XPEL, Inc.
Third Quarter 2024
Management Discussion and Analysis

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:

- We are highly dependent on the automotive industry. A prolonged or material contraction in automotive sales and production volumes could adversely affect our business, results of operations and financial condition.
- We currently rely on one distributor for our products in China.
- A significant percentage of our revenue is generated from our business in China, a market that is associated with certain risks.
- The loss of one or more of our key personnel or our failure to attract and retain other highly qualified personnel in the future, could harm our business.
- A material disruption from our contract manufacturers or suppliers or our inability to obtain a sufficient supply from alternate suppliers could cause us to be unable to meet customer demands or increase our costs.
- Our asset-light business model exposes us to product quality and variable cost risks.
- Our accounting estimates and risk management processes rely on assumptions or models that may prove inaccurate.

- Fluctuations in the cost and availability of raw materials, equipment, labor and transportation could cause manufacturing delays, increase our costs and/or impact our ability to meet customer demand.
- Our industry is highly competitive.
- Harm to our reputation or the reputation of one or more of our products could have an adverse effect on our business.
- Our revenue and operating results may fluctuate, which may make our results difficult to predict and could cause our results to fall short of expectations.
- Technology could render the need for some of our products obsolete.
- Infringement of our intellectual property could impact our ability to compete effectively.
- If changes to our existing products or introduction of new products or services do not meet our customers' expectations or fail to generate revenue, we could lose our customers or fail to generate any revenue from such products or services and our business may be harmed.
- We depend on our relationships with independent installers and new car dealerships and their ability to sell and service our products. Any disruption in these relationships could harm our sales.
- We may not be able to identify, finance and complete suitable acquisitions and investments, and any completed acquisitions and investments could be unsuccessful or consume significant resources.
- We may incur material losses and costs as a result of product liability and warranty claims.
- Our failure to satisfy international trade compliance regulations, and changes in U.S. government sanctions, could have a material adverse effect on us.
- We may seek to incur substantial indebtedness in the future.
- We cannot be certain that additional financing will be available on reasonable terms when required, or at all.
- Our variable rate indebtedness exposes us to interest rate volatility, which could cause our debt service obligations to increase significantly.
- General global economic and business conditions affect demand for our products.
- A public health crisis could impact our business
- Economic, political and market conditions can adversely affect our business, financial condition and results of operations.

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 that 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

The Company is a leading provider of protective films and coatings, including automotive paint protection film, surface protection film, automotive and commercial/residential window films, and ceramic coatings with a global footprint, a network of trained installers and proprietary DAP software. The Company is dedicated to exceeding customer expectations by providing high-quality products, leading customer service, expert technical support and world-class training.

The Company began as a software company designing vehicle patterns used to produce cut-to-fit protective film for the painted surfaces of automobiles. In 2007, we began selling automotive surface and paint protection film products to complement our software business. In 2011, we introduced our

ULTIMATE protective film product line which, at the time was the industry's first protective film with self-healing properties. The ULTIMATE technology allows the protective film to better absorb the impacts from rocks and other road debris, thereby fully protecting the 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 the Company into several years of strong revenue growth.

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

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. We believe our channel strategy uniquely positions us to be wherever the demand takes us and is a key part of our ability to drive sustained growth.

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

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 and nine months ended September 30, 2024 and 2023 (in thousands):

	(Unaudited) Three Months Ended September 30, 2024	(Unaudited) Three Months Ended September 30, 2023	% Change	(Unaudited) Nine Months Ended September 30, 2024	(Unaudited) Nine Months Ended September 30, 2023	% Change
Net Income	$ 14,892	$ 13,656	9.1 %	$ 36,591	$ 40,830	(10.4)%
Interest	97	85	14.1 %	962	946	1.7 %
Taxes	3,730	3,490	6.9 %	9,033	10,553	(14.4)%
Depreciation	1,504	1,199	25.4 %	4,308	3,229	33.4 %
Amortization	1,475	1,288	14.5 %	4,327	3,660	18.2 %
EBITDA	$ 21,698	$ 19,718	10.0 %	$ 55,221	$ 59,218	(6.7)%

