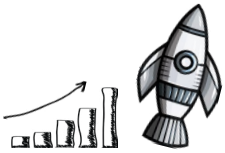
CO/INVESTOR CLUB



XPEL, INC.
Case Study

Prepared by:

AVENEL FINANCIAL GROUP — EST 1999 —

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"The idea of picking some extreme example and asking my favorite question, which is: What in hell is going on here? That is the way to wisdom in this world."

- Charlie Munger

XPEL, Inc. ("XPEL") has been one of the best performing stocks since 2013, achieving the rare status as a 100-Bagger—a stock that has risen 100x—over that timeframe. And while it was a small company back in 2013, its growth and quality were written about for all to read. Two of the main forums where investors write about and discuss investment ideas— *MicroCapClub* and *Value Investors Club*—had writeups on the company back in 2013, at prices per share of $0.36 and $0.86 respectfully—far lower than the $51.56 per share that the stock closed at on December 31, 2020. And even if one did not purchase the stock when those writeups were published in 2013, there were plenty of opportunities to buy—especially in 2015, 2016, and 2017—and still make more than 30 times one's money from then until the end of 2020.

Our aim of this paper is to explore some aspects of how this performance happened and learn from it. This will not be an exhaustive study, but rather a short, yearly summary of what was going on in the business, and how the business was valued in the market given those results at the end of each year.

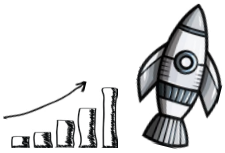
Our information—the management discussions of results and the financials—are taken directly from the company's filings listed on its website. We started with 2012 as that was the most recent yearly report available when the company was being recommended in those 2013 writeups. The 'Results of Operations' sections are given as the company reported them, so that readers can see the information as it was presented at the time.

Before getting started, we want to thank, and congratulate, Paul Andreola on *MicroCapClub* and the user devo791 on *Value Investors Club* for their write-ups. We would also like to thank Ian Cassel and Mike Schellinger from *MicroCap-Club* and the team at Value Investors Club for providing the forums for ideas to be shared and discussed.

Company Description

XPEL Inc. was founded in 1999 with headquarters in San Antonio, Texas. The company is a global provider of protective films and coatings, especially to the automotive industry. It distributes to independent installers, new car dealerships, franchisees, and online retailers.

XPEL Management strives to keep a "small company feel" to reduce turnover and stay aligned with its customers. The company Chairman, President, & CEO is Ryan Pape. Pape was appointed CEO in 2009. He began his journey with the company in 2004 and has served on the Board of Directors since 2010. He also owns a significant stake in the company and is a true owner-operator.



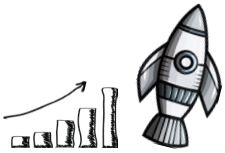
When Pape took over the company in 2009, it was hovering on the edge of insolvency, with Pape immediately taking on $25,000 of personal debt to settle a suit with a race team they had sponsored. This story shows several aspects that are essential in the qualitative analysis of a management team, as Pape was willing to put his own money at risk for the company's sake, and his alignment with shareholders through his ownership stake as his financial health was tied immediately to XPEL's performance and its ability to weather their financial situation.

Pape then directly looked to optimize XPEL's Cash flows, saying the most critical part of the business to him is cash flow "People look at an income statement or the profit and loss as the health of the business, but it's cash flow. . . if you run out of cash, you will eventually go out of business." This pursuit of positive cash flows allowed him to focus on capital allocation, where he heavily reinvested profits looking for high internal rates of return. These investment strategies have led them to expand their brand and products throughout the U.S. and world, including direct investments into installation and sales centers through an effective acquisition strategy.

To give one a peak into how the company and its value was described in one of the 2013 writeups, here is a brief summary of XPEL's business as described in the *Value Investors Club* write-up from September 18, 2013.

> *Xpel Technologies is a high quality automotive paint protection film business that is growing at 100% yet incredibly trades for only 6.7x EBIT. This is an exceptionally cheap valuation considering Xpel's recurring revenues, strong growth profile, high returns on capital, barriers to entry, and customer diversification.*
>
> *More importantly, the growth story at Xpel is still in the first inning; only 1-2% of new cars in North America get paint protection film installed today, but recent technological improvements have finally made the product viable and I believe have the industry poised for a 10-fold increase with 20%+ adoption rates as consumer awareness continues to increase. I think the business is easily worth $1.50 per share (12x next 12 months EBIT of $3.0 M), and considering the incredibly strong growth profile here, I believe there is even realistic 10-bagger potential over the next three years as the market develops and operating margins increase. A 5x increase in volumes from current levels and 25% operating margins yields a price of $9.00 per share at 10x EBIT.*

Good things often take time, as the company had some ups and downs and some periods where the stock went nowhere for the few years after 2013, but then went on to produce much, much better returns and eventually reach 100-Bagger status.



Yearly Summaries

2012

Results of Operations

Year Ended December 31, 2012 compared to the Year Ended December 31, 2011

Revenues. Revenues increased from $6,041,853 to $10,670,838, or 77% between periods. The increase in revenues is primarily a result of increases in XPEL Protection Film sales.

Direct Costs. Direct Costs of sales increased $3,509,843 between periods and increased as a percentage of revenues from 58% to 66%. Direct costs include the costs of our physical goods, the costs related to our Design Access Program software, and the costs of labor directly associated with the production of product.

Expenses. General and administrative expenses increased 35% to $2,560,836 from $1,902,484 in 2011.

Net income. The Company had net income before taxes of $1,077,207 for the year ended December 31, 2012 as compared to net income before taxes of $608,949 for the year ended December 31, 2011. The Company had net income of $1,162,207 for the year ended December 31, 2012 as compared to net income of $815,887 for the year ended December 31, 2011.

