer relationships | 31,891 | 31,871 |
| Non-compete | 440 | 440 |
| Other | 499 | 497 |
| Total at cost | 40,129 | 39,767 |
| Less: Accumulated amortization | 11,644 | 10,473 |
| Intangible assets, net | $ 28,485 | $ 29,294 |

Amortization expense for the three months ended March 31, 2023 and 2022 was $1.2 million and $1.1 million, respectively.

## 6. GOODWILL

The following table summarizes goodwill transactions for the three months ended March 31, 2023 and the twelve months ended December 31, 2021 (in thousands):

| | 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 |

| | 2023 |
|---|---|
| Balance at December 31, 2022 | $ 26,763 |
| Foreign exchange | 56 |
| Balance at March 31, 2023 | $ 26,819 |

## 7. INVENTORIES

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

| | March 31, 2023 | December 31, 2022 |
|---|---|---|
| Raw materials | $ 12,873 | $ 10,416 |
| Work in process | 4,638 | 6,756 |
| Finished goods | 67,083 | 63,403 |
| | $ 84,594 | $ 80,575 |

## 8. DEBT

### REVOLVING FACILITIES

Throughout the three months ended March 31, 2023, the Company had a $75.0 million revolving line of credit with a financial institution. The facility was utilized to fund the Company's working capital needs and other strategic initiatives, and was secured by a security interest in substantially all of the Company's current and future assets. Borrowings under the credit agreement bore interest on at the *Wall Street Journal* U.S. Prime Rate less 0.75% per annum if the Company's EBITDA ratio (as defined in the Loan Agreement governing the facility) was equal to or less than 2.00 to 1.00 or the *Wall Street Journal* U.S. Prime rate less 0.25% if the Company's EBITDA ratio was greater than 2.00 to 1.00. The facility also included a fee of 0.25% of the unused capacity on the facility. The interest rate for this credit facility as of March 31, 2023 and December 31, 2022 was 7.25% and 6.75%, respectively. The Company paid interest charges on borrowings under this facility of $0.5 million during the three months ended March 31, 2023 and had a balance of $28.0 million and $26.0 million as of March 31, 2023 and December 31, 2022, respectively. The maturity date of this facility was July 5, 2024.

On April 6, 2023, this facility was terminated and a new $125.0 million Credit Agreement was established with Wells Fargo Bank, N.A. Refer to Note 13 for details on this new Credit Agreement.

The Company also has a CAD $4.5 million revolving credit facility through HSBC Bank Canada, 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, 2023 and December 31, 2022, no balance was outstanding on this line of credit.

As of March 31, 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 (in thousands):

| | March 31, 2023 | December 31, 2022 |
|---|---|---|
| Trade payables | $ 13,453 | $ 16,689 |
| Payroll liabilities | 1,941 | 3,596 |
| Contract liabilities | 2,847 | 261 |
| Acquisition holdback payments | — | 191 |
| Other liabilities | 2,300 | 2,233 |
| | $ 20,541 | $ 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 (in thousands):

| | March 31, 2023 | December 31, 2022 |
|---|---|---|
| Level 3: | | |
| Contingent Liabilities | $ 1,006 | $ 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 months ended March 31, 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 (in thousands except per share values):

| | Three Months Ended March 31, | |
|---|---|---|
| *Numerator* | 2023 | 2022 |
| Net income | $ 11,433 | $ 7,803 |
| *Denominator* | | |
| Weighted average basic shares | 27,616 | 27,613 |
| Dilutive effect of restricted stock units | 10 | — |
| Weighted average diluted shares | 27,626 | 27,613 |
| *Earnings per share* | | |
| Basic | $ 0.41 | $ 0.28 |
| Diluted | $ 0.41 | $ 0.28 |

## 13. SUBSEQUENT EVENTS

***New credit agreement***

On April 6, 2023, the Company entered into a Credit Agreement with Wells Fargo Bank, N.A., as Administrative Agent, and other lenders party thereto. The Credit Agreement provides for secured revolving loans and letters of credit in an aggregate amount of up to $125 million. Simultaneously with entering into the Credit Agreement, XPEL borrowed $31 million to repay all outstanding indebtedness under its Loan Agreement with Texas Partners Bank and to pay expenses incurred in connection with 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. Both the margin applicable to the interest rate and the commitment fee are dependent on XPEL's Consolidated Total Leverage Ratio.

