

---

---

**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, 2022**

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**

(State or other jurisdiction of incorporation or organization)

**20-1117381**

(I.R.S. Employer Identification No.)

**3251 I-35**

(Address of Principal Executive Offices)

**San Antonio**

**Texas**

**78219**

(Zip Code)

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

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

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

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

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

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

Large accelerated filer	<input checked="" type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>	Smaller reporting company	<input type="checkbox"/>
Emerging growth company	<input type="checkbox"/>		

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 27,616,064 shares of common stock outstanding as of November 9, 2022.

## TABLE OF CONTENTS

	<u>Page</u>
<u>Part I - Financial Information</u>	
<u>Item 1. Condensed Consolidated Financial Statements (Unaudited)</u> .....	
<u>Condensed Consolidated Balance Sheets</u> .....	<u>1</u>
<u>Condensed Consolidated Statements of Income</u> .....	<u>2</u>
<u>Condensed Consolidated Statements of Comprehensive Income</u> .....	<u>3</u>
<u>Condensed Consolidated Statements of Changes in Equity</u> .....	<u>4</u>
<u>Condensed Consolidated Statements of Cash Flows</u> .....	<u>5</u>
<u>Notes to Condensed Consolidated Financial Statements</u> .....	<u>6</u>
<u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u> .....	<u>16</u>
<u>Item 3. Quantitative and Qualitative Disclosures About Market Risk</u> .....	<u>28</u>
<u>Item 4. Controls and Procedures</u> .....	<u>30</u>
<u>Part II - Other Information</u>	
<u>Item 1. Legal Proceedings</u> .....	<u>29</u>
<u>Item 1A. Risk Factors</u> .....	<u>30</u>
<u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u> .....	<u>30</u>
<u>Item 3. Defaults Upon Senior Securities</u> .....	<u>30</u>
<u>Item 4. Mine Safety Disclosures</u> .....	<u>30</u>
<u>Item 5. Other Information</u> .....	<u>30</u>
<u>Item 6. Exhibits</u> .....	<u>30</u>
<u>Signatures</u> .....	<u>31</u>

## Part I. Financial Information

### Item 1. Financial Statements

#### XPEL, INC.

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

	(Unaudited)	(Audited)
	September 30, 2022	December 31, 2021
<b>Assets</b>		
<b>Current</b>		
Cash and cash equivalents .....	\$ 10,245	\$ 9,644
Accounts receivable, net .....	17,944	13,159
Inventory, net .....	69,388	51,936
Prepaid expenses and other current assets .....	7,065	3,672
Income tax receivable .....	—	617
<b>Total current assets</b> .....	<b>104,642</b>	<b>79,028</b>
Property and equipment, net .....	12,658	9,898
Right-of-use lease assets .....	15,194	12,910
Intangible assets, net .....	29,426	32,733
Other non-current assets .....	921	791
Goodwill .....	25,417	25,655
<b>Total assets</b> .....	<b>\$ 188,258</b>	<b>\$ 161,015</b>
<b>Liabilities</b>		
<b>Current</b>		
Current portion of notes payable .....	140	375
Current portion lease liabilities .....	3,155	2,978
Accounts payable and accrued liabilities .....	28,048	32,915
Income tax payable .....	472	—
<b>Total current liabilities</b> .....	<b>31,815</b>	<b>36,268</b>
Deferred tax liability, net .....	2,502	2,748
Other long-term liabilities .....	899	2,631
Borrowings on line of credit .....	26,000	25,000
Non-current portion of lease liabilities .....	12,089	9,830
Non-current portion of notes payable .....	—	76
<b>Total liabilities</b> .....	<b>73,305</b>	<b>76,553</b>
<b>Commitments and Contingencies (Note 11)</b>		
<b>Stockholders' equity</b>		
Preferred stock, \$0.001 par value; authorized 10,000,000; none issued and outstanding .....	—	—
Common stock, \$0.001 par value; 100,000,000 shares authorized; 27,616,064 issued and outstanding .....	28	28
Additional paid-in-capital .....	10,869	10,581
Accumulated other comprehensive loss .....	(3,411)	(590)
Retained earnings .....	107,467	74,443
<b>Total stockholders' equity</b> .....	<b>114,953</b>	<b>84,462</b>
<b>Total liabilities and stockholders' equity</b> .....	<b>\$ 188,258</b>	<b>\$ 161,015</b>

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,	
	2022	2021	2022	2021
<b>Revenue</b>				
Product revenue .....	\$ 72,616	\$ 56,996	\$ 197,753	\$ 160,595
Service revenue .....	17,142	11,533	47,759	28,536
<b>Total revenue</b> .....	<b>89,758</b>	<b>68,529</b>	<b>245,512</b>	<b>189,131</b>
<b>Cost of Sales</b>				
Cost of product sales .....	47,225	39,701	129,646	111,839
Cost of service .....	6,767	4,374	19,400	9,303
<b>Total cost of sales</b> .....	<b>53,992</b>	<b>44,075</b>	<b>149,046</b>	<b>121,142</b>
<b>Gross Margin</b> .....	<b>35,766</b>	<b>24,454</b>	<b>96,466</b>	<b>67,989</b>
<b>Operating Expenses</b>				
Sales and marketing .....	6,297	4,904	18,515	12,978
General and administrative .....	12,162	9,183	34,859	23,423
<b>Total operating expenses</b> .....	<b>18,459</b>	<b>14,087</b>	<b>53,374</b>	<b>36,401</b>
<b>Operating Income</b> .....	<b>17,307</b>	<b>10,367</b>	<b>43,092</b>	<b>31,588</b>
Interest expense .....	391	46	933	143
Foreign currency exchange loss .....	372	149	833	122
<b>Income before income taxes</b> .....	<b>16,544</b>	<b>10,172</b>	<b>41,326</b>	<b>31,323</b>
Income tax expense .....	3,226	1,841	8,302	5,959
<b>Net income</b> .....	<b>\$ 13,318</b>	<b>\$ 8,331</b>	<b>\$ 33,024</b>	<b>\$ 25,364</b>
<b>Earnings per share</b>				
<b>Basic</b> .....	<b>\$ 0.48</b>	<b>\$ 0.30</b>	<b>\$ 1.20</b>	<b>\$ 0.92</b>
<b>Diluted</b> .....	<b>\$ 0.48</b>	<b>\$ 0.30</b>	<b>\$ 1.20</b>	<b>\$ 0.92</b>
<b>Weighted Average Number of Common Shares</b>				
<b>Basic</b> .....	<b>27,616</b>	<b>27,613</b>	<b>27,614</b>	<b>27,613</b>
<b>Diluted</b> .....	<b>27,620</b>	<b>27,613</b>	<b>27,615</b>	<b>27,613</b>

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,	
	2022	2021	2022	2021
<b>Other comprehensive income</b>				
Net income .....	\$ 13,318	\$ 8,331	\$ 33,024	\$ 25,364
Foreign currency translation .....	(1,551)	(433)	(2,821)	(416)
<b>Total comprehensive income</b> .....	<u>\$ 11,767</u>	<u>\$ 7,898</u>	<u>\$ 30,203</u>	<u>\$ 24,948</u>

See notes to condensed consolidated financial statements.