2012

Stock Price at Year-End	$0.26	Earnings-per-Share (EPS)	$0.05
Shares Outstanding	25,784,950	EPS Growth	1248.2%
Market Cap	$6,704,087		
Enterprise Value	$6,405,416	EV/Sales	0.60
		EV/EBIT	5.97
Sales	$10,670,838	P/E	5.77
Sales Growth	76.6%		
EBIT	$1,073,765	Stock IRR to Dec. 2020	93.7%
Net Income	$1,162,207	Total Return to Dec. 2020	19730.8%

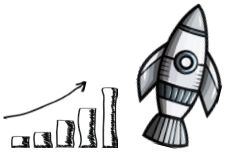
2013

Results of Operations

Year Ended December 31, 2013 compared to the Year Ended December 31, 2012

Revenues. Revenues increased from $10,670,838 to $17,898,812, or 67% between periods. The increase in revenues is primarily a result of increases in XPEL Protection Film sales.

Direct Costs. Direct Costs of sales increased $5,116,861 between periods and increased as a percentage of revenues from 66% to 68%. Direct costs include the costs of our physical goods, the costs related to our Design Access Program software, and the costs of labor directly associated with the production of product.



Expenses. General and administrative expenses increased 45% to $3,702,819 from $2,560,836 in 2012.

Net income. The Company had net income before taxes of $2,034,268 for the year ended December 31, 2013 as compared to net income before taxes of $1,077,207 for the year ended December 31, 2012. The Company had net income of $1,320,268 for the year ended December 31, 2013 as compared to net income of $1,162,207 for the year ended December 31, 2012.

Additional Notes

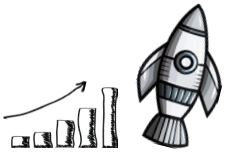
From the *Value Investors Club* writeup:

- "Xpel's growth surge that began two years ago coincided with the release of the Ultimate film, which now comprises around 80% of film sales. The Ultimate film was a quantum improvement over prior films, which thus allowed Xpel to not only gain significant market share but to also grow the overall paint protection market. If you spend any amount of time on the various car enthusiast forums on the Internet, you will quickly determine that the Ultimate film is pretty much universally viewed as the best paint protection film in the market."

- "There is limited data on the overall market size in the US, but I believe that currently around 1-2% of new cars are getting paint protection film installed today. Window tinting, in comparison, has a 60% penetration rate. Right now penetration rates vary extremely widely geographically based on consumer awareness of the product. Mountain states like Colorado have penetration of 30-40% whereas in other major states adoption is negligible. The Calgary paint protection film market, for example, is 10-20x larger than Toronto despite being a much smaller metropolitan area by population. While I certainly don't expect paint protection to achieve the market penetration of window tint, when you consider the cost/benefit of paint protection I can easily see the market eventually reaching 20%+ of all new cars. Clearly an increase in the overall market size by a factor 10-20x bodes well for the future growth potential of Xpel. There is also significant growth potential internationally -- particularly in Western Europe -- but with so much untapped opportunity still in North America, it's probably not worth delving into in significant detail nor is it likely a near-term focus of management."

2013

Stock Price at Year-End	$1.28	Earnings-per-Share (EPS)	$0.05
Shares Outstanding	25,784,950	EPS Growth	13.6%
Market Cap	$33,004,736		
Enterprise Value	$31,658,328	EV/Sales	1.77
		EV/EBIT	15.50
Sales	$17,898,812	P/E	25.00
Sales Growth	67.7%		
EBIT	$2,042,895	Stock IRR to Dec. 2020	69.6%
Net Income	$1,320,268	Total Return to Dec. 2020	3928.1%



2014

Results of Operations

Year Ended December 31, 2014 compared to the Year Ended December 31, 2013

Revenues. Revenues increased from $17,898,812 to $29,630,179, or 66% between periods. The increase in revenues is primarily a result of increases in XPEL Protection Film sales.

Direct Costs. Direct Costs of sales increased $8,220,148 between periods and remained constant as a percentage of revenues 68%. Direct costs include the costs of our physical goods, the costs related to our Design Access Program software, and the costs of labor directly associated with the production of product.

Expenses. General and administrative expenses increased 75% to $6,464,660 from $3,702,819 in 2013.

Net income. The Company had net income before taxes of $2,752,642 for the year ended December 31, 2014 as compared to net income before taxes of $2,034,268 for the year ended December 31, 2013. The Company had net income of $3,070,117 and net income attributable to equity holders of the company of $3,097,102 for the year ended December 31, 2014 as compared to net income of $1,320,268 for the year ended December 31, 2013.

Additional Notes

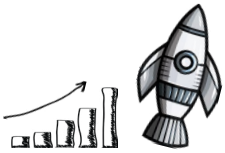
- The company opened a facility in Europe to provide better support and distribution in the foreign marketplace. The quarter after establishing the United Kingdom facility, the company reported a 72% increase in revenue.

- The CEO said some of the increased costs are short-term, such as a discount offered to a client for a "major deal." Other costs like shipping and labor expenses were expected to grow over time as the company continued expanding.

- In November 2014, Sean Iddings, co-author of the books Intelligent Fanatics and Intelligent Fanatics Project, wrote an article on Seeking Alpha, in which he stated: "Few companies come around during an investors' lifetime that have a probable chance of changing one's life if enough capital is allocated to it. These companies have a rare combination of extremely high economics, are run by high quality, incentivized owner-operators, have defensible characteristics, high consistent growth with potential to continue high growth, and are trading at a fair price. Charlie Munger even said that if you can find these companies early in their business development, then it would be a mistake to not invest in them.... We think Xpel Technologies is one of those rare businesses that is early in its growth that fits almost all of the qualities that could make this a long-term compounder."

