UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2024

OR

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

For the transition period from to

Commission File Number: 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 27,647,640 shares of common stock outstanding as of November 8, 2024.

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Part I. Financial Information

Item 1. Financial Statements

XPEL, INC.

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

	(Unaudited) September 30, 2024	(Audited) December 31, 2023
Assets		
Current		
Cash and cash equivalents	$ 20,986	$ 11,609
Accounts receivable, net	29,583	24,111
Inventory, net	101,592	106,509
Prepaid expenses and other current assets	6,296	3,529
Income tax receivable	264	696
Total current assets	158,721	146,454
Property and equipment, net	17,851	16,980
Right-of-use lease assets	18,380	15,459
Intangible assets, net	33,601	34,905
Other non-current assets	1,141	782
Goodwill	43,347	37,461
Total assets	$ 273,041	$ 252,041
Liabilities		
Current		
Current portion of notes payable	$ 66	$ 62
Current portion lease liabilities	4,820	3,966
Accounts payable and accrued liabilities	31,634	32,444
Total current liabilities	36,520	36,472
Deferred tax liability, net	1,252	2,658
Other long-term liabilities	1,077	890
Borrowings on line of credit	—	19,000
Non-current portion of lease liabilities	15,205	12,715
Non-current portion of notes payable	260	317
Total liabilities	54,314	72,052
Commitments and Contingencies (Note 11)		
Stockholders' equity		
Preferred stock, $0.001 par value; authorized 10,000,000; none issued and outstanding	—	—
Common stock, $0.001 par value; 100,000,000 shares authorized; 27,647,223 and 27,630,025 issued and outstanding, respectively	28	28
Additional paid-in-capital	14,700	12,546
Accumulated other comprehensive loss	(1,216)	(1,209)
Retained earnings	205,215	168,624
Total stockholders' equity	218,727	179,989
Total liabilities and stockholders' equity	$ 273,041	$ 252,041

See notes to condensed consolidated financial statements.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2024	2023	2024	2023
Revenue				
Product revenue	$ 86,950	$ 81,125	$ 237,002	$ 229,339
Service revenue	25,902	21,552	75,871	61,416
Total revenue	112,852	102,677	312,873	290,755
Cost of Sales				
Cost of product sales	53,967	51,876	147,376	143,613
Cost of service	10,969	9,272	31,840	25,660
Total cost of sales	64,936	61,148	179,216	169,273
Gross Margin	47,916	41,529	133,657	121,482
Operating Expenses				
Sales and marketing	10,637	7,730	31,308	22,554
General and administrative	18,892	16,170	55,547	46,180
Total operating expenses	29,529	23,900	86,855	68,734
Operating Income	18,387	17,629	46,802	52,748
Interest expense	97	85	962	946
Foreign currency exchange (gain)/loss	(332)	398	216	419
Income before income taxes	18,622	17,146	45,624	51,383
Income tax expense	3,730	3,490	9,033	10,553
Net income	$ 14,892	$ 13,656	$ 36,591	$ 40,830
Earnings per share				
Basic	$ 0.54	$ 0.49	$ 1.32	$ 1.48
Diluted	$ 0.54	$ 0.49	$ 1.32	$ 1.48
Weighted Average Number of Common Shares				
Basic	27,642	27,623	27,636	27,620
Diluted	27,644	27,644	27,639	27,634

See notes to condensed consolidated financial statements.

XPEL, INC.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2024	2023	2024	2023
Other comprehensive income				
Net income	$ 14,892	$ 13,656	$ 36,591	$ 40,830
Foreign currency translation	1,150	(731)	(7)	24
Total comprehensive income	$ 16,042	$ 12,926	$ 36,584	$ 40,854

See notes to condensed consolidated financial statements.

XPEL, INC.