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 and nine months ended September 30, 2024 and 2023 (dollars in thousands):

	Three Months Ended September 30, 2024	% of Total Revenue	Three Months Ended September 30, 2023	% of Total Revenue	$ Change	% Change
Total revenue	$ 112,852	100.0 %	$ 102,677	100.0 %	$ 10,175	9.9 %
Total cost of sales	64,936	57.5 %	61,148	59.6 %	3,788	6.2 %
Gross margin	47,916	42.5 %	41,529	40.4 %	6,387	15.4 %
Total operating expenses	29,529	26.2 %	23,900	23.3 %	5,629	23.6 %
Operating income	18,387	16.3 %	17,629	17.2 %	758	4.3 %
Other (income) expense	(235)	(0.2)%	483	0.5 %	(718)	(148.7)%
Income tax	3,730	3.3 %	3,490	3.4 %	240	6.9 %
Net income	$ 14,892	13.2 %	$ 13,656	13.3 %	$ 1,236	9.1 %

	Nine Months Ended September 30, 2024	% of Total Revenue	Nine Months Ended September 30, 2023	% of Total Revenue	$ Change	% Change
Total revenue	$ 312,873	100.0 %	$ 290,755	100.0 %	$ 22,118	7.6 %
Total cost of sales	179,216	57.3 %	169,273	58.2 %	9,943	5.9 %
Gross margin	133,657	42.7 %	121,482	41.8 %	12,175	10.0 %
Total operating expenses	86,855	27.8 %	68,734	23.6 %	18,121	26.4 %
Operating income	46,802	15.0 %	52,748	18.1 %	(5,946)	(11.3)%
Other expense	1,178	0.4 %	1,365	0.5 %	(187)	(13.7)%
Income tax	9,033	2.9 %	10,553	3.6 %	(1,520)	(14.4)%
Net income	$ 36,591	11.7 %	$ 40,830	14.0 %	$ (4,239)	(10.4)%

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

	Three Months Ended September 30,		%	% of Total Revenue	
	2024	2023	Inc (Dec)	2024	2023
Product Revenue					
Paint protection film	$ 60,545	$ 58,977	2.7 %	53.6 %	57.4 %
Window film	22,627	18,762	20.6 %	20.1 %	18.3 %
Other	3,778	3,386	11.6 %	3.3 %	3.3 %
Total	$ 86,950	$ 81,125	7.2 %	77.0 %	79.0 %
Service Revenue					
Software	$ 2,041	$ 1,652	23.5 %	1.8 %	1.6 %
Cutbank credits	4,500	4,524	(0.5)%	4.0 %	4.4 %
Installation labor	18,925	14,852	27.4 %	16.8 %	14.5 %
Training and other	436	524	(16.8)%	0.4 %	0.5 %
Total	$ 25,902	$ 21,552	20.2 %	23.0 %	21.0 %
Total	$ 112,852	$ 102,677	9.9 %	100.0 %	100.0 %

	Nine Months Ended September 30,		%	% of Total Revenue	
	2024	2023	Inc (Dec)	2024	2023
Product Revenue					
Paint protection film	$ 166,870	$ 165,016	1.1 %	53.3 %	56.8 %
Window film	59,195	54,055	9.5 %	18.9 %	18.6 %
Other	10,937	10,268	6.5 %	3.5 %	3.5 %
Total	$ 237,002	$ 229,339	3.3 %	75.7 %	78.9 %
Service Revenue					
Software	$ 5,959	$ 4,656	28.0 %	1.9 %	1.6 %
Cutbank credits	13,300	13,253	0.4 %	4.3 %	4.6 %
Installation labor	55,090	41,781	31.9 %	17.6 %	14.4 %
Training and other	1,522	1,726	(11.8)%	0.5 %	0.6 %
Total	$ 75,871	$ 61,416	23.5 %	24.3 %	21.1 %
Total	$ 312,873	$ 290,755	7.6 %	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 and nine months ended September 30, 2024 and 2023 (dollars in thousands):