2014

Stock Price at Year-End	$3.05	Earnings-per-Share (EPS)	$0.12
Shares Outstanding	25,784,950	EPS Growth	132.5%
Market Cap	$78,644,098		
Enterprise Value	$78,160,381	EV/Sales	2.64
		EV/EBIT	27.99
Sales	$29,630,179	P/E	25.62
Sales Growth	65.5%		
EBIT	$2,792,273	Stock IRR to Dec. 2020	60.2%
Net Income	$3,070,117	Total Return to Dec. 2020	1590.5%



2015

Results of Operations

Year Ended December 31, 2015

Revenues. Revenues increased from $29,630,179 to $41,470,126, or 40% over the prior year. The increase in revenues is primarily a result of increases in XPEL Protection Film sales. Revenues increased 44% over the prior year to $42,745,953 on a constant currency basis.

Direct Costs. Direct Costs of sales increased $8,780,423 between periods and increased as a percentage of revenues from 69% to 70%. Direct costs include the costs of our physical goods, the costs related to our Design Access Program software, and the costs of labor directly associated with the production of product.

Expenses. General and administrative expenses increased 50% to $9,708,182 from $6,464,660 in 2014 and increased as a percentage of sales to 23% of sales from 22% of sales in the prior year period.

Net income. The Company had net income before taxes of $2,434,050 for 2015 as compared to net income before taxes of $2,752,642 in 2014. The Company had net income of $1,470,669 in 2015 as compared to net income of $3,070,117 in 2014. Net income decreased 26% as compared to 2014 to $2,268,079 on a constant currency basis. In 2014, the Company recognized a large one-time after-tax gain due to a change in tax estimate.

EBITDA. The Company has EBITDA of $3,550,048 compared to EBITDA of $3,272,524 for the prior year. On a constant currency basis, EBITDA increased 42% to $4,663,337 compared to the prior year.

Additional Notes

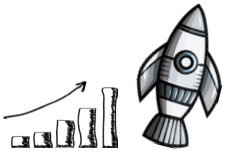
- XPEL acquired Parasol in Canada. Parasol was a distributor of paint protection and window tint for the Canadian market. This acquisition aligned with XPEL's strategy to be closer to its customers in international markets. The company gained a robust Canadian team, sales force, and a broader portfolio of products to capitalize on XPEL's extensive global market. The company was acquired for CAD $4.8 million.

- In July 2015, the same author of the 2013 Value Investors Club writeup again posted a writeup on XPEL. Some highlights from that writeup:

  - When discussing the CEO's comments on the previous two earnings calls: "So after seeing two quarters of 53-54% growth (Oct 2014 to Mar 2015) he starts to talk down investor expectations on the Q1 call and essentially says to not be surprised if revenue growth dips under 50%. Then April and May happen and all of a sudden he's feeling bullish again and giving forward guidance of at least 50% growth. I think it's pretty obvious that April and May, the first 2 months of Q2, must've been especially huge months for him to have changed his tone so dramatically. And if the CEO is setting the bar going forward at 50%+ growth, you have to think that Q2 is already on pace to significantly exceed those levels considering how conservative management has consistently been in setting expectations."

  - "The company has posted 16 consecutive quarters of 45%+ organic revenue growth, and 13 consecutive quarters of 62%+ TTM organic revenue growth."

  - "Xpel is a extremely high growth, high quality business, and as such I believe it should trade for at least 30x after-tax earnings. With Q2 being reported next month, we should be looking at next 12 months earnings of around $0.30 per share. As such, I believe that Xpel is worth at least $9.00 per share today, which is consistent with the revenue multiple that Suntek, a significantly inferior competitor, was just acquired for. Should Xpel



continue to execute on their growth opportunities as successfully as they have over the past few years, I see the potential for value to grow far in excess of that amount, and as such even today I believe that Xpel still offers realistic 10-bagger potential over the next 3-4 years as the market develops."

- The stock sold off at the very end of the year when 3M filed a filed a patent infringement lawsuit against the company.

2015

Stock Price at Year-End	$1.01	Earnings-per-Share (EPS)	$0.06
Shares Outstanding	25,784,950	EPS Growth	-52.1%
Market Cap	$26,042,800		
Enterprise Value	$29,245,211	EV/Sales	0.71
		EV/EBIT	11.21
Sales	$41,470,126	P/E	17.71
Sales Growth	40.0%		
EBIT	$2,608,275	Stock IRR to Dec. 2020	119.6%
Net Income	$1,470,669	Total Return to Dec. 2020	5005.0%

2016

Results of Operations

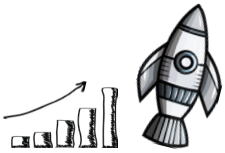
Year Ended December 31, 2016

Revenues. Revenues increased approximately $10.29 million or 24.8% vs. the prior year. The increase in revenues is primarily a result of increases in revenue from our protection film and window tint product lines. On a constant currency basis, revenues increased 26.1% from the prior year.

Direct Costs. Direct Costs of sales increased $8.59 million or 29.5% vs. prior year. Direct costs include the costs of our physical goods, the costs related to our Design Access Program software, and the costs of labor directly associated with the production of product. At the beginning of the year, the Company began charging the costs of employees in our installation business to Direct Costs rather than selling, general and administrative expenses. The effect of this revised methodology for the year was to increase direct costs by approximately $1.11 million.

Gross Margin. Year to date gross margin was 27.1% vs 29.7% for the prior year. Normalizing for the effect of the aforementioned methodology change, gross margin for the year would have been 29.1%.

Expenses. Selling, general and administrative expenses increased $1.05 million or 10.8% vs. the prior year and decreased as a percentage of sales to 20.8% of sales from 23.4% of sales in the prior year. Normalizing for the effect of the aforementioned methodology change, selling, general and administrative expenses would have increased 22.1% vs. prior year and decreased as a percentage of sales to 21.8% vs. prior year. This increase was due mainly to increased personnel costs as we added personnel to support the revenue growth, increased occupancy, insurance and information technology related costs to support the on-going growth of the business, and increased professional fees due mainly to increased legal fees which exceeded .9 million for the year.