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:

1. Its Consolidated Total Leverage Ratio to exceed 3.50 to 1.00, and
2. Its Consolidated Interest Coverage Ratio to be less than 3.00 to 1.00.

The Credit Agreement's maturity date is April 6, 2026.

Under the Credit Agreement:

"Adjusted Term SOFR" means, for purposes of any calculation, the rate per annum equal to (a) Term SOFR for such calculation plus (b) the Term SOFR Adjustment; (as defined in the Credit Agreement) provided that if Adjusted Term SOFR as so determined shall ever be less than 0%, then the Adjusted Term SOFR shall be deemed to be 0%.

"Base Rate" is defined as the highest of (a) the Administrative Agent's prime rate, (b) the Federal funds rate plus 0.50%, or (c) Adjusted Term SOFR for a one-month tenor in effect on such day plus 1.00%.

"Consolidated Total Leverage Ratio" is defined as the ratio of consolidated funded indebtedness on such date to Consolidated EBITDA for the most recently completed Reference Period.

"Consolidated Interest Coverage Ratio" is defined as the ratio of Consolidated EBITDA for the most recently completed Reference Period to XPEL's consolidated interest expense for the most recently completed Reference Period.

"Consolidated EBITDA" is defined as consolidated net income (i) plus all of the following: (a) consolidated interest expense; (b) tax expense measured by net income, profits or capital (or any similar measures), paid or accrued, including federal and state and local income taxes, foreign income taxes and franchise taxes; (c) depreciation, amortization and other non-cash charges or expenses (including stock based compensation and write-downs of goodwill), excluding any non-cash charge or expense that represents an accrual for a cash expense to be taken in a future period; (d) all transaction fees, charges and other amounts (including any financing fees, merger and acquisition fees, legal fees and expenses, due diligence fees or any other fees and expenses in connection therewith) in connection with any Credit Agreement permitted acquisition, investment, disposition, issuance or repurchase of equity interests, or the incurrence, amendment or waiver of indebtedness permitted hereunder (other than those related to the certain transactions or with respect to any amendment or modification of the Loan Documents), in each case, whether or not consummated, in each case to the extent paid within six months of the closing or effectiveness of such event or the termination or abandonment of such transaction, as the case may be; provided that (1) the aggregate amount added back pursuant to this provision with respect to any one transaction shall not exceed $2,000,000 for the applicable period and (2) any amounts added back for such applicable period shall be set forth in reasonable detail on XPEL's compliance certification for such period; (e) non-cash charges and losses (excluding any such non-cash charges or losses to the extent (1) there were cash charges with respect to such charges and losses in past accounting periods or (2) there is a reasonable expectation that there will be cash charges with respect to such charges and losses in future accounting periods); and (f) unusual and non-recurring expenses, charges or losses (excluding losses from discontinued operations); and (ii) less the sum of the following, without duplication, to the extent included in determining consolidated net income for such period: (a) interest income; (b) federal, state, local and foreign income tax credits of XPEL and its subsidiaries for such period (to the extent not netted from income tax expense); (c) any unusual and non-recurring gains; (d) non-cash gains (excluding any such non-cash gains to the extent (A) there were cash gains with respect to such gains in past accounting periods or (B) there is a reasonable expectation that there will be cash gains with respect to such gains in future accounting periods); and (e) any cash expense made during such period which represents the reversal of any non-cash expense that was added in a prior period pursuant to clause (i)(c) above subsequent to the fiscal quarter in which the relevant non-cash expenses, charges or losses were incurred.