	Three Months Ended September 30,		%	% of Total Revenue	
	2024	2023	Inc (Dec)	2024	2023
United States	$ 64,565	$ 59,002	9.4 %	57.2 %	57.5 %
Canada	14,415	11,471	25.7 %	12.8 %	11.2 %
China	9,058	10,242	(11.6)%	8.0 %	10.0 %
Continental Europe	9,058	8,705	4.1 %	8.0 %	8.5 %
United Kingdom	3,548	3,499	1.4 %	3.2 %	3.4 %
Middle East/Africa	5,286	3,909	35.2 %	4.7 %	3.8 %
Asia Pacific	4,095	3,233	26.7 %	3.6 %	3.1 %
Latin America	2,827	2,325	21.6 %	2.5 %	2.3 %
Other	—	291	(100.0)%	0.0 %	0.2 %
Total	$ 112,852	$ 102,677	9.9 %	100.0 %	100.0 %

	Nine Months Ended September 30,		%	% of Total Revenue	
	2024	2023	Inc (Dec)	2024	2023
United States	$ 181,515	$ 169,228	7.3 %	58.0 %	58.2 %
Canada	38,769	31,914	21.5 %	12.4 %	11.0 %
China	14,910	24,992	(40.3)%	4.8 %	8.6 %
Continental Europe	30,629	26,354	16.2 %	9.8 %	9.1 %
United Kingdom	10,723	10,220	4.9 %	3.4 %	3.5 %
Middle East/Africa	15,231	11,514	32.3 %	4.9 %	4.0 %
Asia Pacific	12,179	9,192	32.5 %	3.9 %	3.2 %
Latin America	8,917	6,617	34.8 %	2.8 %	2.3 %
Other	—	724	(100.0)%	0.0 %	0.2 %
Total	$ 312,873	$ 290,755	7.6 %	100.0 %	100.0 %

Product Revenue. Product revenue for the three months ended September 30, 2024 increased 7.2% over the three months ended September 30, 2023. Product revenue represented 77.0% of our total revenue compared to 79.0% in the three months ended September 30, 2023. Revenue from our paint protection film product line increased 2.7% over the three months ended September 30, 2023. Paint protection film sales represented 53.6% and 57.4% of our total consolidated revenues for the three months ended September 30, 2024 and 2023, respectively. The total increase in paint protection film sales was due to increased demand for our film products across multiple regions offset by lower sales into China. Sales into China continue to be negatively impacted as our distributor continues to work through excess inventory levels accumulated in the fourth quarter last year.

Revenue from our window film product line grew 20.6% for the three months ended September 30, 2024 compared to the three months ended September 30, 2023. Window film sales represented 20.1% and 18.3% of our total consolidated revenues for the three months ended September 30, 2024 and 2023, respectively. This increase was driven by continued demand resulting from increased product adoption in multiple regions. Architectural window film revenue increased 6.2% compared to the three months ended September 30, 2023, to $2.9 million, and represented 12.6% of total window film revenue and 2.5% of total revenue for the three months ended September 30, 2024. This increase was due mainly to increased product awareness and adoption in multiple regions.

Other product revenue for the three months ended September 30, 2024 increased 11.6% compared to the three months ended September 30, 2023 due primarily to continued growth in revenue from our FUSION product line. Revenue for our FUSION product line for the three months ended September 30, 2024 was $1.7 million compared to $1.5 million for the three months ended September 30, 2023.

Geographically, we experienced continued growth in most of our regions including 9.4% growth in the US region. These increases were primarily due to increasing product awareness and adoption.