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

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

	Common Stock		Additional Paid-in-Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Equity
	Shares	Amount				
<b>Balance as of June 30, 2021</b>	27,613	\$ 28	\$ 10,412	\$ 59,909	\$ 83	\$ 70,432
Net income.....	—	—	—	8,331	—	8,331
Foreign currency translation.....	—	—	—	—	(433)	(433)
Stock-based compensation.....	—	—	77	—	—	77
<b>Balance as of September 30, 2021</b>	<u>27,613</u>	<u>28</u>	<u>10,489</u>	<u>68,240</u>	<u>(350)</u>	<u>78,407</u>
<b>Balance as of June 30, 2022</b>	27,613	28	10,760	94,149	(1,860)	103,077
Net income.....	—	—	—	13,318	—	13,318
Foreign currency translation.....	—	—	—	—	(1,551)	(1,551)
Stock-based compensation.....	3	—	109	—	—	109
<b>Balance as of September 30, 2022</b>	<u>27,616</u>	<u>\$ 28</u>	<u>\$ 10,869</u>	<u>\$ 107,467</u>	<u>\$ (3,411)</u>	<u>\$ 114,953</u>

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

	Common Stock		Additional Paid-in-Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Equity
	Shares	Amount				
<b>Balance as of December 31, 2020</b>	27,613	\$ 28	\$ 10,412	\$ 42,876	\$ 66	\$ 53,382
Net income.....	—	—	—	25,364	—	25,364
Other comprehensive (loss) income.....	—	—	—	—	(416)	(416)
Stock-based compensation.....	—	—	77	—	—	77
<b>Balance as of September 30, 2021</b>	<u>27,613</u>	<u>28</u>	<u>10,489</u>	<u>68,240</u>	<u>(350)</u>	<u>78,407</u>
<b>Balance as of December 31, 2021</b>	27,613	28	10,581	74,443	(590)	84,462
Net income.....	—	—	—	33,024	—	33,024
Foreign currency translation.....	—	—	—	—	(2,821)	(2,821)
Stock-based compensation.....	3	—	288	—	—	288
<b>Balance as of September 30, 2022</b>	<u>27,616</u>	<u>\$ 28</u>	<u>\$ 10,869</u>	<u>\$ 107,467</u>	<u>\$ (3,411)</u>	<u>\$ 114,953</u>

See notes to condensed consolidated financial statements.

**XPEL, INC.**

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

	Nine Months Ended September 30,	
	2022	2021
<b>Cash flows from operating activities</b>		
Net income	\$ 33,024	\$ 25,364
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation of property, plant and equipment	2,486	1,258
Amortization of intangible assets	3,248	1,420
Gain on sale of property and equipment, net	(10)	(14)
Stock-based compensation	317	77
Bad debt expense	350	237
Deferred income tax	7	418
Accretion on notes payable	6	24
Changes in assets and liabilities:		
Accounts receivable	(5,899)	(2,801)
Inventory, net	(18,423)	(16,397)
Prepaid expenses and other assets	(3,982)	(2,245)
Income tax receivable and payable	1,077	(1,006)
Accounts payable and accrued liabilities	(2,505)	13,839
<b>Net cash provided by operating activities</b>	<b>9,696</b>	<b>20,174</b>
<b>Cash flows used in investing activities</b>		
Purchase of property, plant and equipment	(5,534)	(5,082)
Proceeds from sale of property and equipment	66	48
Acquisition of a businesses, net of cash acquired	(2,993)	(29,992)
Development of intangible assets	(1,368)	(666)
<b>Net cash used in investing activities</b>	<b>(9,829)</b>	<b>(35,692)</b>
<b>Cash flows from financing activities</b>		
Net borrowings on revolving credit agreement	1,000	—
Repayments on term loan	—	(5,064)
Restricted stock withholding taxes paid in lieu of issued shares	(30)	—
Repayments of notes payable	(304)	(529)
<b>Net cash used in provided by (used in) financing activities</b>	<b>666</b>	<b>(5,593)</b>
<b>Net change in cash and cash equivalents</b>	<b>533</b>	<b>(21,111)</b>
<b>Foreign exchange impact on cash and cash equivalents</b>	<b>68</b>	<b>(100)</b>
<b>Increase (decrease) in cash and cash equivalents during the period</b>	<b>601</b>	<b>(21,211)</b>
<b>Cash and cash equivalents at beginning of period</b>	<b>9,644</b>	<b>29,027</b>
<b>Cash and cash equivalents at end of period</b>	<b>\$ 10,245</b>	<b>\$ 7,816</b>
<b>Supplemental schedule of non-cash activities</b>		
<b>Non-cash lease financing</b>	<b>\$ 5,209</b>	<b>\$ 7,322</b>
<b>Issuance of vested restricted units</b>	<b>\$ 222</b>	<b>\$ —</b>
<b>Supplemental cash flow information</b>		
<b>Cash paid for income taxes</b>	<b>\$ 7,305</b>	<b>\$ 6,670</b>
<b>Cash paid for interest</b>	<b>\$ 900</b>	<b>\$ 117</b>

See notes to condensed consolidated financial statements.



## **1. INTERIM FINANCIAL INFORMATION**

The accompanying (a) condensed consolidated balance sheet as of December 31, 2021, 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, 2022 and 2021 have been prepared by XPEL, Inc. ("XPEL" or the "Company") in accordance with accounting principles generally accepted in the United States of America for interim financial information, pursuant to the rules and regulations of the Securities and Exchange Commission ("SEC"). Pursuant to these rules and regulations, certain financial information and footnote disclosures normally included in the financial statements have been condensed or omitted. However, in the opinion of management, the financial statements include all adjustments, consisting of normal recurring accruals, necessary for a fair presentation of the financial position, results of operations and cash flows of the interim periods presented. Operating results for the interim periods presented are not necessarily indicative of results to be expected for the full year or for any other interim period due to variability in customer purchasing patterns and seasonal, operating and other factors.

These condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and related notes contained in the Company's Annual Report on Form 10-K as filed with the SEC on February 28, 2022 (the "Annual Report"). These condensed consolidated financial statements also should be read in conjunction with the Management's Discussion and Analysis of Financial Condition and Results of Operations section appearing in this Report.

## **2. SIGNIFICANT ACCOUNTING POLICIES**

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

**Basis of Presentation** - The condensed consolidated financial statements are prepared in conformity with United States Generally Accepted Accounting Principles ("U.S. GAAP") and include the accounts of the Company and its wholly owned subsidiaries. Intercompany accounts and transactions have been eliminated.

The functional currency for the Company is the United States dollar. The assets and liabilities of each of its 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 income in the accompanying consolidated balance sheets. Foreign currency exchange gains and losses are presented as foreign currency exchange loss in the accompanying condensed consolidated statements of income. The ownership percentages and functional currencies of the entities included in these condensed consolidated financial statements are as follows:

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

<b>Subsidiaries</b>	<b>Functional Currency</b>	<b>% Owned by XPEL, Inc.</b>
XPEL, Ltd. ....	UK Pound Sterling	100 %
XPEL Canada Corp. ....	Canadian Dollar	100 %
XPEL B.V. ....	Euro	100 %
XPEL Germany GmbH ....	Euro	100 %
XPEL de Mexico S. de R.L. de C.V. ....	Peso	100 %
XPEL Acquisition Corp. ....	Canadian Dollar	100 %
Protex Canada, Inc. ....	Canadian Dollar	100 %
Apogee Corp. ....	New Taiwan Dollar	100 %
XPEL Slovakia ....	Euro	100 %
XPEL France ....	Euro	100 %
XPEL Spain ....	Euro	100 %
PermaPlate Film, LLC ....	US Dollar	100 %
1 One Armor, Inc. ....	US Dollar	100 %
TintNet, Inc. ....	US Dollar	100 %
XPEL Australia ....	Australian Dollar	100 %
invisiFRAME, Ltd. ....	UK Pound Sterling	100 %

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

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

**Accounts Receivable** - Accounts receivable are shown net of an allowance for doubtful accounts of \$0.4 million and \$0.3 million as of September 30, 2022 and December 31, 2021, respectively. The Company evaluates the adequacy of its allowances by analyzing the aging of receivables, customer financial condition, historical collection experience, the value of any collateral and other economic and industry factors. Actual collections may differ from historical experience, and if economic, business or customer conditions deteriorate significantly, adjustments to these reserves may be required. When the Company becomes aware of factors that indicate a change in a specific customer's ability to meet its financial obligations, the Company records a specific reserve for credit losses. The Company had no significant accounts receivable concentration as of September 30, 2022 or December 31, 2021.