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

Stockholders' Equity - Three Months Ended September 30

	Common Stock Shares	Common Stock Amount	Additional Paid-in-Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Equity
Balance as of June 30, 2023	27,620	$ 28	$ 11,730	$ 142,998	$ (1,448)	$ 153,308
Net income	—	—	—	13,656	—	13,656
Foreign currency translation	—	—	—	—	(731)	(731)
Stock-based compensation	9	—	320	—	—	320
Balance as of September 30, 2023	27,629	28	12,050	156,654	(2,179)	166,553
Balance as of June 30, 2024	27,638	28	13,926	190,323	(2,366)	201,911
Net income	—	—	—	14,892	—	14,892
Foreign currency translation	—	—	—	—	1,150	1,150
Stock-based compensation	9	—	774	—	—	774
Balance as of September 30, 2024	27,647	$ 28	$ 14,700	$ 205,215	$ (1,216)	$ 218,727

Stockholders' Equity - Nine Months Ended September 30

	Common Stock Shares	Common Stock Amount	Additional Paid-in-Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Equity
Balance as of December 31, 2022	27,616	$ 28	$ 11,073	$ 115,824	$ (2,203)	$ 124,722
Net income	—	—	—	40,830	—	40,830
Foreign currency translation	—	—	—	—	24	24
Stock-based compensation	13	—	977	—	—	977
Balance as of September 30, 2023	27,629	28	12,050	156,654	(2,179)	166,553
Balance as of December 31, 2023	27,630	28	12,546	168,624	(1,209)	179,989
Net income	—	—	—	36,591	—	36,591
Foreign currency translation	—	—	—	—	(7)	(7)
Stock-based compensation	17	—	2,154	—	—	2,154
Balance as of September 30, 2024	27,647	$ 28	$ 14,700	$ 205,215	$ (1,216)	$ 218,727

See notes to condensed consolidated financial statements.

XPEL, INC.

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

	Nine Months Ended September 30,	
	2024	2023
Cash flows from operating activities		
Net income	$ 36,591	$ 40,830
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation of property, plant and equipment	4,308	3,229
Amortization of intangible assets	4,327	3,660
Gain on sale of property and equipment	(35)	(11)
Stock compensation	2,329	1,144
Provision for credit losses	279	216
Deferred income tax	(1,414)	(844)
Changes in assets and liabilities:		
Accounts receivable, net	(5,475)	(9,483)
Inventory, net	5,174	(11,583)
Prepaid expenses and other current assets	(2,785)	(7,288)
Income taxes receivable and payable	370	320
Accounts payable and accrued liabilities	(2,172)	18,311
Net cash provided by operating activities	41,497	38,501
Cash flows used in investing activities		
Purchase of property, plant and equipment	(5,085)	(4,741)
Proceeds from sale of property and equipment	40	20
Acquisition of businesses, net of cash acquired	(6,520)	(4,697)
Development of intangible assets	(1,421)	(798)
Net cash used in investing activities	(12,986)	(10,216)
Cash flows from financing activities		
Net payments on revolving line of credit	(19,000)	(26,000)
RSUs withheld in lieu of payroll taxes	(175)	(167)
Repayments of notes payable	(44)	(77)
Net cash used in financing activities	(19,219)	(26,244)
Net change in cash and cash equivalents	9,292	2,041
Foreign exchange impact on cash and cash equivalents	85	277
Increase in cash and cash equivalents during the period	9,377	2,318
Cash and cash equivalents at beginning of period	11,609	8,056
Cash and cash equivalents at end of period	$ 20,986	$ 10,374
Supplemental schedule of non-cash activities		
Non-cash lease financing	$ 6,210	$ 1,847
Issuance of common stock for vested restricted stock units	$ 900	$ 874
Supplemental cash flow information		
Cash paid for income taxes	$ 10,256	$ 11,144
Cash paid for interest	$ 995	$ 1,000

See notes to condensed consolidated financial statements.