Product revenue for the nine months ended September 30, 2024 increased 3.3% over the nine months ended September 30, 2023. Product revenue represented 75.7% of our consolidated revenue compared to 78.9% in the nine months ended September 30, 2023. Revenue from our paint protection film product line increased 1.1% over the nine months ended September 30, 2023. Paint protection film sales represented 53.3% and 56.8% of our consolidated revenues for the nine months ended September 30, 2024 and 2023, respectively.

Revenue from our window film grew 9.5% compared to the nine months ended September 30, 2023. Window film sales represented 18.9% and 18.6% of our total consolidated revenues for the nine months ended September 30, 2024 and 2023, respectively. This increase was driven by continued demand resulting from increased product adoption in multiple regions. Architectural window film revenue increased 20.7% compared to the nine months ended September 30, 2023 to $7.7 million and represented 13.1% of total window film revenue and 2.5% of total revenue. This increase was driven by increased demand for our architectural window films resulting from increased product awareness and adoption.

Other product revenue for the nine months ended September 30, 2024 increased 6.5% compared to the nine months ended September 30, 2023. This was due primarily to continued growth in revenue from our FUSION product line, which grew 7.8% to $4.8 million compared to the nine months ended September 30, 2023.

Geographically, we saw revenue growth in most regions during the nine months ended September 30, 2024. These increases were due primarily to increased product awareness and attach rates.

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

Service revenue grew 20.2% over the three months ended September 30, 2023. Within this category, software revenue increased 23.5% over the three months ended September 30, 2023. This increase was due to an increase in total subscribers to our DAP software. Cutbank credit revenue was essentially flat from the three months ended September 30, 2023 which is comparable to the associated changes in paint protection film revenue. Installation labor revenue increased 27.4% over the three months ended September 30, 2023 due mainly to increased demand across our dealership services and OEM networks.

Service revenue for the nine months ended September 30, 2024 grew 23.5% over the nine months ended September 30, 2023. Within this category, software revenue grew 28.0% over the nine months ended September 30, 2023. This increase was due to an increase in total subscribers to our DAP software. Cutbank credit revenue increased 0.4% over the nine months ended September 30, 2023 which is comparable to associated changes in paint protection film revenue. Installation labor revenue increased 31.9% over the nine months ended September 30, 2023 due mainly to increased demand across our dealership services and OEM networks.

Total installation revenue (labor and product combined) increased 27.4% over the three months ended September 30, 2023. This represented 20.0% and 17.2% of our total consolidated revenue for the three months ended September 30, 2024 and 2023, respectively. These increases were primarily due to increased demand across our dealership services and OEM networks. Total installation revenue increased 31.9% over the nine months ended September 30, 2023. This represented 21.0% and 17.1% of our total consolidated revenue for the nine months ended September 30, 2024 and 2023, respectively. These increases were primarily due to increased demand across our dealership services and OEM networks. Adjusted product revenue, which combines the cutbank credit revenue service component with product revenue, increased 6.8% over the three months ended September 30, 2023. Adjusted product revenue increased 3.2% over the nine months ended September 30, 2023.

Cost of Sales

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

Product costs for the three months ended September 30, 2024 increased 4.0% over the three months ended September 30, 2023. Cost of product sales represented 47.8% and 50.5% of total revenue in the three months ended September 30, 2024 and 2023, respectively. Cost of service revenue grew 18.3% during the three months ended September 30, 2024. For both product and service, cost of sales increased commensurate with the related growth in revenue. Refer to the Gross Margin section below for discussion of this cost relative to revenue.

Product costs for the nine months ended September 30, 2024 increased 2.6% over the nine months ended September 30, 2023. Cost of product sales represented 47.1% and 49.4% of total revenue in the nine months ended September 30, 2024 and 2023, respectively. Cost of service revenue grew 24.1% during the nine months ended September 30, 2024. For both product and service, cost of sales increased commensurate with the related growth in revenue. Refer to the Gross Margin section below for discussion of this cost relative to revenue.