Net income. Net Income grew approximately $0.69 million or 47.1% over the prior year. On a constant currency basis, net income grew 46.0% to $2.10 million.

EBITDA. EBITDA increased $.84 million or 23.7% to $4.39 million vs. prior year. On a constant currency basis, EBITDA increased 23.6%% to $4.39 million.

Additional Notes

- XPEL vehemently denied the claims made at the end of 2015 and promised to "vigorously defend itself" against the claims by 3M. CEO Pape released a statement saying they would continue business as usual, and they expect no impacts will be made to the company's customers.
- XPEL announced that its Paint Protectant Film and Window Film would now be available worldwide through Tint World Automotive Styling Franchisees.
- Barry Wood was named CFO.
- Acquired the Netherlands-based company, Connection Europe B.V. This new facility served as the sales, distribution, training, and design mainland for Europe. This acquisition strengthened the company's presence in Europe by broadening its footprint and brand recognition.
- Acquired Pro-Tect Film Distributing Inc. In Nevada. Pro-Tect's CEO joined XPEL to head many new initiatives. By combining the two companies' resources, a broader and deeper pattern of databases was set up for customers

2016

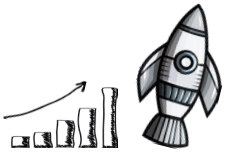
Stock Price at Year-End	$1.40	Earnings-per-Share (EPS)	$0.08
Shares Outstanding	25,784,950	EPS Growth	47.1%
Market Cap	$36,098,930		
Enterprise Value	$39,186,471	EV/Sales	0.76
		EV/EBIT	12.05
Sales	$51,759,267	P/E	16.69
Sales Growth	24.8%		
EBIT	$3,252,551	Stock IRR to Dec. 2020	146.3%
Net Income	$2,163,500	Total Return to Dec. 2020	3582.9%

2017

Results of Operations

Year Ended December 31, 2017

Revenues. Revenues increased approximately $15.99 million to $67.75 million, or 30.9% over the prior year to date period. On a constant currency basis, revenues grew 30.7% to 67.62 million. The increase in revenues is primarily a result of increases in paint protection film and window film sales. Window film sales accounted for 7.6% of total sales.



Direct Costs. Direct Costs of sales increased approximately $13.23 million over the prior year period. Direct costs include the costs of our physical goods, the costs related to our Design Access Program software, and the costs of labor directly associated with the production of product. Included in the direct costs are one-time adjustments recorded during the 3rd and 4th quarters totaling $1.0 million. These one-time adjustments related to the consolidation of our warehouse operations from three existing warehouses into a single facility. Commensurate with this consolidation, we streamlined our paint protection film product mix to enhance greater efficiency and higher inventory turns within each line.

Gross Margin. Gross margin for the period grew 19.7% vs prior year and decreased as a percentage of sales from 27.1% to 24.8%. Adjusting for the aforementioned one-time costs related to our warehouse/SKU consolidation, the gross margin percentage would have been 26.4%. The year over year decline in gross margin percentage is primarily attributed to a higher mix of lower margin distributor sales in 2017.

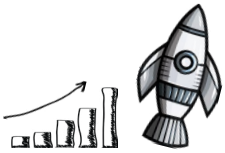
Expenses. Selling, general and administrative expenses increased $3.78 million or 35.1% vs. prior year period and increased as a percentage of sales to 21.5% of sales from 20.8% of sales in the prior year. This increase was due mainly to increases in personnel, occupancy, sales and marketing and travel related costs to support the ongoing growth of the business as well as increases in intercompany shipping expense related to the transfer of inventory to our various warehouses to support the needs of our customers. Additionally, the company changed its depreciation method from double declining balance to straight line resulting in additional depreciation expense of approximately $.36 million vs. prior year. The Company incurred one- time costs related to the restructuring of its sales and operations totaling $.28 million. This restructuring will allow the Company to scale more efficiently. Adjusting for these restructuring costs and the depreciation change, selling, general and administrative costs would have increased 29.2% and would have totaled 20.5% as a percent of sales.

Net income. Net income for the period decreased to $1.13 million vs $2.16 million in the prior year. On a constant currency basis, net income for the period decreased $1.05 million. Adjusting for the aforementioned one-time items, net income would have increased 5.1% to $2.28 million.

EBITDA. EBITDA decreased $.13 million to $4.27 million vs prior year period. On a constant currency basis, EBITDA decreased $.16 million to $4.23 million. Adjusting for the aforementioned one-time items, EBITDA would have increased 28.9% to $5.66 million.

Additional Notes

- Partnered with Restylers' Choice, a leading provider of automotive graphics. This helped XPEL to enhance its software capabilities and, as a result, improve the services offered to customers.
- Settled the patent infringement lawsuit of 2015. XPEL agreed to acquire a license to the patent, and both companies agreed to dismiss the lawsuit.
- Acquired Stratashield LLC in Texas, a provider of installation services for paint and protection window film. This acquisition gave them a strong local presence and continued its "get close to the customer" strategy.
- Acquired Transguard Inc. in Idaho. Transguard's joined XPEL to serve as the manager of the market post-acquisition.
- Announced a plan to acquire Protex Canada in December. Protex was the top franchisor for automotive paint and window film in the country. The Protex franchisees were a large share of XPEL's Canadian revenue, and this would solidify its position as its supplier and increase its presence in the market.
- After growth and major operational progress during the year, the company's stock price ended the year right where at started the year.