1. INTERIM FINANCIAL INFORMATION

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

These condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and related notes contained in the Company’s Annual Report on Form 10-K for the year ended December 31, 2023 as filed with the SEC on February 28, 2024 (the "Annual Report") and with the Management's Discussion and Analysis of Financial Condition and Results of Operations section appearing elsewhere 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 commercial/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 with 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 of $0.2 million and $0.2 million as of September 30, 2024 and December 31, 2023, respectively. The Company evaluates the adequacy of its allowances by analyzing the aging of receivables, customer financial condition, historical collection experience, the value of any collateral and other economic and industry factors. Actual collections may differ from historical experience, and if economic, business or customer conditions deteriorate significantly, adjustments to these reserves may be required. When the Company becomes aware of factors that indicate a change in a specific customer's ability to meet its financial obligations, the Company records a specific reserve for credit losses.

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 September 30, 2024 and December 31, 2023 was $0.7 million and $0.4 million, respectively. The following tables present a summary of our accrued warranty liabilities for the nine months ended September 30, 2024 and the twelve months ended December 31, 2023 (in thousands):

	2024
Warranty liability, January 1	$ 422
Warranties assumed in period	1,246
Payments	(990)
Warranty liability, September 30	$ 678

	2023
Warranty liability, January 1	$ 234
Warranties assumed in period	768
Payments	(580)
Warranty liability, December 31	$ 422

Recent Accounting Pronouncements Issued and Not Yet Adopted

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

In December 2023, the FASB issued ASU 2023-09, "Improvements to Income Tax Disclosures", which makes certain updates to income tax disclosures. This standard becomes effective for our fiscal year beginning January 1, 2025. We do not anticipate implementation of this standard will have a material impact on our financial statements.

3. REVENUE

Revenue recognition

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

- Identification of the contract, or contracts, with a customer
- Identification of the performance obligations in the contract
- 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 and nine months ended September 30, 2024 (in thousands):

Balance, December 31, 2023	$ 761
Revenue recognized related to payments included in the December 31, 2023 balance	(696)
Payments received for which performance obligations have not been satisfied	276
Effect of foreign currency translation	(4)
Balance, March 31, 2024	337
Revenue recognized related to payments included in the March 31, 2024 balance	(284)
Payments received for which performance obligations have not been satisfied	935
Effect of foreign currency translation	(3)
Balance, June 30, 2024	985
Revenue recognized related to payments included in the June 30, 2024 balance	(926)
Payments received for which performance obligations have not been satisfied	643
Effect of foreign currency translation	22
Balance, September 30, 2024	$ 724

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2024	2023	2024	2023
Product Revenue				
Paint protection film	$ 60,545	$ 58,977	$ 166,870	$ 165,016
Window film	22,627	18,762	59,195	54,055
Other	3,778	3,386	10,937	10,268
Total	$ 86,950	$ 81,125	$ 237,002	$ 229,339
Service Revenue				
Software	$ 2,041	$ 1,652	$ 5,959	$ 4,656
Cutbank credits	4,500	4,524	13,300	13,253
Installation labor	18,925	14,852	55,090	41,781
Training and other	436	524	1,522	1,726
Total	$ 25,902	$ 21,552	$ 75,871	$ 61,416
Total	$ 112,852	$ 102,677	$ 312,873	$ 290,755

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 September 30,		Nine Months Ended September 30,	
	2024	2023	2024	2023
United States	$ 64,565	$ 59,002	$ 181,515	$ 169,228
Canada	14,415	11,471	38,769	31,914
China	9,058	10,242	14,910	24,992
Continental Europe	9,058	8,705	30,629	26,354
United Kingdom	3,548	3,499	10,723	10,220
Middle East/Africa	5,286	3,909	15,231	11,514
Asia Pacific	4,095	3,233	12,179	9,192
Latin America	2,827	2,325	8,917	6,617
Other	—	291	—	724
Total	$ 112,852	$ 102,677	$ 312,873	$ 290,755

4. PROPERTY AND EQUIPMENT, NET

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

	September 30, 2024	December 31, 2023
Furniture and fixtures	$ 4,439	$ 3,844
Computer equipment	5,148	4,743
Vehicles	1,012	1,141
Equipment	6,031	5,685
Leasehold improvements	11,969	10,921
Plotters	4,884	4,315
Construction in Progress	378	201
Total property and equipment	33,861	30,850
Less: accumulated depreciation	16,010	13,870
Property and equipment, net	$ 17,851	$ 16,980

Depreciation expense for the three months ended September 30, 2024 and 2023 was $1.5 million and $1.2 million, respectively. For the nine months ended September 30, 2024 and 2023, depreciation expense was $4.3 million and $3.2 million, respectively.