Gross Margin

Gross margin for the three months ended September 30, 2024 grew approximately $6.4 million, or 15.4%, compared to the three months ended September 30, 2023. For the three months ended September 30, 2024, gross margin represented 42.5% of revenue compared to 40.4% for the three months ended September 30, 2023.

Gross margin for the nine months ended September 30, 2024 grew approximately $12.2 million, or 10.0%, compared to the nine months ended September 30, 2023. For the nine months ended September 30, 2024, gross margin represented 42.7% of revenue compared to 41.8% for the nine months ended September 30, 2023.

The following table summarizes gross margin for product and services for the three and nine months ended September 30, 2024 and 2023 (dollars in thousands):

	Three Months Ended September 30,		%	% of Category Revenue	
	2024	2023	Inc (Dec)	2024	2023
Product margin	$ 32,983	$ 29,249	12.8%	37.9%	36.1%
Service margin	14,933	12,280	21.6%	57.7%	57.0%
Total	$ 47,916	$ 41,529	15.4%	42.5%	40.4%

	Nine Months Ended September 30,		%	% of Category Revenue	
	2024	2023	Inc (Dec)	2024	2023
Product margin	$ 89,626	$ 85,726	4.5%	37.8%	37.4%
Service margin	44,031	35,756	23.1%	58.0%	58.2%
Total	$ 133,657	$ 121,482	10.0%	42.7%	41.8%

Product gross margin for the three months ended September 30, 2024 increased approximately $3.7 million, or 12.8%, over the three months ended September 30, 2023 and represented 37.9% and 36.1% of total product revenue for the three months ended September 30, 2024 and 2023, respectively. The increases in gross margin and gross margin percentage were due primarily to decreases in product costs and improved operating leverage.

Product gross margin for the nine months ended September 30, 2024 increased approximately $3.9 million, or 4.5%, over the nine months ended September 30, 2023 and represented 37.8% and 37.4% of total product revenue for the nine months ended September 30, 2024 and 2023, respectively. The increases in product gross margin and gross margin percentage were primarily due to decreases in product costs and improved operating leverage.

Service gross margin increased approximately $2.7 million, or 21.6%, over the three months ended September 30, 2023. This represented 57.7% and 57.0% of total service revenue for the three months ended September 30, 2024 and 2023, respectively. These increases in service gross margin and service gross margin percentage were primarily due to operating leverage across our installation networks.

Service gross margin increased approximately $8.3 million, or 23.1%, over the nine months ended September 30, 2023. This represented 58.0% and 58.2% of total service revenue for the nine months ended September 30, 2024 and 2023, respectively.

Operating Expenses

Sales and marketing expenses for the three months ended September 30, 2024 increased 37.6% compared to the same period in 2023. This increase was primarily due to increased personnel and marketing costs including additional sponsorships and increased marketing efforts to dealerships and end customers. These expenses represented 9.4% and 7.5% of total consolidated revenue for the three months ended September 30, 2024 and 2023, respectively.

For the nine months ended September 30, 2024, sales and marketing expenses increased 38.8% compared to the same period in 2023. This increase was due to increased personnel and marketing costs incurred to associated with ongoing growth in multiple markets as the Company increased its marketing efforts to dealerships and end customers. These expenses represented 10.0% and 7.8% of total consolidated revenue for the nine months ended September 30, 2024 and 2023, respectively.

General and administrative expenses grew approximately $2.7 million, or 16.8% over the three months ended September 30, 2023. This increase in cost was due primarily to increases in personnel, occupancy costs and professional fees. These costs represented 16.7% and 15.7% of total consolidated revenue for the three months ended September 30, 2024 and 2023, respectively.