- Excerpts from CEO Ryan Pape's earnings calls during the year:

  - Q2 call: "I think overall, in China, relative to paint protection, I would call it, it was an okay quarter in terms of we saw some growth. We obviously like to see it higher. The other thing that's very positive that's been developing alongside that really coming out of Q2 at the end of Q2 is development of some window film opportunities in China and some very specialized products that we're creating for that market. So overall, I think that we still have really high expectations and expect to see a lot of growth there. What we do tend to see is, obviously, we're working with local partner and distributor and there's other obstacles and things that may get in their way from time to time that sort of make quarter-to-quarter a bit unpredictable for us. But the macro trend is still a positive one and still one that we expect to see a lot of growth from going forward, both paint protection and window film in that market."

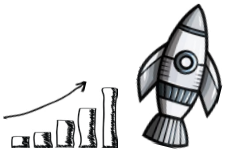
  - Q3 call: "So we had a great record-breaking quarter. Third quarter revenue growing 31.6% to $17.8 million. Obviously, I'm very pleased with our top line numbers. Puts us back in a range that we're happy to be, and as we continue to execute on our Get Close to the Customer strategy. So we continue to see strong growth across all our product lines. Obviously, our really second product line of our window film continue to do well, so represented 10.8% of third quarter revenues. So that's progressing as we'd expect, and we're certainly pleased with that. We've seen great revenue growth on our export sales during the quarter. Really, all year long, but the quarter in particular. We continue to see increasing demand internationally, particularly in Asia."

  - Q3 call: "So I think as you can see, third quarter was pretty transformational. Like we said, we're pleased with the top line growth. I think the opportunities for revenue growth continue to be strong as we go forward. We're heavily focused on controlling SG&A growth. I think as Barry will mention, roughly almost 1/3 of our Q3 SG&A growth is related to our European operations. So we've invested heavily there and we have a solid team now. So we're really focused on SG&A growth and margin enhancement. These come top priority after sales growth, so we put sales growth above all, but we are very focused on those things. So I think we can -- I think we do good. I think we'll continue to do better. But overall, really a good quarter for us."

  - Q3 call: "I think that focusing on growth to be a growing company and grow a company to a certain scale is certainly a well-understood concept. I mean, we could maximize our gross and net profitability as a $50 million year company and hop along like that, but that certainly doesn't come close to satisfying my vision for this company nor I think what all shareholders can realize if we grow. So yes, you have gross margins and the incremental gross margin on a given sale and what that does to your aggregate, but you still have the net margin of the business, which even at low gross margin sale, theoretically contributes to that net margin as your overhead costs are fixed. I could tell you my salary hasn't increased with sales from $3 million in 2009; wish it had. But so all of those things are opportunity and really depends what kind of company do you want to become? And for me, we can become a much larger company, which ultimately generates a lot more net operating margin. And if that means we accept lower margin sales to China or lower margin sales to Canada due to FX in the meantime, I think that's great because all of that pays dividends over the long term as you raise prices, lower cost and keep your operating expense growth constrained."

2017

Stock Price at Year-End	$1.40	Earnings-per-Share (EPS)	$0.04
Shares Outstanding	27,612,597	EPS Growth	-51.0%
Market Cap	$38,657,636		
Enterprise Value	$39,241,659	EV/Sales	0.58
		EV/EBIT	17.55
Sales	$67,749,544	P/E	34.08
Sales Growth	30.9%		
EBIT	$2,236,056	Stock IRR to Dec. 2020	232.7%
Net Income	$1,134,344	Total Return to Dec. 2020	3582.9%



2018

Results of Operations

Comparison of Year Ended December 31, 2018 to year ended December 31, 2017

Revenues. Revenues increased approximately $42.6 million to $109.9 million, or 63.3% over the prior year to date period.

Product Revenue. Product revenue grew 69.5% over 2017 product revenue and represented 87.0% of our total revenue. Revenue from our paint protection film product line increased 72.8% and represented 77.8% and 73.5% of our total 2018 and 2017 revenue, respectively. Revenue from our window film product line grew 43.2% and represented 6.7% and 7.6% of our total 2018 and 2017 revenue, respectively. These increases were due to continued strong demand for our products throughout the world.

Service Revenue. Service revenue consists of revenue from fees for DAP software access, cutbank credit revenue which represents per cut fees charged for the use of our DAP software, revenue from the labor portion of installation sales in our company-owned installation centers and revenue from training services provided to our customers. Service revenue grew 31.5% over 2017 service revenue and represented 13.0% and 16.3% of our total 2018 and 2017 revenue, respectively. Software revenue decreased (9.0)% and represented 2.3% and 4.2% of our total 2018 and 2017 revenue, respectively. This decrease was due mainly to the restructuring of DAP access fees commensurate with the implementation of our cutbank program. Cutbank credit revenue grew 49.5% and represented 5.6% and 6.2% of our total 2018 and 2017 revenue, respectively, due mainly to our growth in product revenue and the aforementioned restructuring of DAP access fees. Software and cutbank credit revenue combined grew 25.8% due mainly to the increased demand for our products and services. Installation labor increased 40.5% due mainly to increased strong demand in the areas in which our company-owned stores operate. Training revenue increased 53.3% versus 2017 due to increased demand consistent with the growth of the business.

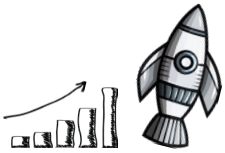
Total installation revenue (labor and product combined) increased 40.5% versus 2017 due mainly to increased demand for our products and services in our company-owned installation facilities. This represented 5.6% and 6.6% of our total 2018 and 2017 revenue, respectively. Adjusted product revenue, which combines the cutbank credit revenue service component with product revenue, grew 68.2% versus 2017 due to an overall increase in demand for our products and services in most of the regions in which we operate.