**Provisions and Warranties** - We provide a warranty on the Company's products. Liability under the warranty policy is based on a review of historical warranty claims. Adjustments are made to the accruals based on actual claims data. The Company's liability for warranties as of September 30, 2022 and December 31, 2021 was \$0.2 million and \$0.1 million, respectively. The following tables present a summary of the Company's accrued warranty liabilities for the nine months ended September 30, 2022 and the twelve months ended December 31, 2021 (in thousands):

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

	<b>2022</b>
Warranty liability, January 1	\$ 75
Warranties assumed in period	\$ 412
Payments	\$ (257)
Warranty liability, September 30	<u>\$ 230</u>

  

	<b>2021</b>
Warranty liability, January 1	\$ 52
Warranties assumed in period	\$ 398
Payments	\$ (375)
Warranty liability, December 31	<u>\$ 75</u>

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

In June 2016, the FASB issued ASU 2016-13, “Financial Instruments — Measurement of Credit Losses on Financial Instruments”, which requires measurement and recognition of expected credit losses for financial assets held. ASU 2016-13 is effective for the Company beginning January 1, 2023 and is required to be applied prospectively. We are currently evaluating the impact that ASU 2016-13 will have on our consolidated financial statements.

**3. REVENUE**

***Revenue recognition***

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

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

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

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

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

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

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

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

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

When the Company transfers goods or provides services to a customer, payment is due, subject to normal terms, and is not conditional on anything other than the passage of time. Typical payment terms range from due upon receipt to 30 days, depending on the type of customer and relationship. At contract inception, the Company expects that the period of time between the transfer of goods to the customer and when the customer pays for those goods will be less than one year, which is consistent with the Company's standard payment terms. Accordingly, the Company has elected the practical expedient under ASC 606 to not adjust for the effects of a significant financing component. As such, these amounts are recorded as receivables and not contract assets.

The following table summarizes transactions within contract liabilities for the three and nine months ended September 30, 2022 (in thousands):

Balance, December 31, 2021 .....	\$	818
Revenue recognized related to payments included in the December 31, 2021 balance .....	\$	(556)
Payments received for which performance obligations have not been satisfied .....	\$	181
Effect of foreign currency translation .....	\$	(2)
Balance, March 31, 2022 .....	\$	441
Revenue recognized related to payments included in the March 31, 2022 balance .....	\$	(387)
Payments received for which performance obligations have not been satisfied .....	\$	1,012
Effect of foreign currency translation .....	\$	(8)
Balance, June 30, 2022 .....	\$	1,058
Revenue recognized related to payments included in the June 30, 2022 balance .....	\$	(1,006)
Payments received for which performance obligations have not been satisfied .....	\$	599
Effect of foreign currency translation .....	\$	(9)
Balance, September 30, 2022 .....	\$	642

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

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,	
	2022	2021	2022	2021
<b>Product Revenue</b>				
Paint protection film .....	\$ 54,230	\$ 43,221	\$ 146,465	\$ 124,250
Window film .....	15,391	11,401	42,711	29,645
Other .....	2,995	2,374	8,577	6,700
<b>Total</b> .....	<b>72,616</b>	<b>56,996</b>	<b>197,753</b>	<b>160,595</b>
<b>Service Revenue</b>				
Software .....	\$ 1,351	\$ 1,125	\$ 3,804	\$ 3,158
Cutbank credits .....	4,352	3,362	11,459	9,384
Installation labor .....	11,067	6,784	31,371	15,257
Training and other .....	372	262	1,125	737
<b>Total</b> .....	<b>17,142</b>	<b>11,533</b>	<b>47,759</b>	<b>28,536</b>
<b>Total</b> .....	<b>\$ 89,758</b>	<b>\$ 68,529</b>	<b>\$ 245,512</b>	<b>\$ 189,131</b>

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
United States .....	\$ 51,522	\$ 37,363	\$ 142,275	\$ 97,263
China .....	11,009	10,571	27,772	33,902
Canada .....	11,046	8,715	29,773	22,538
Continental Europe .....	6,065	4,747	18,671	14,286
United Kingdom .....	2,482	1,987	7,505	5,906
Middle East/Africa .....	3,322	2,090	8,025	6,466
Asia Pacific .....	2,540	1,973	6,549	5,621
Latin America .....	1,468	945	4,033	2,891
Other .....	304	138	909	258
<b>Total</b> .....	<b>\$ 89,758</b>	<b>\$ 68,529</b>	<b>\$ 245,512</b>	<b>\$ 189,131</b>

XPEL's largest customer accounted for 12.3% and 15.4% of the Company's net sales during the three months ended September 30, 2022 and 2021, respectively and 11.3% and 17.9% of the Company's net sales during the nine months ended September 30, 2022 and 2021, respectively.

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

**4. PROPERTY AND EQUIPMENT, NET**

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

	September 30, 2022	December 31, 2021
Furniture and fixtures	\$ 2,573	\$ 2,147
Computer equipment	3,044	2,201
Vehicles	811	822
Equipment	4,371	3,572
Leasehold improvements	6,787	5,138
Plotters	2,809	2,132
Construction in Progress	515	117
Total property and equipment	20,910	16,129
Less: accumulated depreciation	8,252	6,231
Property and equipment, net	<u>\$ 12,658</u>	<u>\$ 9,898</u>

Depreciation expense for the three months ended September 30, 2022 and 2021 was \$0.9 million and \$0.5 million, respectively. For the nine months ended September 30, 2022 and 2021, depreciation expense was \$2.5 million and \$1.3 million, respectively.

**5. INTANGIBLE ASSETS, NET**

Intangible assets consists of the following (in thousands):

	September 30, 2022	December 31, 2021
Trademarks	\$ 636	\$ 500
Software	4,642	3,431
Trade names	1,372	2,579
Contractual and customer relationships	31,127	31,326
Non-compete	437	459
Other	487	693
Total cost	38,701	38,988
Less: Accumulated amortization	9,275	6,255
Intangible assets, net	<u>\$ 29,426</u>	<u>\$ 32,733</u>

Amortization expense for the three months ended September 30, 2022 and 2021 was \$1.1 million and \$0.7 million, respectively. For the nine months ended September 30, 2022 and 2021, amortization expense was \$3.2 million and \$1.4 million, respectively. Certain of these intangible assets have been adjusted for business acquisition open period adjustments. Refer to Footnote 13 for discussion of these updates.

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

**6. GOODWILL**

The following table summarizes goodwill transactions for the nine months ended September 30, 2022 and 2021 (in thousands):

Balance at December 31, 2020 .....	\$ 4,472
Additions .....	21,284
Foreign Exchange .....	(101)
Balance at December 31, 2021 .....	<u>\$ 25,655</u>
Balance at December 31, 2021 .....	\$ 25,655
Open period adjustments for 2021 acquisitions .....	772
Foreign Exchange .....	(1,010)
Balance at September 30, 2022 .....	<u>\$ 25,417</u>

The Company completed seven acquisitions during the twelve months ended December 31, 2021. Purchase price accounting for all these acquisitions have been completed. Refer to Footnote 13 for discussion related to open period adjustments.