“Reference Period” is defined at any date of determination as, the period of four consecutive fiscal quarters ended on or immediately prior to such date for which financial statements of XPEL have been delivered to the Administrative Agent.

“SOFR” means a rate equal to the secured overnight financing rate as administered by the SOFR Administrator.

“SOFR Administrator” means the Federal Reserve Bank of New York (or a successor administrator of the secured overnight financing rate).

***Acquisition of a business***

On May 1, 2023, we completed the acquisition of a U.S.-based dealership services business. The purchase price of this business was approximately $5.3 million.

## 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. (“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 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 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 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:

<u>2014</u>

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

<u>2015</u>

- 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, and

- 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 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 Form 10-K.

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 on Form 10-K.

**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) total 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 months ended March 31, 2023 and 2022 (in thousands):

| | (Unaudited) | |
|---|---|---|
| | Three Months Ended March 31, | |
| | 2023 | 2022 |
| **Net Income** | $ 11,433 | $ 7,803 |
| **Interest** | 523 | 220 |
| **Taxes** | 2,984 | 2,009 |
| **Depreciation** | 972 | 756 |
| **Amortization** | 1,161 | 1,076 |
| **EBITDA** | $ 17,073 | $ 11,864 |

***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 their usefulness as comparative measures.

## Results of Operations

The following table summarizes the Company's consolidated results of operations for the three months ended March 31, 2023 and 2022 (in thousands):

| | Three Months Ended March 31, 2023 | % of Total Revenue | Three Months Ended March 31, 2022 | % of Total Revenue | $ Change | % Change |
|---|---|---|---|---|---|---|
| Total revenue | $ 85,842 | 100.0 % | $ 71,864 | 100.0 % | $ 13,978 | 19.5 % |
| Total cost of sales | 49,882 | 58.1 % | 44,147 | 61.4 % | 5,735 | 13.0 % |
| Gross margin | 35,960 | 41.9 % | 27,717 | 38.6 % | 8,243 | 29.7 % |
| Total operating expenses | 21,029 | 24.5 % | 17,680 | 24.6 % | 3,349 | 18.9 % |
| Operating income | 14,931 | 17.4 % | 10,037 | 14.0 % | 4,894 | 48.8 % |
| Other expenses | 514 | 0.6 % | 225 | 0.3 % | 289 | 128.4 % |
| Income tax | 2,984 | 3.5 % | 2,009 | 2.8 % | 975 | 48.5 % |
| Net income | $ 11,433 | 13.3 % | $ 7,803 | 10.9 % | $ 3,630 | 46.5 % |

The following table summarizes revenue results for the three months ended March 31, 2023 and 2022 (in thousands):

| | Three Months Ended March 31, | | % | % of Total Revenue | |
|---|---|---|---|---|---|
| | 2023 | 2022 | Inc (Dec) | 2023 | 2022 |
| **Product Revenue** | | | | | |
| Paint protection film | $ 49,548 | $ 43,961 | 12.7 % | 57.7 % | 61.2 % |
| Window film | 14,982 | 11,534 | 29.9 % | 17.5 % | 16.0 % |
| Other | 2,778 | 2,603 | 6.7 % | 3.1 % | 3.6 % |
| Total | $ 67,308 | $ 58,098 | 15.9 % | 78.4 % | 80.8 % |
| **Service Revenue** | | | | | |
| Software | $ 1,458 | $ 1,207 | 20.8 % | 1.7 % | 1.7 % |
| Cutbank credits | 4,030 | 2,930 | 37.5 % | 4.7 % | 4.1 % |
| Installation labor | 12,399 | 9,256 | 34.0 % | 14.4 % | 12.9 % |
| Training and other | 647 | 373 | 73.5 % | 0.8 % | 0.5 % |
| Total | $ 18,534 | $ 13,766 | 34.6 % | 21.6 % | 19.2 % |
| **Total** | $ 85,842 | $ 71,864 | 19.5 % | 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 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 months ended March 31, 2023 and 2022 (in thousands):