5. INTANGIBLE ASSETS, NET

Intangible assets consists of the following (in thousands):

	September 30, 2024	December 31, 2023
Trademarks	$ 1,145	$ 864
Software	7,284	5,919
Trade name	2,030	1,918
Contractual and customer relationships	41,890	40,866
Non-compete	441	447
Other	741	510
Total at cost	53,531	50,524
Less: Accumulated amortization	19,930	15,619
Intangible assets, net	$ 33,601	$ 34,905

Amortization expense for the three months ended September 30, 2024 and 2023 was $1.5 million and $1.3 million, respectively. For the nine months ended September 30, 2024 and 2023, amortization expense was $4.3 million and $3.7 million, respectively.

6. GOODWILL

The following table summarizes goodwill transactions for the nine months ended September 30, 2024 and 2023 (in thousands):

	2023
Balance at December 31, 2022	$ 26,763
Additions and purchase price allocation adjustments	10,422
Foreign exchange	276
Balance at December 31, 2023	$ 37,461

	2024
Balance at December 31, 2023	$ 37,461
Additions and purchase price allocation adjustments	5,861
Foreign exchange	25
Balance at September 30, 2024	$ 43,347

Refer to Note 13 for discussion of recent acquisitions.

7. INVENTORIES

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

	September 30, 2024	December 31, 2023
Raw materials	$ 12,109	$ 22,308
Work in process	956	6,230
Finished goods	88,527	77,971
	$ 101,592	$ 106,509

8. DEBT

REVOLVING FACILITIES

The Company has a revolving credit facility providing for secured revolving loans and letters of credit in an aggregate amount of up to $125 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 two financial covenants, as follows:

As of the last day of each fiscal quarter:

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

The Company also has a CAD $4.5 million revolving credit facility through 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.

As of September 30, 2024 and December 31, 2023, the Company was in compliance with all debt covenants.

9. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

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

	September 30, 2024	December 31, 2023
Trade payables	$ 21,878	$ 24,233
Payroll liabilities	4,589	4,296
Contract liabilities	724	761
Acquisition holdback payments	628	868
Other liabilities	3,815	2,286
	$ 31,634	$ 32,444

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):

	September 30, 2024	December 31, 2023
Level 3:		
Contingent Liabilities	$ 1,091	$ 815

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

11. COMMITMENTS AND CONTINGENCIES

In the ordinary course of business activities, the Company may be contingently liable for litigation and claims including those pertaining to 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 class action or other 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 September 30,		Nine Months Ended September 30,	
Numerator	**2024**	**2023**	**2024**	**2023**
Net income	$ 14,892	$ 13,656	$ 36,591	$ 40,830
Denominator				
Weighted average basic shares	27,642	27,623	27,636	27,620
Dilutive effect of restricted stock units	2	21	3	14
Weighted average diluted shares	27,644	27,644	27,639	27,634
Earnings per share				
Basic	$ 0.54	$ 0.49	$ 1.32	$ 1.48
Diluted	$ 0.54	$ 0.49	$ 1.32	$ 1.48

13. ACQUISITIONS OF BUSINESSES

During 2024, we have acquired certain companies for an aggregate purchase price of $8.0 million. These acquisitions were primarily completed to increase the geographical footprint of our installation service businesses and to expand our product offerings into new applications.