**7. INVENTORIES**

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

	September 30, 2022	December 31, 2021
Raw materials .....	\$ 11,986	\$ 2,699
Work in process .....	3,835	180
Finished goods .....	53,567	49,057
	<u>\$ 69,388</u>	<u>\$ 51,936</u>

**8. DEBT**

**REVOLVING FACILITIES**

The Company has a \$75.0 million revolving line of credit with a financial institution. The facility is utilized to fund the Company's working capital needs and other strategic initiatives, and is secured by a security interest in substantially all of the Company's current and future assets. Borrowings under the credit agreement bear interest at the *Wall Street Journal* U.S. Prime Rate less 0.75% per annum if the Company's EBITDA ratio (as defined in the Loan Agreement governing the facility) is equal to or less than 2.00 to 1.00 or the *Wall Street Journal* U.S. Prime rate less 0.25% if the Company's EBITDA ratio is greater than 2.00 to 1.00. The facility also includes a fee of 0.25% of the unused capacity on the facility. The interest rate for this credit facility as of September 30, 2022 and December 31, 2021 was 5.50% and 2.50%, respectively. The Company paid interest charges on borrowings under this facility of \$0.4 million and \$0.9 million during the three and nine months ended September 30, 2022, respectively, and had a balance of \$26.0 million and \$25.0 million as of September 30, 2022 and December 31, 2021, respectively. This facility matures on July 5, 2024.

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

The Loan Agreement governing the facility contains customary covenants relating to maintaining legal existence and good standing, complying with applicable laws, delivery of financial statements, payment of taxes and maintaining insurance. The Loan Agreement contains two financial covenants:

(1) Senior Funded Debt (as defined in the Loan Agreement) divided by EBITDA (as defined in the Loan Agreement) at or below 3.50 : 1.00 when tested at the end of each fiscal quarter on a rolling four-quarter basis, and

(2) A minimum Debt Service Coverage Ratio (as defined in the Loan Agreement) of 1.25 : 1.00 at the end of each fiscal quarter when measured on a rolling four-quarter basis.

The Company also has a CAD \$4.5 million revolving credit facility through a financial institution in 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, 2022 and December 31, 2021, no balance was outstanding on this line of credit.

As of September 30, 2022 and December 31, 2021, the Company was in compliance with all debt covenants.

**NOTES PAYABLE**

As part of its acquisition strategy, the Company may use a combination of cash and unsecured non-interest bearing promissory notes payable to fund its business acquisitions. The Company discounts the promissory note to fair value using market interest rates at the time of the acquisition.

Notes payable are summarized as follows (in thousands):

	Weighted Average Interest Rate	Matures	September 30, 2022	December 31, 2021
Face value of acquisition notes payable .....	2.61%	2023	152	458
Unamortized discount .....			(12)	(7)
Current portion .....			(140)	(375)
Total long-term debt .....			<u>\$ —</u>	<u>\$ 76</u>

**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, 2022	December 31, 2021
Trade payables .....	\$ 22,436	\$ 25,175
Payroll liabilities .....	2,864	3,385
Contract liabilities .....	642	818
Acquisition holdback payments .....	—	2,007
Other liabilities .....	2,106	1,530
	<u>\$ 28,048</u>	<u>\$ 32,915</u>



**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 certain contingent liabilities related to completed acquisitions. The payment of these liabilities is contingent on attainment of certain revenue performance metrics in future years. The fair value of these liabilities was determined using a Monte Carlo simulation method based on the probability and timing of certain future payments related to these metrics. 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):

	<u>September 30, 2022</u>	<u>December 31, 2021</u>
Level 3:		
Contingent Liabilities .....	\$ 858	\$ 2,665

We assessed the fair value of these contingent consideration liabilities as of September 30, 2022. This assessment resulted in a reduction in the fair value of the liability of \$0.2 million and \$0.5 million for the three and nine months ended September 30, 2022, respectively. This reduction is reflected in general and administrative expenses in the Condensed Consolidated Statement of Income for the three and nine months ended September 30, 2022. The remaining decrease in our contingent liabilities is attributable to foreign currency fluctuations and, for the nine-month period, the prior-quarter finalization of a different 2021 acquisition. Refer to Footnote 13 for discussion of valuation updates.

## 11. COMMITMENTS AND CONTINGENCIES

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

## 12. EARNINGS PER SHARE

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

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
<i>Numerator</i>				
Net income	\$ 13,318	\$ 8,331	\$ 33,024	\$ 25,364
<i>Denominator</i>				
Weighted average basic shares	27,616	27,613	27,614	27,613
Dilutive effect of restricted stock units	4	—	1	—
Weighted average diluted shares	27,620	27,613	27,615	27,613
<i>Earnings per share</i>				
Basic	\$ 0.48	\$ 0.30	\$ 1.20	\$ 0.92
Diluted	\$ 0.48	\$ 0.30	\$ 1.20	\$ 0.92

## 13. ACQUISITIONS OF BUSINESSES

During the three months ended September 30, 2022, we finalized the valuations of the purchase price and related purchase price allocations for our October 1, 2021 acquisitions of TintNet, Inc., 1 One Armor, 6873391 Canada Ltd. (operating as Shadow Shield), 1716808 Alberta Ltd. (operating as Shadow Tint), and North 1 Technologies. These final allocations resulted in an increase to goodwill of \$0.9 million, an increase to other intangible assets of \$0.5 million, and an increase to deferred tax liabilities of \$0.2 million. During the nine months ended September 30, 2022 finalization of purchase price and purchase price accounting for acquisitions completed during the twelve months ended December 31, 2021 resulted in purchase price reductions of \$0.9 million, an increase to goodwill of \$0.8 million, a reduction to other intangible assets of \$0.6 million and a decrease to deferred tax liabilities of \$0.1 million and a reduction to contingent liabilities of \$0.9 million. These changes were caused by updates made to certain valuation assumptions. Results for the twelve months ended December 31, 2021 would not have been materially changed had these final allocations been made in that period. The purchase price accounting for all 2021 acquisitions has been finalized.

## 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](http://www.sec.gov).*

### Forward-Looking Statements

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

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

- Our business is highly dependent on automotive sales and production volumes.
- We currently rely on one distributor for sales of our products in China.
- A material portion of our business is in China, which may be an unpredictable market and is currently suffering trade tensions with the U.S.
- We must continue to attract, retain and develop key personnel.
- We could be impacted by disruptions in supply.
- Our accounting estimates and risk management processes rely on assumptions or models that may prove inaccurate.
- We must maintain an effective system of internal control over financial reporting to keep stockholder confidence.
- Our industry is highly competitive.
- Our North American market is currently designed for the public's use of car dealerships to purchase automobiles which may dramatically change.