| | Three Months Ended March 31, | | % | % of Total Revenue | |
|---|---|---|---|---|---|
| | 2023 | 2022 | Inc (Dec) | 2023 | 2022 |
| United States | $ 51,077 | $ 41,587 | 22.8 % | 59.5 % | 57.9 % |
| China | 6,647 | 8,859 | (25.0)% | 7.7 % | 12.3 % |
| Canada | 8,592 | 7,850 | 9.5 % | 10.0 % | 10.9 % |
| Continental Europe | 7,960 | 5,663 | 40.6 % | 9.3 % | 7.9 % |
| United Kingdom | 3,091 | 2,428 | 27.3 % | 3.6 % | 3.4 % |
| Middle East/Africa | 3,496 | 2,049 | 70.6 % | 4.1 % | 2.9 % |
| Asia Pacific | 2,645 | 2,033 | 30.1 % | 3.1 % | 2.8 % |
| Latin America | 2,173 | 1,206 | 80.2 % | 2.5 % | 1.7 % |
| Other | 161 | 189 | (14.8)% | 0.2 % | 0.2 % |
| **Total** | $ 85,842 | $ 71,864 | 19.5 % | 100.0 % | 100.0 % |

*Product Revenue.* Product revenue increased 15.9% over the three months ended March 31, 2022 Product revenue represented 78.4% of our total revenue for the three months ended March 31, 2023 and 80.8% for the three months ended March 31, 2022. Revenue from our paint protection film product line increased 12.7% for the three months ended March 31, 2023. Paint protection film sales represented 57.7% and 61.2% of our consolidated revenues for the three months ended March 31, 2023 and 2022, respectively. The increase in the total amount of paint protection film sales was primarily due to increased demand for our film products in multiple regions  partially offset by a decrease in sales to China resulting from lingering regional impacts of the COVID-19 pandemic. This net increase in demand was driven primarily by an increase in the overall number of our customers together with increased sales to existing customers.

Revenue from our window film product line grew 29.9% for the three months ended March 31, 2023. Window film sales represented 17.5% and 16.0% of our consolidated revenues for the three months ended March 31, 2023 and 2022, respectively. This increase was due to continued channel focus, increased product adoption in multiple regions and increased demand.  Architectural window film revenue increased 6.4% to $1.2 million.  This increase was due mainly to increased product awareness and demand in most of our regions.

Geographically, we experienced growth in many regions during the three months ended March 31, 2023.  The U.S. region, our largest region, grew 22.8% due primarily to increasing attach rates.  Outside the U.S., several regions saw strong growth due primarily to increased product awareness and attach rates.  Our China region revenue declined 25.0% compared to the three months ended March 31, 2022 due mainly to the lingering regional impacts of the COVID-19 pandemic.

Service revenue consists of 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 businesses and revenue from training services provided to our customers. Service revenue grew 34.6% over service revenue for the three months ended March 31, 2022. Service revenue represented 21.6% and 19.2% of our consolidated revenue from the three months ended March 31, 2023 and 2022, respectively.

Software revenue increased 20.8% from the three months ended March 31, 2022. The increase was due primarily to increases in total subscribers to our software. Software revenue represented 1.7% of consolidated revenue for both the three months ended March 31, 2023 and the three months ended March 31, 2022. Cutbank credit revenue grew 37.5% from the three months ended March 31, 2022. This increase was due mainly to increased demand for our products and services. Cutbank sales represented 4.7% and 4.1% of our consolidated revenue for the three months ended March 31, 2023 and 2022, respectively. Installation labor revenue increased 14.4% 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) at our Company-owned installation centers for the three months ended March 31, 2023 increased 34.0% over the three months ended March 31, 2022. This represented 17.2% and 15.3% of our consolidated revenue for the three months ended March 31, 2023 and 2022, respectively. This increase was due mainly to increased demand in our Company-owned installation facilities and across our dealership services businesses and OEM networks. Adjusted product revenue, which combines the cutbank credit revenue service component with product revenue, increased 16.9% in the three months ended March 31, 2023 versus the three months ended March 31, 2022 due mainly to the same factors described previously.