Our valuation models related to the contingent liabilities, identified intangible assets, and goodwill included in these acquisitions are not yet finalized and these figures are presented on a preliminary basis. Accounting for these items will be finalized within 12 months of each acquisition date. Purchase price allocations for other acquired items is finalized. Accordingly, the total preliminary purchase price for acquisitions completed during the nine months ended September 30, 2024 is as follows (in thousands):

Aggregate Purchase Price		
Cash[1]	$	7,276
Contingent consideration		700
	$	7,976
Aggregate Allocation		
Cash	$	231
Other Working Capital		445
Property, equipment, and operating lease assets		2,927
Trade name[2]		288
Acquired patterns[2]		222
Customer Relationships[2]		1,099
Goodwill[3]		5,595
Operating lease liabilities		(2,831)
	$	7,976

[1]Total cash consideration is comprised of amounts paid on closing dates plus holdback amounts to be paid in the future net of working capital deficiencies to be reclaimed from seller.

[2]The weighted average useful life of acquired amortizable intangible assets is 9 years.

[3]The full value of this acquired goodwill is expected to be tax deductible.

Acquisitions completed during the nine months ended September 30, 2024 have not yet contributed substantially to our consolidated operating results. The following unaudited pro forma financial information presents our results, including expenses relating to the amortization of intangibles purchased, as if the acquisitions completed during the nine months ended September 30, 2024 had occurred on January 1, 2024 and 2023, respectively (in thousands):

	Nine Months Ended September 30,	
	2024	**2023**
Revenue	$ 316,671	$ 297,444
Net income	$ 36,848	$ 41,134

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

Valuations and purchase price allocations for acquisitions completed in the latter half of 2023 have been finalized with minor changes to goodwill and other acquired intangible assets.

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,			(Unaudited) Nine Months Ended September 30,		
	2024	2023	% Change	2024	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.

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, the Australian Dollar, the Indian Rupee and the Chinese Yuan. Amounts invested in our foreign operations are translated into U.S. Dollars at the exchange rates in effect at the balance sheet date. The resulting translation adjustments are recorded as accumulated other comprehensive loss, a component of stockholders’ equity in our condensed consolidated balance sheets. We do not currently hedge our exposure to potential foreign currency translation adjustments.

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

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

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

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

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

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

Changes in Internal Control over Financial Reporting

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

Part II. Other Information

Item 1. Legal Proceedings

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

On August 8,2024, a securities class action complaint, Greg Adishian v. XPEL, Inc., et. al., case number 5:24-cv-00873, was filed against the Company in the United States District Court for the Western District of Texas. The Complaint names as defendants the Company and certain of its officers for making false and misleading statements regarding the Company's financial outlook. Management intends to vigorously defend against this action.

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 this action or another 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

On August 20, 2024 Ryan Pape, Chairman of the Board, President and Chief Executive Officer of the Company adopted a 10b5-1 plan which is designed to satisfy the affirmative defense of Rule 10b5-1(c). This plan allows for Mr. Pape's orderly distribution of 53,544 shares of the Company's Common Stock during the period from November 19, 2024 to April 30, 2025.

Item 6. Exhibits

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

Exhibit No.	Description	Method of Filing
31.1	Certification of Chief Executive Officer Pursuant to Exchange Act Rules 13a-14(a)/15d-14(a), as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002	Filed herewith
31.2	Certification of Chief Financial Officer Pursuant to Exchange Act Rules 13a-14(a)/15d-14(a), as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002	Filed herewith
32.1	Certification of Chief Executive Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002	Furnished herewith
32.2	Certification of Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002	Furnished herewith
101	The following materials from XPEL's Quarterly Report on Form 10-Q for the fiscal quarter ended March 31, 2020, formatted in Inline 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
104	Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101).	Filed herewith

SIGNATURES

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

XPEL, Inc. (Registrant)

By: /s/ Barry R. Wood

Barry R. Wood

Senior Vice President and Chief Financial Officer

(Authorized Officer and Principal Financial and Accounting Officer)

November 8, 2024