General and administrative expenses grew approximately $9.4 million, or 20.3% over the nine months ended September 30, 2023. This increase in cost was due primarily to increases in personnel, occupancy costs and professional fees. These costs represented 17.8% and 15.9% of total consolidated revenue for the nine months ended September 30, 2024 and 2023, respectively.

Income Tax Expense

Income tax expense for the three months ended September 30, 2024 increased $0.2 million from the three months ended September 30, 2023. Our effective tax rate was 20.0% for the three months ended September 30, 2024 compared with 20.4% for the three months ended September 30, 2023.

Income tax expense for the nine months ended September 30, 2024 decreased $1.5 million from the same period in 2023, Our effective tax rate was 19.8% for the nine months ended September 30, 2024 compared with 20.5% for the nine months ended September 30, 2023.

Net Income

Net income for the three months ended September 30, 2024 increased 9.1% to $14.9 million.

Net income for the nine months ended September 30, 2024 decreased 10.4% to $36.6 million.

Liquidity and Capital Resources

Our primary sources of liquidity are available cash and cash equivalents, cash flows provided by operations, and borrowings under our credit facilities. As of September 30, 2024, we had cash and cash equivalents of $21.0 million. For the nine months ended September 30, 2024, cash provided by operations was $41.5 million. We currently have $128.3 million of credit available to us under our U.S. and Canadian credit facilities. We expect available cash, internally generated funds, and borrowings from our committed credit facilities to be sufficient to support working capital needs, capital expenditures (including acquisitions), and other obligations. We are focused on continuing to generate positive operating cash to fund our operational and capital investment initiatives. We believe we have sufficient liquidity to operate for at least the next 12 months from the date of filing this report.

Operating activities. Cash provided by operations for the nine months ended September 30, 2024 was $41.5 million compared to $38.5 million during the nine months ended September 30, 2023. This increase in cash flows from operating activities was mainly due reductions in inventory purchases during the year offset by other changes in working capital.

Investing activities. Cash used in investing activities totaled approximately $13.0 million during the nine months ended September 30, 2024 compared to $10.2 million during the nine months ended September 30, 2023. This increase was due primarily to higher acquisition-related payments during 2024.

Financing activities. Cash flows used in financing activities during the nine months ended September 30, 2024 totaled $19.2 million compared to $26.2 million during the same period in the prior year. This change was due primarily to the timing of repayments on our credit facility, which was fully repaid at September 30, 2024.

Debt and contingent obligations as of September 30, 2024 and December 31, 2023 totaled approximately $1.4 million and $19.9 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

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

Borrowings under the Credit Agreement bear interest, at XPEL's option, at a rate equal to either (a) Base Rate or (b) Adjusted Term SOFR. In addition to the applicable interest rate, the Credit Agreement includes a commitment fee ranging from 0.20% to 0.25% per annum for the unused portion of the aggregate commitment and an applicable margin ranging from 0.00% to 0.50% for Base Rate Loans and 1.00% to 1.50% for Adjusted Term SOFR Loans. At September 30, 2024, these rates were 8.0% and 6.3%, respectively. Both the margin applicable to the interest rate and the commitment fee are dependent on XPEL's Consolidated Total Leverage Ratio. The Credit Agreement's maturity date is April 6, 2026. All capitalized terms in this description of the Credit Agreement that are not otherwise defined in this report have the meaning assigned to them in the Credit Agreement.

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

The terms of the Credit Agreement include certain affirmative and negative covenants that require, among other things, XPEL to maintain legal existence and remain in good standing, comply with applicable laws, maintain accounting records, deliver financial statements and certifications on a timely basis, pay taxes as required by law, and maintain insurance coverage, as well as to forgo certain specified future activities that might otherwise encumber XPEL. The Credit Agreement provides for 2 financial covenants, as follows:

As of the last day of each fiscal quarter:

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

The Company also has a CAD $4.5 million revolving credit facility through 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 September 30, 2024 and December 31, 2023, 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.