***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 Company-owned facilities, costs of labor associated with pattern design for our cutting software and the costs incurred to provide training for our customers. Product costs in the three months ended March 31, 2023 increased 10.4% over the three months ended March 31, 2022 commensurate with our growth in product sales. Cost of product sales represented 49.1% and 53.1% of total revenue in the three months ended March 31, 2023 and 2022, respectively. Cost of services grew 29.4% during the three months ended March 31, 2023 and represented 9.0% and 8.3% of total revenue for the three months ended March 31, 2023 and 2022, respectively. This increase was due primarily to increased installation labor costs commensurate with the growth in installation labor revenue.

***Gross Margin***

The following table summarizes gross margin for product and services for the three months ended March 31, 2023 and 2022 (in thousands):

| | Three Months Ended March 31, | | % | % of Category Revenue | |
|---|---|---|---|---|---|
| | 2023 | 2022 | Inc (Dec) | 2023 | 2022 |
| Product margin | $ 25,128 | $ 19,904 | 26.2% | 37.3% | 34.3% |
| Service margin | 10,832 | 7,813 | 38.6% | 58.4% | 56.8% |
| **Total** | $ 35,960 | $ 27,717 | 29.7% | 41.9% | 38.6% |

Product gross margin for the three months ended March 31, 2023 increased approximately $5.2 million, or 26.2%, over the three months ended March 31, 2022 and represented 37.3% and 34.3% of product revenue for the three months ended March 31, 2023 and 2022, respectively. The increase in product gross margin percentages were primarily due to decreases in product costs, favorable changes in product mix and improved operating leverage.

Service gross margin increased approximately $3.0 million, or 38.6%, over the three months ended March 31, 2022. This represented 58.4% and 56.8% of total service revenue for the three months ended March 31, 2023 and 2022, respectively. The increase in service margin percentage was primarily due to improved operating leverage in our dealership services business commensurate with the improvement of inventory levels at new car dealerships.

### *Operating Expenses*

Sales and marketing expenses for the three months ended March 31, 2023 increased $0.4 million, or 5.8%, compared to the same period in 2022. These expenses represented 7.8% and 8.8% of consolidated revenue for the three months ended March 31, 2023 and 2022, respectively. This increase was due to continued investment in our sales and marketing efforts partially offset by timing of our annual dealer conference which was held in the second quarter of this year compared to the first quarter of 2022.

General and administrative expenses grew approximately $3.0 million, or 26.2%, during the three months ended March 31, 2023 over the three months ended March 31, 2022. These costs represented 16.7% and 15.8% of consolidated revenue for the three months ended March 31, 2023 and 2022, respectively. The increase was due mainly to increases in personnel, occupancy costs, and professional fees to support the ongoing growth of the business.

### *Income Tax Expense*

Income tax expense for the three months ended March 31, 2023 increased $1.0 million from the three months ended March 31, 2022. Our effective tax rate was 20.7% for the three months ended March 31, 2023 compared with 20.5% for the three months ended March 31, 2022.

### *Net Income*

Net income for the three months ended March 31, 2023 increased by $3.6 million, or 46.5%, to $11.4 million.

## Liquidity and Capital Resources

The primary source of liquidity for our business is available cash and cash equivalents, cash flows provided by operations and borrowing capacity under our credit facility. As of March 31, 2023, we had cash and cash equivalents of $8.3 million. For the three months ended March 31, 2023, cash provided by operations was $0.7 million. We currently have $94 million of availability under our new credit facility with Wells Fargo. We expect to have sufficient access to cash to support working capital needs, capital expenditures (including acquisitions), and to pay interest and service debt. 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 totaled approximately $0.7 million for the three months ended March 31, 2023, compared to operating cash outflows of $4.3 million for the three months ended March 31, 2022. This increase was driven by an increase in net income and a reduction in inventory purchases partially offset by other changes in working capital.