- Our revenue could be impacted by growing use of ride-sharing or other alternate forms of car ownership.
- We must be effective in developing new lines of business and new products to maintain growth.
- Any disruptions in our relationships with independent installers and new car dealerships could harm our sales.
- Our strategy related to acquisitions and investments could be unsuccessful or consume significant resources.
- We must maintain and grow our network of sales, distribution channels and customer base to be successful.
- We are exposed to a wide range of risks due to the multinational nature of our business.
- We must continue to manage our rapid growth effectively.
- We are subject to claims and litigation in the ordinary course of our business, including product liability and warranty claims.
- We must comply with a broad and complicated regime of domestic and international trade compliance, anti-corruption, economic, intellectual property, cybersecurity, data protection and other regulatory regimes.
- We may seek to incur substantial indebtedness in the future.
- Our growth may be dependent on the availability of capital and funding.
- Our Common Stock could decline or be downgraded at any time.
- Our stock price has been, and may continue to be, volatile.
- We may issue additional equity securities that may affect the priority of our Common Stock.
- We do not currently pay dividends on our Common Stock.
- Shares eligible for future sale may depress our stock price.
- Anti-takeover provisions could make a third party acquisition of our Company difficult.
- Our directors and officers have substantial control over us.
- Our bylaws may limit investors' ability to obtain a favorable judicial forum for disputes.
- The COVID-19 pandemic could materially affect our business.
- Our business faces unpredictable global, economic and business conditions, including the risk of inflation in various markets.

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

## **Company Overview**

Founded in 1997 and incorporated in Nevada in 2003, XPEL has grown from an automotive product design software company to a global provider of after-market automotive products, including automotive surface and paint protection, headlight protection, and automotive window films, as well as a provider of complementary proprietary software. In 2018, we expanded our product offerings to include architectural

window film (both commercial and residential) and security film protection for commercial and residential uses, and in 2019 we further expanded our product line to include automotive ceramic coatings.

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

Our over-arching strategic philosophy centers around 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. Since 2014, we have executed on several strategic initiatives including:

- 2014 - We began our international expansion by establishing an office in the United Kingdom.
- 2015 - We acquired Parasol Canada, a distributor of our products in Canada.
- 2016 - We opened our XPEL Netherlands office and established our European headquarters
- 2017
  - We continued our international expansion with the acquisition of Protex Canada Corp., or Protex Canada, a leading franchisor of automotive protective film franchises serving Canada, and
  - We opened our XPEL Mexico office.
- 2018
  - We launched our first product offering outside of the automotive industry, a window and security film protection for commercial and residential uses.
  - We introduced the next generation of our highly successful ULTIMATE line, ULTIMATE PLUS.
  - We acquired Apogee Corporation which led to formation of XPEL Asia based in Taiwan.
- 2019
  - We were approved for the listing of our stock on Nasdaq trading under the symbol "XPEL".
- 2020
  - We acquired Protex Centre, a wholesale-focused paint protection installation business based in Montreal, Canada.
  - We expanded our presence in France with the acquisition of certain assets of France Auto Racing.
  - We expanded our architectural window film presence with the acquisition of Houston based Veloce Innovation, a leading provider of architectural films for use in residential, commercial, marine and industrial settings.
- 2021
  - We expanded our presence into numerous automotive dealerships throughout the United States with the acquisition of PermaPlate Film, LLC, a wholesale-focused

automotive window film installation and distribution business based in Salt Lake City, Utah.

- We acquired five businesses in the United States and Canada from two sellers as a continuation of our acquisition strategy. These acquisitions allowed us to continue to increase our penetration into mid-range dealerships in the US and solidify our presence in Western Canada.
- We acquired invisIFRAME, Ltd, a designer and manufacturer of paint protection film patterns for bicycles, thus further expanding our non-automotive offerings.

## **Strategic Overview**

XPEL is currently pursuing 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 will continue to 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. In our last fiscal year, we acquired several businesses serving multiple markets in the United States, Canada, and the United Kingdom, in furtherance of this objective, and we have continued this trend with an October 2022 acquisition in Australia.

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

## **Trends and Uncertainties**

Broad uncertainty remains as to the lingering global business impact of the COVID-19 pandemic. While our revenue has continued to increase in most of our major markets, market disruptions in future periods could have a material impact on our business. See the risk factor "*The COVID-19 pandemic could materially adversely affect our financial condition and results of operations*" included in Part I, Item 1A "Risk Factors" in the Annual Report for further discussion of the potential impact of the COVID-19 pandemic on our business, results of operations and financial condition.

Automotive sales and production are highly cyclical, and the cyclical nature of the industry has been, and could continue to be, compounded by the on-going low inventories of new vehicles resulting primarily from the global semiconductor shortage. As long as the semiconductor shortage persists and leads to low dealership inventories, there could be a material adverse effect on our business, financial condition and results of operations. Refer to the risk factor "*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*" in the Annual Report for additional discussion of

the cyclical nature of the automotive industry. We will continue to closely monitor updates regarding the continuing impact of the foregoing matters and adjust our operations accordingly.

Various geographies in which we operate, including the United States, are experiencing an increasing inflationary environment. We are actively monitoring the broader economic impact of inflation on the demand for our products and services. See risk factor "*General global economic and business conditions affect demand for our products*" included in Part I, Item 1A-Risk Factors, in the Annual Report on Form 10-K.

As more fully described in Part I, Item 1A-Risk Factors, in the Annual Report on Form 10-K, the entrotech agreement terminated on March 21, 2022. Effective October 1, 2022, the Company entered into a new three-year supply agreement with entrotech under commercially reasonable terms.

### 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, 2022 and 2021 (dollars in thousands):

	(Unaudited) Three Months Ended September 30,			(Unaudited) Nine Months Ended September 30,		
	2022	2021	% Change	2022	2021	% Change
Net Income .....	\$ 13,318	\$ 8,331	59.9 %	\$ 33,024	\$ 25,364	30.2 %
Interest .....	391	46	750.0 %	933	143	552.4 %
Taxes .....	3,226	1,841	75.2 %	8,302	5,959	39.3 %
Depreciation .....	890	456	95.2 %	2,486	1,258	97.6 %
Amortization .....	1,117	735	52.0 %	3,248	1,420	128.7 %
EBITDA .....	<u>\$ 18,942</u>	<u>\$ 11,409</u>	<u>66.0 %</u>	<u>\$ 47,993</u>	<u>\$ 34,144</u>	<u>40.6 %</u>

### 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 tables summarize the Company's consolidated results of operations for the three and nine months ended September 30, 2022 and 2021 (dollars in thousands):

	Three Months Ended September 30, 2022	% of Total Revenue	Three Months Ended September 30, 2021	% of Total Revenue	% Change
Total revenue .....	\$ 89,758	100.0 %	\$ 68,529	100.0 %	31.0 %
Total cost of sales .....	53,992	60.2 %	44,075	64.3 %	22.5 %
Gross margin .....	35,766	39.8 %	24,454	35.7 %	46.3 %
Total operating expenses .....	18,459	20.6 %	14,087	20.6 %	31.0 %
Operating income .....	17,307	19.3 %	10,367	15.1 %	66.9 %
Other expenses .....	763	0.9 %	195	0.3 %	291.3 %
Income tax .....	3,226	3.6 %	1,841	2.7 %	75.2 %
Net income .....	<u>\$ 13,318</u>	<u>14.8 %</u>	<u>\$ 8,331</u>	<u>12.2 %</u>	<u>59.9 %</u>

	Nine Months Ended September 30, 2022	% of Total Revenue	Nine Months Ended September 30, 2021	% of Total Revenue	% Change
Total revenue .....	\$ 245,512	100.0 %	\$ 189,131	100.0 %	29.8 %
Total cost of sales .....	149,046	60.7 %	121,142	64.1 %	23.0 %
Gross margin .....	96,466	39.3 %	67,989	35.9 %	41.9 %
Total operating expenses .....	53,374	21.7 %	36,401	19.2 %	46.6 %
Operating income .....	43,092	17.6 %	31,588	16.7 %	36.4 %
Other expenses .....	1,766	0.7 %	265	0.1 %	566.4 %
Income tax .....	8,302	3.4 %	5,959	3.2 %	39.3 %
Net income .....	<u>\$ 33,024</u>	<u>13.5 %</u>	<u>\$ 25,364</u>	<u>13.4 %</u>	<u>30.2 %</u>