Gross Margin. Gross margin for 2018 grew $16.8 million, an improvement of 100.4% from 2017 and represented 30.4% of revenue. This improvement in gross margin percentage was due mainly to reductions in per unit material cost and reductions in non-product related costs.

Operating Expenses. Sales and marketing expenses increased $1.9 million in 2018, or 37.5% over 2017, and represented 6.2% and 7.3% of 2018 and 2017 total revenue, respectively. This increase was primarily attributable to increases in sales staff and other marketing related expenses incurred to support the on-going growth of the business.

General and administrative expenses grew $5.3 million in 2018, or 55.4% over 2017, and represented 13.5% and 14.2% of 2018 and 2017 total revenue, respectively. The increase was due mainly to increases in personnel, occupancy costs, information technology costs and travel related costs to support the on-going growth of the business.

Net income. Net income for the period increased by $7.7 million from 2017, to $8.7 million in 2018 owing mainly to the aforementioned increases in revenue and gross margin.



Additional Notes

- Announced name change from "XPEL" to "XPEL Inc." The expanding brand brought on the name change to alleviate confusion about the nature of its operations.

- Helped one of its customers, Sun Stoppers (based in Charlotte, North Carolina), set a Guinness World Record for window tinting. The east coast company tinted 438 windows on 170 cars in only 8 hours.

- The official acquisition of Protex in December of 2017 led to the acquisition of three franchisees in major Canadian cities. With this, XPEL expanded its installation footprint into 10 locations in three countries.

- Acquired Taiwan-based distributor, Apogee Corp. This was the company's first Asia-based local office. This will allow them to sell directly to customers in Taiwan, Hong Kong, and Macau while offering better local support throughout Asia. Apogee's CEO joined XPEL and held responsibility for XPEL's operations in the region.

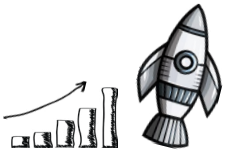
- Excerpts from CEO Ryan Pape's earnings calls during the year:

  - Q1 call: "China represented about 30% of our revenue for the quarter, so this is sold through one primary distributor, but it's important to remember that it represents, in fact, many, many, many hundreds of individual installers who are all bought into the XPEL brand, and all the product that we sell is branded product in-country. So clearly, that's an exciting part of the growth and it's become a significant part of the business. That said, we saw strong growth in virtually all of our regions, with only one growing at less than 30% year-over-year."

  - Q2 call: "As you probably know by now, Q2 was another record quarter for us. Revenues finishing at about $28.9 million, which represented a little over 69% increase compared to Q2 of last year. So we're continuing to see strong demand in all of our regions. In particular, our European business more than doubled versus the prior year quarter so we continue to gain there, that's been a pretty consistent trend and one we're very pleased with."

  - Q3 call: "For the third quarter in a row, we've experienced a record revenue quarter for XPEL, with revenues finishing at $29.3 million or a little over 64% growth versus third quarter of last year. As you all likely know, our sequential revenue growth rates have been 99%, 69% and 64% for Q1, 2 and 3, respectively, of this year. So clearly, had exceptional revenue performance in each quarter.... As we've been saying all year long, we do expect our overall revenue growth rates to moderate. We expected a bit more moderation in Q3. However, we really didn't see it. So it could've been some pull forward from Q4. However, October was very strong from a revenue standpoint, so that hasn't happened yet. Still, we would expect Q4 to come in at a lower growth rate. However, we continue to be very pleased with the underlying fundamentals of the business and the ongoing demand for the products and services we're seeing really in every geography."

  - Q4 call: "Let's talk about what was clearly an outstanding year for XPEL. Our revenues for Q4 grew 33.1% to $26.8 million, reflecting continued strong growth for the company. As we alluded to on previous calls, we expected our revenue growth to moderate as we went through last year and then in Q4. Given that, I was pleased with our Q4 performance. Revenues from China represented 26.1% of our total Q4 revenue, reflecting continued moderation of that mix. For the year, our revenues grew 63.3% to almost $110 million. Growth was strong in most all of our regions."



2018			
Stock Price at Year-End	$6.10	Earnings-per-Share (EPS)	$0.32
Shares Outstanding	27,612,597	EPS Growth	668.1%
Market Cap	$168,436,842		
Enterprise Value	$166,287,003	EV/Sales	1.74
		EV/EBIT	14.05
Sales	$95,526,350	P/E	19.33
Sales Growth	41.0%		
EBIT	$11,831,736	Stock IRR to Dec. 2020	190.7%
Net Income	$8,712,534	Total Return to Dec. 2020	745.2%

2019

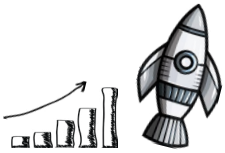
Results of Operations

Full-Year 2019 compared to Full-Year 2018

- Consolidated revenue grew 18.2% to $129.9 million.
- Gross margin grew 30.1% to $43.5 million. Gross margin percentage improved 3.1% to 33.5% of revenue.
- Total operating expenses grew 22.1% to $26.4 million and represented 20.3% of total consolidated revenue.
- Income tax expense grew 7.1% to $3.0 million. The effective income tax rate was 17.4%.
- Net income grew 60.5% to $14.0 million and represented 10.8% of total revenue. Earnings per share was $0.51 compared with $0.32 in 2018.

Product Revenue. Product revenue increased 17.5% for the year ended December 31, 2019 . Product revenue represented 86.4% of our total revenue for the year ended December 31, 2019. Within this category, revenue from our paint protection film product line increased 13.9% for the year ended December 31, 2019. Paint protection film sales represented 74.9% and 77.8% of our consolidated revenue for the years ended December 31, 2019 and 2018, respectively. Overall, this growth was due mainly to increases in the square footage of film product sold owing to increased demand for our products. This increase in demand was driven by both an increase in the number of customers and an increase in revenue to existing customers. Revenue from our window film product line grew 55.7% in the year ended December 31, 2019. Window film sales represented 8.8% and 6.7% of our consolidated revenue for the years ended December 31, 2019 and 2018, respectively. This growth was attributable to increased demand for our window film products commensurate with increased window film adoption within our distribution channels and an increase in new customers.