### *Investing Activities*

Cash flows used in investing activities totaled approximately $2.4 million during the three months ended March 31, 2023 compared to $2.6 million during the three months ended March 31, 2022.

### *Financing Activities*

Cash flows provided by financing activities during the three months ended March 31, 2023 totaled approximately $1.9 million compared to $7.9 million in the prior year. This decrease was due to a decrease in borrowings under our credit facility during the 2023 quarter.

Debt obligations, including balances outstanding on committed credit facilities and contingent liabilities as of March 31, 2023 and December 31, 2022 totaled approximately $29.0 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 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 long-term, we are contractually obligated to make lease payments, for contingent liabilities, and 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

Throughout the three months ended March 31, 2023, the Company had a $75.0 million revolving line of credit with a financial institution. The facility was utilized to fund the Company's working capital needs and other strategic initiatives, and was secured by a security interest in substantially all of the Company's current and future assets. Borrowings under the credit agreement bore interest on at the *Wall Street Journal* U.S. Prime Rate less 0.75% per annum if the Company's EBITDA ratio (as defined in the Loan Agreement governing the facility) was equal to or less than 2.00 to 1.00 or the *Wall Street Journal* U.S. Prime rate less 0.25% if the Company's EBITDA ratio was greater than 2.00 to 1.00. The facility also included a fee of 0.25% of the unused capacity on the facility. The interest rate for this credit facility as of March 31, 2023 and December 31, 2022 was 7.25% and 6.75%, respectively. The Company paid interest charges on borrowings under this facility of $0.5 million during the three months ended March 31, 2023, and had a balance of $28.0 million and $26.0 million as of March 31, 2023 and December 31, 2022, respectively. The maturity date of this facility was July 5, 2024.

On April 6, 2023, this facility was terminated and a new $125.0 million Credit Agreement was established with Wells Fargo Bank, N.A. Borrowings under this new 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. Both the margin applicable to the interest rate and the commitment fee are dependent on XPEL’s Consolidated Total Leverage Ratio.

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 to 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 also provides for two financial covenants:

1. Its Consolidated Total Leverage Ratio to exceed 3.50 to 1.00, and
2. Its Consolidated Interest Coverage Ratio to be less than 3.00 to 1.00.

The Credit Agreement's maturity date is April 6, 2026.

Under the Credit Agreement:

"Adjusted Term SOFR" means, for purposes of any calculation, the rate per annum equal to (a) Term SOFR for such calculation plus (b) the Term SOFR Adjustment; (as defined in the Credit Agreement) provided that if Adjusted Term SOFR as so determined shall ever be less than 0%, then Adjusted Term SOFR shall be deemed to be 0%.

"Base Rate" is defined as the highest of (a) the Administrative Agent's prime rate, (b) the Federal funds rate plus 0.50%, or (c) Adjusted Term SOFR for a one-month tenor in effect on such day plus 1.00%.

"Consolidated Total Leverage Ratio" is defined as the ratio of consolidated funded indebtedness on such date to Consolidated EBITDA for the most recently completed Reference Period.

"Consolidated Interest Coverage Ratio" is defined as the ratio of Consolidated EBITDA for the most recently completed Reference Period to XPEL's consolidated interest expense for the most recently completed Reference Period.