The following tables summarize revenue results for the three and nine months ended September 30, 2022 and 2021 (dollars in thousands):



	Three Months Ended September 30,		%	% of Total Revenue	
	2022	2021	Inc (Dec)	2022	2021
<b>Product Revenue</b>					
Paint protection film .....	\$ 54,230	\$ 43,221	25.5 %	60.4 %	63.1 %
Window film .....	15,391	11,401	35.0 %	17.1 %	16.6 %
Other .....	2,995	2,374	26.2 %	3.4 %	3.5 %
Total .....	\$ 72,616	\$ 56,996	27.4 %	80.9 %	83.2 %
<b>Service Revenue</b>					
Software .....	\$ 1,351	\$ 1,125	20.1 %	1.5 %	1.6 %
Cutbank credits .....	4,352	3,362	29.4 %	4.8 %	4.9 %
Installation labor .....	11,067	6,784	63.1 %	12.3 %	9.9 %
Training and other .....	372	262	42.0 %	0.5 %	0.4 %
Total .....	\$ 17,142	\$ 11,533	48.6 %	19.1 %	16.8 %
<b>Total</b> .....	\$ 89,758	\$ 68,529	31.0 %	100.0 %	100.0 %

	Nine Months Ended September 30,		%	% of Total Revenue	
	2022	2021	Inc (Dec)	2022	2021
<b>Product Revenue</b>					
Paint protection film .....	\$ 146,465	\$ 124,250	17.9 %	59.7 %	65.7 %
Window film .....	\$ 42,711	\$ 29,645	44.1 %	17.4 %	15.7 %
Other .....	\$ 8,577	\$ 6,700	28.0 %	3.4 %	3.5 %
Total .....	\$ 197,753	\$ 160,595	23.1 %	80.5 %	84.9 %
<b>Service Revenue</b>					
Software .....	\$ 3,804	\$ 3,158	20.5 %	1.5 %	1.7 %
Cutbank credits .....	\$ 11,459	\$ 9,384	22.1 %	4.7 %	5.0 %
Installation labor .....	\$ 31,371	\$ 15,257	105.6 %	12.8 %	8.1 %
Training and other .....	\$ 1,125	737	52.6 %	0.5 %	0.3 %
Total .....	\$ 47,759	\$ 28,536	67.4 %	19.5 %	15.1 %
<b>Total</b> .....	\$ 245,512	\$ 189,131	29.8 %	100.0 %	100.0 %

Because many of our international customers require us to ship their orders to freight forwarders located in the United States, we cannot be certain about the ultimate destination of the product. The following tables represent our estimate of sales by geographic regions based on our understanding of ultimate product destination based on customer interactions, customer locations and other factors for the three and nine months ended September 30, 2022 and 2021 (dollars in thousands):

	Three Months Ended September 30,		%	% of Total Revenue	
	2022	2021		2022	2021
United States .....	\$ 51,522	\$ 37,363	37.9 %	57.4 %	54.5 %
China .....	11,009	10,571	4.1 %	12.3 %	15.4 %
Canada .....	11,046	8,715	26.7 %	12.3 %	12.7 %
Continental Europe .....	6,065	4,747	27.8 %	6.8 %	6.9 %
United Kingdom .....	2,482	1,987	24.9 %	2.8 %	2.9 %
Middle East/Africa .....	3,322	2,090	58.9 %	3.7 %	3.0 %
Asia Pacific .....	2,540	1,973	28.7 %	2.8 %	2.9 %
Latin America .....	1,468	945	55.3 %	1.6 %	1.4 %
Other .....	304	138	120.3 %	0.2 %	0.2 %
<b>Total</b> .....	<b>\$ 89,758</b>	<b>\$ 68,529</b>	<b>31.0 %</b>	<b>100.0 %</b>	<b>100.0 %</b>

	Nine Months Ended September 30,		%	% of Total Revenue	
	2022	2021		2022	2021
United States .....	\$ 142,275	\$ 97,263	46.3 %	58.0 %	51.4 %
China .....	27,772	33,902	(18.1)%	11.3 %	17.9 %
Canada .....	29,773	22,538	32.1 %	12.1 %	11.9 %
Continental Europe .....	18,671	14,286	30.7 %	7.6 %	7.6 %
United Kingdom .....	7,505	5,906	27.1 %	3.1 %	3.1 %
Middle East/Africa .....	8,025	6,466	24.1 %	3.3 %	3.4 %
Asia Pacific .....	6,549	5,621	16.5 %	2.7 %	3.0 %
Latin America .....	4,033	2,891	39.5 %	1.6 %	1.5 %
Other .....	909	258	252.3 %	0.4 %	0.2 %
<b>Total</b> .....	<b>\$ 245,512</b>	<b>\$ 189,131</b>	<b>29.8 %</b>	<b>100.0 %</b>	<b>100.0 %</b>

*Product Revenue.* Product revenue for the three months ended September 30, 2022 increased 27.4% over the three months ended September 30, 2021. Product revenue represented 80.9% of our total revenue compared to 83.2% in the three months ended September 30, 2021. Revenue from our paint protection film product line increased 25.5% over the three months ended September 30, 2021. Paint protection film sales represented 60.4% and 63.1% of our total consolidated revenues for the three months ended September 30, 2022 and 2021, respectively. The growth in our paint protection film revenue is due mainly to continued demand for our various film product lines in most markets. Revenue from our window film product line grew 35.0% for the three months ended September 30, 2022 compared to the three months ended September 30, 2021. Window film sales represented 17.1% and 16.6% of our total consolidated revenues for the three months ended September 30, 2022 and 2021, respectively. Growth in window film sales was due mainly to the continued broad-based increases in demand for our window film products throughout the world. Other product revenue for the three months ended September 30, 2022 increased 26.2% due mainly to continued demand for non-film related products such as ceramic coating, plotters, chemicals, and other film installation tools and accessories.

Product revenue for the nine months ended September 30, 2022 increased 23.1% over the nine months ended September 30, 2021. Product revenue represented 80.5% of our total revenue compared to 84.9% in the nine months ended September 30, 2021. Revenue from our paint protection film product line increased 17.9% compared to the nine months ended September 30, 2021. The growth in our paint protection film revenue is due mainly to continued demand for our various film product lines in most markets. Revenue from our window film grew 44.1% compared to the nine months ended September 30,

2021. This increase was due mainly to continued broad-based increases in demand for our window film products throughout the world. Other product revenue for the nine months ended September 30, 2022 increased 28.0% due mainly to continued demand for non-film related products such as ceramic coating, plotters, chemicals, and other film installation tools and accessories.

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

Service revenue grew 48.6% over the three months ended September 30, 2021. Within this category, software revenue increased 20.1% over the three months ended September 30, 2021. This increase was due to an increase in total subscribers to our DAP software. Cutbank credit revenue increased 29.4% from the three months ended September 30, 2021 due to substantial growth in our North American operations. Installation labor revenue increased 63.1% over the three months ended September 30, 2021 due to a substantial increase in our installation presence following our 2021 acquisitions of dealership services businesses.