Geographically, growth was strong in most of the regions in which we operate except for China. The decline in China in 2019 was primarily due to the need to sell through inventory built up in the region during 2018. This sell through of the 2018 inventory build occurred primarily during the first half of 2019 after which growth in sales to China resumed.



Service Revenue. Service revenue consists of revenue from fees for DAP software access, cutbank credit revenue which represents per-cut fees charged for the use of our DAP software, revenue from the labor portion of installation sales in our company-owned installation centers and revenue from training services provided to our customers. Service revenue grew 23.2% over the service revenue for the year ended December 31, 2018. Service revenue represented 13.6% and 13.1% of our total consolidated revenue from the years ended December 31, 2019 and 2018, respectively.

Within the service revenue category, software revenue increased 27.1% from the year ended December 31, 2018. Software revenue represented 2.5% and 2.3% of our total consolidated revenue for the years ended December 31, 2019 and 2018, respectively. This increase was due primarily to increases in customers subscribing to our software. Cutbank credit revenue grew 17.0% from the year ended December 31, 2018. Cutbank sales represented 5.6% and 5.6% of our total consolidated revenue for the years ended December 31, 2019 and 2018, respectively. This increase was due primarily to the aforementioned increases in demand for our products and services. Installation labor revenue increased 27.0% from the year ended December 31, 2018, due mainly to the increase in demand for installation services. Training revenue increased 41.2% from the year ended December 31, 2018. This growth was due to continued strong interest in the Company's training program coupled with increased training capacity added in 2019.

Total installation revenue (labor and product combined) at our Company-owned installation centers for the year ended December 31, 2019 increased 27.0% over the year ended December 31, 2018. This represented 6.1% and 5.6% of our total consolidated revenue for the years ended December 31, 2019 and 2018, respectively. Adjusted product revenue, which combines the cutbank credit revenue service component with product revenue, increased by 17.4% from the year ended December 31, 2018 due mainly to the same factors described previously.

Gross Margin. Gross margin for the year ended December 31, 2019 grew approximately $10.1 million, or 30.1%. For the years ended December 31, 2019 and 2018, gross margin represented 33.5% and 30.4% of revenue, respectively.

Operating Expenses. Sales and marketing expenses for the year ended December 31, 2019 increased 11.5% compared to 2018. These expenses represented 5.8% and 6.2% of consolidated revenue for the years ended December 31, 2019 and 2018, respectively. This increase was primarily attributable to increases in sales staff and other marketing related expenses incurred to support the ongoing growth of the business.

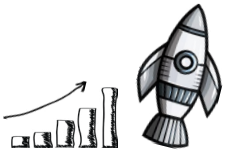
General and administrative expenses grew approximately $4.0 million, or 27.0%, during the year ended December 31, 2019. These costs represented 14.5% and 13.5% of total consolidated revenue for the years ended December 31, 2019 and 2018, respectively. The increase was due mainly to increases in personnel, occupancy costs, information technology costs and research and development costs to support the ongoing growth of the business and increases in professional fees due primarily to the ancillary costs associated with the preparation and filing of the Company's registration statement on Form 10.

Net income. Net income for the year ended December 31, 2019 increased by $5.3 million from the prior year to $14.0 million due primarily to increased revenue and improved margins.

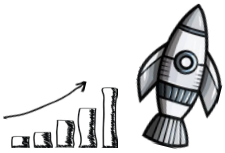
Additional Notes

- Named Official Window Tint and Paint Protection Films of the BMW Car Club of America. This agreement gave XPEL exclusive status and significant exposure at national club events as well as exposure via the club's communication channels.

- Named Official Window Tint and Ceramic Coating Partner for Porsche Club of America Racing. Strengthened brand awareness and recognition among Porsche owners around the country.



- Announced listing on NASDAQ.
- Announced its voluntary delisting from TSX Venture Exchange. The company decided the costs associated with supporting a dual listing were no longer justified.
- Excerpts from CEO Ryan Pape's earnings calls during the year:
  - Q1 call: "Our U.S. business is very strong with 36% year-over-year growth. We continue to see pretty broad-based growth in the U.S. business, both by geography within the U.S. and type of business as well as the mix of current customers and new customers. Also, you may remember, we launched our ceramic coating in the U.S. in March, so we had our first revenue there and that's progressing very nicely for the U.S. business. We continue to invest in the U.S. both with an expanded regional sales team and as it pertains our acquisition strategy, which has largely been paused for the past 6 months as we've gone through our U.S. GAAP conversion but will be a focus going forward."
  - Q1 call: "As we've talked about in our last call, we expected significant year-over-year decline in China, and that occurred in the quarter to the tune of 42%. Along with our record growth in China last year, there was also an inventory build in the country at the distribution level. The build in inventory principally occurred March through August at the time the business in China was ramping and there was a need to get product in quickly via air shipment and then also inventory more economically via ocean shipment. So we have better line of sight into the sell-through now and have that on a go-forward basis."
  - Q2 call: "I think when you look at the overall market strategy and competitive position globally, China is certainly the most unique market. It's unique in the sense that there are more brands in this space and probably most others than you would see in most other markets. There's just an overproliferation of different brands. And that sort of leads to a very aggressive and competitive market in terms of the marketing tactics, in terms of strategy around the product. So I think our approach in dealing with that, some of it is sort of our textbook playbook that we might run globally. But then we've got to support our partners in China. I think probably the number one way that we've done that, and continue to do that, is in terms of product differentiation. We have several products that are China-only products, really targeting the specific needs and wants of the consumers there, and that sort of is the strategy around addressing the competition, the competitive aspects, but also in terms of just servicing that market in the way that it needs to."
  - Q3 call: "So overall, it was obviously a great quarter for us, and we're seeing the momentum carry forward into Q4. Given this, we expect Q4 revenue growth to be around 20% plus or minus quarter-over-quarter, and we look forward to closing out the year strong. Q3 was probably our high watermark in terms of operating leverage for the year, just like Q2 was in terms of gross margin, but assuming we get the revenue growth, we'll show great operating performance in Q4 as well."
  - Q4 call: "2019 was a transformational year for XPEL, and we successfully executed in a lot of areas. First, as most of you know, we completed our listing on NASDAQ, which was a huge and important achievement for not only our shareholders but for our customers and to the benefit of our corporate identity. We also entered into an important partnership with Team Penske to expand our brand and expose us to a large network of dealerships and other partners. And on the product front, we introduced several new and important products like our FUSION PLUS Ceramic Coating and our interior protection solutions. These provide great opportunities for our customers to increase their revenue per vehicle. I'm very proud of our financial performance in 2019, and it was another record year for us."