"Consolidated EBITDA" is defined as consolidated net income (i) plus all of the following: (a) consolidated interest expense; (b) tax expense measured by net income, profits or capital (or any similar measures), paid or accrued, including federal and state and local income taxes, foreign income taxes and franchise taxes; (c) depreciation, amortization and other non-cash charges or expenses (including stock based compensation and write-downs of goodwill), excluding any non-cash charge or expense that represents an accrual for a cash expense to be taken in a future period; (d) all transaction fees, charges and other amounts (including any financing fees, merger and acquisition fees, legal fees and expenses, due diligence fees or any other fees and expenses in connection therewith) in connection with any Credit Agreement permitted acquisition, investment, disposition, issuance or repurchase of equity interests, or the incurrence, amendment or waiver of indebtedness permitted hereunder (other than those related to the certain transactions or with respect to any amendment or modification of the Loan Documents), in each case, whether or not consummated, in each case to the extent paid within six months of the closing or effectiveness of such event or the termination or abandonment of such transaction, as the case may be; provided that (1) the aggregate amount added back pursuant to this provision with respect to any one transaction shall not exceed $2,000,000 for the applicable period and (2) any amounts added back for such applicable period shall be set forth in reasonable detail on XPEL's compliance certification for such period; (e) non-cash charges and losses (excluding any such non-cash charges or losses to the extent (1) there were cash charges with respect to such charges and losses in past accounting periods or (2) there is a reasonable expectation that there will be cash charges with respect to such charges and losses in future accounting periods); and (f) unusual and non-recurring expenses, charges or losses (excluding losses from discontinued operations); and (ii) less the sum of the following, without duplication, to the extent included in determining consolidated net income for such period: (a) interest income; (b) federal, state, local and foreign income tax credits of XPEL and its subsidiaries for such period (to the extent not netted from income tax expense); (c) any unusual and non-recurring gains; (d) non-cash gains (excluding any such non-cash gains to the extent (A) there were cash gains with respect to such gains in past accounting periods or (B) there is a reasonable expectation that there will be cash gains with respect to such gains in future accounting periods); and (e) any cash expense made during such period which represents the reversal of any non-cash expense that was added in a prior period pursuant to clause (i)(c) above subsequent to the fiscal quarter in which the relevant non-cash expenses, charges or losses were incurred.

“Reference Period” is defined at any date of determination as, the period of four consecutive fiscal quarters ended on or immediately prior to such date for which financial statements of XPEL have been delivered to the Administrative Agent.

“SOFR” means a rate equal to the secured overnight financing rate as administered by the SOFR Administrator.

“SOFR Administrator” means the Federal Reserve Bank of New York (or a successor administrator of the secured overnight financing rate).

The Credit Agreement contains representations and warranties by XPEL, which were made only for purposes of the Credit Agreement and as of specified dates. The representations, warranties and covenants in the Credit Agreement were made solely for the benefit of the parties to the Credit Agreement, are subject to limitations agreed upon by such parties, including being qualified by schedules, may have been made for the purposes of allocating contractual risk between the parties instead of establishing these matters as facts, and are subject to standards of materiality applicable to the parties that may differ from those applicable to others. Others should not rely on the representations, warranties and covenants or any descriptions thereof as characterizations of the actual state of facts or condition of XPEL or any of its subsidiaries or affiliates. Moreover, information concerning the subject matter of the representations, warranties and covenants may change after the date of the Credit Agreement, which subsequent information may or may not be fully reflected in XPEL’s public disclosures.

The Company also has a CAD $4.5 million revolving credit facility through HSBC Bank Canada, 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, 2023 and December 31, 2022, no balance was outstanding on this line of credit.

**Critical Accounting Estimates**

There have been no material changes to the Company’s critical accounting estimates from the information provided in the Annual 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 13) 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 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

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 |
|---|---|---|
| 10.1 | Credit Agreement Dated April 6, 2023 (incorporated by reference to Exhibit 10-1 to the Company's Current Report on Form 8-K filed on April 10, 2023) | |
| 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 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

(Authorized Officer and Principal Financial and Accounting Officer)

May 9, 2023

**EXHIBIT 31.1**

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

I, Ryan L. Pape, certify that:

Date: May 9, 2023

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: May 9, 2023

**EXHIBIT 31.2**

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

I, Barry R. Wood, certify that:

Date: May 9, 2023

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
Chief Financial Officer
(Principal Financial Officer)

Date: May 9, 2023

**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 March 31, 2023 (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: May 9, 2023

**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 March 31, 2023 (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/ Barry R. Wood
Barry R. Wood
Senior Vice President and Chief Financial Officer

Date: May 9, 2023