Service revenue for the nine months ended September 30, 2022 grew 67.4% over the nine months ended September 30, 2021. Within this category, software revenue grew 20.5% over the nine months ended September 30, 2021. This increase was due to an increase in total subscribers to our DAP software. Cutbank credit revenue increased 22.1% over the nine months ended September 30, 2021 due to substantial growth in our North American operations. Installation labor increased 105.6% over the nine months ended September 30, 2021 due to a substantial increase in our installation presence following our 2021 acquisitions of dealership services businesses.

Total installation revenue (labor and product combined) increased 63.1% over the three months ended September 30, 2021. This represented 14.7% and 11.8% of our total consolidated revenue for the three months ended September 30, 2022 and 2021, respectively. This increase was due primarily to acquired dealership services businesses in 2021 and on-going increases in demand in our company-owned installation facilities. Total installation revenue increased 105.6% over the nine months ended September 30, 2021. This represented 15.2% and 9.6% of our total consolidated revenue for the nine months ended September 30, 2022 and 2021, respectively. This increase was due primarily to acquired dealership services businesses in 2021 and on-going increases in demand in our company-owned installation facilities.

Adjusted product revenue, which combines the cutbank credit revenue service component with product revenue, increased 27.5% over the three months ended September 30, 2021. Adjusted product revenue increased 23.1% versus the nine months ended September 30, 2021. For both the three and nine month periods, this growth was due to sustained demand for our various product lines.

### **Cost of Sales**

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

Product costs for the three months ended September 30, 2022 increased 19.0% over the three months ended September 30, 2021. Cost of product sales represented 52.6% and 57.9% of total revenue in the three months ended September 30, 2022 and 2021, respectively. Cost of service revenue grew 54.7% during the three months ended September 30, 2022 due mainly to the increased installation labor costs associated with our dealership services businesses acquired in 2021.

Product costs for the nine months ended September 30, 2022 increased 15.9% over the nine months ended September 30, 2021. Cost of product sales represented 52.8% and 59.1% of total revenue in the nine months ended September 30, 2022 and 2021, respectively. Cost of service revenue grew 108.5% during the nine months ended September 30, 2022 due mainly to the increased installation labor costs associated with our dealership services businesses acquired in 2021.

### **Gross Margin**

Gross margin for the three months ended September 30, 2022 grew approximately \$11.3 million, or 46.3%, from the three months ended September 30, 2021. For the three months ended September 30, 2022, gross margin represented 39.8% of revenue compared to 35.7% for the three months ended September 30, 2021

Gross margin for the nine months ended September 30, 2022 grew approximately \$28.5 million, or 41.9%, from the nine months ended September 30, 2021. For the nine months ended September 30, 2022, gross margin represented 39.3% of revenue compared to 35.9% for the nine months ended September 30, 2021.

The following tables summarize gross margin for product and services for the three and nine months ended September 30, 2022 and 2021 (dollars in thousands):

	Three Months Ended September 30,		%	% of Category Revenue	
	2022	2021		Inc (Dec)	2022
Product	\$ 25,391	\$ 17,295	46.8 %	35.0%	30.3%
Service	10,375	7,159	44.9 %	60.5%	62.1%
<b>Total</b> .....	<b>\$ 35,766</b>	<b>\$ 24,454</b>	<b>46.3 %</b>	<b>39.8%</b>	<b>35.7%</b>

  

	Nine Months Ended September 30,		%	% of Category Revenue	
	2022	2021		Inc (Dec)	2022
Product	\$ 68,107	\$ 48,756	39.7%	34.4%	30.4%
Service	\$ 28,359	\$ 19,233	47.4%	59.4%	67.4%
<b>Total</b> .....	<b>\$ 96,466</b>	<b>\$ 67,989</b>	<b>41.9%</b>	<b>39.3%</b>	<b>35.9%</b>

Product gross margin for the three months ended September 30, 2022 increased approximately \$8.1 million, or 46.8%, over the three months ended September 30, 2021 and represented 35.0% and 30.3% of total product revenue for the three months ended September 30, 2022 and 2021, respectively. This increase was due primarily to decreases in product costs and improved operating leverage.

Product gross margin for the nine months ended September 30, 2022 increased approximately \$19.4 million, or 39.7%, over the nine months ended September 30, 2021 and represented 34.4% and 30.4% of total product revenue for the nine months ended September 30, 2022 and 2021, respectively. This increase was due primarily to decreases in product costs and improved operating leverage.

Service gross margin increased approximately \$3.2 million, or 44.9%, over the three months ended September 30, 2021. This represented 60.5% and 62.1% of total service revenue for the three months ended September 30, 2022 and 2021, respectively. The decrease in service gross margin percentage for the three months ended September 30, 2022 was primarily due to a higher percentage of lower margin installation labor work relative to other higher margin service revenue components.

Service gross margin increased approximately \$9.1 million, or 47.5%, over the nine months ended September 30, 2021. This represented 59.4% and 67.4% of total service revenue for the nine months ended September 30, 2022 and 2021, respectively. The decrease in service gross margin percentage for the nine months ended September 30, 2022 was primarily due to a higher percentage of lower margin installation labor work relative to other higher margin service revenue components.

### ***Operating Expenses***

Sales and marketing expenses for the three months ended September 30, 2022 increased 28.4% compared to the same period in 2021. This increase was due to increased personnel and travel related expenses related to support the ongoing growth of the business. These expenses represented 7.0% and 7.2% of total consolidated revenue for the three months ended September 30, 2022 and 2021, respectively.

For the nine months ended September 30, 2022, sales and marketing expenses increased 42.7% compared to the same period in 2021. This increase was due mainly to increased personnel, increased expenses related to marketing events that were suspended in 2021 due to COVID-19, and travel related expenses to support the ongoing growth of the business. These expenses represented 7.5% and 6.9% of total consolidated revenue for the nine months ended September 30, 2022 and 2021, respectively.

General and administrative expenses grew approximately \$3.0 million, or 32.4% over the three months ended September 30, 2021. This increase in cost was due primarily to increases in personnel, occupancy costs and professional fees to support ongoing growth and acquisition related expenses including amortization associated with intangible assets acquired in 2021. These costs represented 13.6% and 13.4% of total consolidated revenue for the three months ended September 30, 2022 and 2021, respectively.

General and administrative expenses grew approximately \$11.4 million, or 48.8% over the nine months ended September 30, 2021. This increase in cost was due primarily to increases in personnel, occupancy costs and professional fees to support ongoing growth and acquisition related expenses including amortization associated with intangible assets acquired in 2021. These costs represented 14.2% and 12.4% of total consolidated revenue for the nine months ended September 30, 2022 and 2021, respectively.

### ***Other Expenses***

Other expenses consist of interest expense and foreign currency exchange gain/loss. Interest expense increased during the three and nine months ended September 30, 2022 due to borrowings on our line of credit and recent interest rate increases. Foreign currency losses during the three and nine months ended September 30, 2022 increased over the respective prior year periods due to fluctuations in the various currencies in which we conduct business.

### ***Income Tax Expense***

Income tax expense for the three months ended September 30, 2022 increased \$1.4 million from the three months ended September 30, 2021. Our effective tax rate was 19.5% for the three months ended September 30, 2022 compared with 18.1% for the three months ended September 30, 2021. The increase in our effective tax rate was primarily due to the impact of international operations.

Income tax expense for the nine months ended September 30, 2022 increased \$2.3 million from the same period in 2021. Our effective tax rate was 20.1% for the nine months ended September 30, 2022 compared with 19.0% for the nine months ended September 30, 2021. The increase in our effective tax rate was primarily due to an increase in our state effective rate and the impact of international operations.

Net income for the three months ended September 30, 2022 increased 59.9% to \$13.3 million.

Net income for the nine months ended September 30, 2022 increased 30.2% to \$33.0 million.

## **Liquidity and Capital Resources**

Our primary sources of liquidity are available cash and cash equivalents and cash flows provided by operations. As of September 30, 2022, we had cash and cash equivalents of \$10.2 million. For the nine months ended September 30, 2022, cash provided by operations was \$9.7 million. We expect available cash, internally generated funds, and borrowings from our committed credit facility to be sufficient to support working capital needs, capital expenditures (including acquisitions), and our debt service obligations. We are focused on continuing to generate positive operating cash to fund our operational and capital investment initiatives. We believe we have sufficient liquidity to operate for at least the next 12 months from the date of filing this report.

*Operating activities.* Cash provided by operations for the nine months ended September 30, 2022 was \$9.7 million compared to \$20.2 million during the nine months ended September 30, 2021. This decrease was due mainly to increases in inventory and other working capital items partially offset by an increase in net income.

*Investing activities.* Cash used in investing activities totaled approximately \$9.8 million during the nine months ended September 30, 2022 compared to \$35.7 million during the nine months ended September 30, 2021. This change was due mainly to payments related to our 2021 acquisitions.

*Financing activities.* Cash flows provided by financing activities during the nine months ended September 30, 2022 totaled approximately \$0.7 million compared to cash use in the prior year of \$5.6 million. This change was due primarily to new borrowings on our revolving credit facility during the nine months ended September 30, 2022 and the prior year repayment of a term loan.

Debt obligations as of September 30, 2022 and December 31, 2021 totaled approximately \$26.1 million and \$25.5 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. In the short-term, we are contractually obligated to make lease payments and make payments on unsecured non-interest bearing promissory notes payable and contingent liabilities related to certain completed acquisitions. In the long-term, we are contractually obligated to make lease payments, pay contingent liabilities as they are earned, and repay borrowings on our line of credit. We believe that we have sufficient cash and cash equivalents and borrowing capacity to cover our estimated short-term and long-term funding needs.

## **Credit Facilities**

The Company has a \$75.0 million revolving line of credit with a financial institution. The facility is utilized to fund the Company's working capital needs and other strategic initiatives, and is secured by a security interest in substantially all of the Company's current and future assets. Borrowings under the credit agreement bear interest at the *Wall Street Journal* U.S. Prime Rate less 0.75% per annum if the Company's EBITDA ratio (as defined in the Loan Agreement governing the facility) is equal to or less than 2.00 to 1.00 or the *Wall Street Journal* U.S. Prime rate less 0.25% if the Company's EBITDA ratio is greater than 2.00 to 1.00. The facility also includes a fee of 0.25% of the unused capacity on the facility. The interest rate for this credit facility as of September 30, 2022 and December 31, 2021 was 5.50% and

2.50%, respectively. The Company paid interest charges on borrowings under this facility of \$0.4 million and \$0.9 million during the three and nine months ended September 30, 2022, respectively, and had a balance of \$26.0 million and \$25.0 million as of September 30, 2022 and December 31, 2021, respectively. This facility matures on July 5, 2024.

The Loan Agreement governing the facility contains customary covenants relating to maintaining legal existence and good standing, complying with applicable laws, delivery of financial statements, payment of taxes and maintaining insurance. The Loan Agreement contains two financial covenants:

(1) Senior Funded Debt (as defined in the Loan Agreement) divided by EBITDA (as defined in the Loan Agreement) at or below 3.50 : 1.00 when tested at the end of each fiscal quarter on a rolling four-quarter basis, and

(2) A minimum Debt Service Coverage Ratio (as defined in the Loan Agreement) of 1.25 : 1.00 at the end of each fiscal quarter when measured on a rolling four-quarter basis.

The Company also has a CAD \$4.5 million revolving credit facility through a financial institution in 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, 2022 and December 31, 2021, no balance was outstanding on this line of credit.

As of September 30, 2022 and December 31, 2021, the Company was in compliance with all debt covenants.

### **Critical Accounting Policies**

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

### **Related Party Relationships**

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

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

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

Borrowings under our revolving lines of credit are subject to market risk resulting from changes in interest rates related to our floating rate bank credit facilities. For such borrowings, a hypothetical

200 basis point increase in variable interest rates may result in a material impact to our financial statements. We do not currently have any derivative contracts to hedge our exposure to interest rate risk. During each of the periods presented, we have not experienced a significant effect on our business due to changes in interest rates.

#### **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 are given notice of potential claims relating to the ordinary conduct of our business, including those pertaining to commercial disputes, product liability, patent infringement and employment matters.



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

## **Item 1A. Risk Factors**

There have been no material changes to the risk factors disclosed in Part I, Item IA of the Annual Report, except as noted below:

The Annual Report included a risk factor entitled “A material disruption from our suppliers, or our inability to obtain a sufficient supply of product from alternate suppliers could cause us to be unable to meet customer demand or increase our costs.” In that risk factor, we disclosed that our supply agreement with our primary supplier, entrotech, Inc. would terminate on March 21, 2022 and that we intended to enter into a new supply agreement with entrotech. Effective October 1, 2022, we entered into a new supply agreement with entrotech on commercially reasonable terms.

We have operations or activities in numerous countries and market-regions throughout the world. As a result, our global financial results are affected by economic, political and other conditions in the global economy as well as in the United States. Economic conditions in several of our markets are increasingly experiencing increasing inflation which could impact the demand for our products. This could significantly impact our future financial results.

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

None.

## **Item 3. Defaults Upon Senior Securities**

Not applicable.

## **Item 4. Mine Safety Disclosures**

Not applicable.

## **Item 5. Other Information**

None.

## **Item 6. Exhibits**

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

<b>Exhibit No.</b>	<b>Description</b>	<b>Method of Filing</b>
31.1	<a href="#"><u>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</u></a>	Filed herewith
31.2	<a href="#"><u>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</u></a>	Filed herewith
32.1	<a href="#"><u>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</u></a>	Furnished herewith
32.2	<a href="#"><u>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</u></a>	Furnished herewith
101	The following materials from XPEL's Quarterly Report on Form 10-Q for the fiscal quarter ended September 30, 2022, formatted in XBRL (Extensible Business Reporting Language): (i) the unaudited Consolidated Balance Sheets, (ii) the unaudited Consolidated Statements of Operations, (iii) the unaudited Consolidated Statements of Comprehensive Income, (iv) the unaudited Consolidated Statements of Equity, (v) the unaudited Consolidated Statements of Cash Flows, and (vi) Notes to Consolidated Financial Statements	Filed herewith

### SIGNATURES

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

XPEL, Inc. (Registrant)

By: /s/ Barry R. Wood

Barry R. Wood

Senior Vice President and Chief Financial Officer

(Authorized Officer and Principal Financial and Accounting Officer)

November 9, 2022

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

I, Ryan L. Pape, certify that:

Date: November 9, 2022

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

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

Date: November 9, 2022

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

I, Barry R. Wood, certify that:

Date: November 9, 2022

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

Date: November 9, 2022

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

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

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

(1) the Quarterly Report on Form 10-Q of the Company for the quarterly period ended September 30, 2022 (the "Report") fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m(a) or 78o(d)); and

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

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

Date: November 9, 2022

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

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

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

(1) the Quarterly Report on Form 10-Q of the Company for the quarterly period ended September 30, 2022 (the “Report”) fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m(a) or 78o(d)); and

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

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

Date: November 9, 2022

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