2019			
Stock Price at Year-End	$14.65	Earnings-per-Share (EPS)	$0.51
Shares Outstanding	27,612,597	EPS Growth	60.4%
Market Cap	$404,524,546		
Enterprise Value	$393,793,080	EV/Sales	3.03
		EV/EBIT	23.05
Sales	$129,932,881	P/E	28.94
Sales Growth	36.0%		
EBIT	$17,087,347	Stock IRR to Dec. 2020	251.9%
Net Income	$13,977,625	Total Return to Dec. 2020	251.9%

2020

Q1 2020

2020 Highlights – Q1-Q4

Notes:

- Acquired Protex Centre, the largest franchisee in the Protex Canada Network. The company is one of the largest wholesale paint protection film installation businesses globally and one of XPEL's single largest customers.

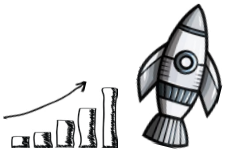
Excerpts from CEO Ryan Pape's Q1 earnings call:

- "Our revenue for the quarter grew 14.8% over Q1 '19 to $28.4 million. Our revenue from China declined 55%, while our non-China growth was about 30%. As we mentioned last quarter, there was around $2 million in pull ahead in China revenue out of Q1 back into Q4 2019. Even with that, there was a significant impact in China from COVID-19 if you compare Q1 to Q4 run rate, obviously. Our Q2 forecast from China is encouraging, and it seems, at least for now, we may be on the other side of the pandemic in China."

- "Looking at our other regions, we really didn't see any impact from COVID-19 until the last 7 to 10 days of March or so. Our U.S. region finished the quarter with 24% growth, which is good performance for our largest region. In Canada, our Canada U.S. dollar revenue grew 35% for the quarter, which was helped somewhat by 2 months of new revenue resulting from our Protex Centre acquisition. Organic growth in Canada was around 25%, so still very good results there."

- "In Europe, we had a very strong quarter with U.S. dollar revenue growth of 96.5%, so we continue to execute and gain traction in Continental Europe. As we mentioned on the last call, the Continental Europe business did quite well even during the initial COVID-19 stages, which hit Europe earlier than, say, U.S. and Canada. We did see more slowdown later in the quarter, but it really did outperform. U.K. posted U.S. dollar growth of 26.4%, which is lower than recent quarters, but still good results."

- "Our Latin America region was essentially flat in Q1, but that masked the 120% year-over-year growth in Mexico, which is our primary focus within LATAM. Mexico is now over 60% of the total LATAM revenue, when this is direct revenue, where we're selling to dealers and installers, whereas the remainder of that LATAM revenue is to various small distributors through the rest of the region and inherently more volatile. So continue to be really proud of our



team in Mexico and a real affirmation of our direct, get-close-to-the-customer approach is viable in many, many markets."

Share price at the end of Q1 2020: **$10.02**

Q2 2020

Notes:

- XPEL Joins Russell 2000® and Russell 3000® Indices, effective at the market close on June 26, 2020.

Excerpts from CEO Ryan Pape's Q2 earnings call:

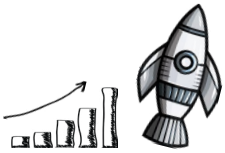
- "During our Q1 earnings call in May, I indicated we were seeing signs that the business in many of our regions is turning the corner, right after the pandemic, after the 21% revenue decline we talked about in April. While I've been certainly been pleased with our results in Q2, which by almost all measures, was an outstanding quarter for us and a fantastic comeback from April, certainly well ahead of what could have been given the COVID-19 impact. Revenue for the quarter grew 19% over Q2 2019 to $35.8 million. We certainly topped our expectations. Revenue ramp-up acceleration began in May, and June ended up being a record monthly revenue month for XPEL. And just for context, June revenue was over double April revenue, so quite a swing."

- "The China region continued the momentum we saw in April as revenues grew over 200% to just under $10 million for the quarter. Obviously, China had an easy comp as Q2 2019 was a weak quarter based on the previous inventory build prior to that quarter, which we previously discussed. This was the second highest revenue quarter for China after the $13.5 million we saw in Q4 of last year. As a reminder, we accelerated a few million in revenue from Q1 2020 into Q4 2019 just based on the timing of shipments. China auto sales were up over 10% during Q2, so we're certainly benefiting from that. Our forecast out of China has been consistent and strong. Obviously, there's still a question in China as there is now, in other parts of the world, how much demand is being driven by kind of demand during shutdowns and how much is the new normal? Hard to say for sure, obviously, something we're watching closely. At this point, we're expecting year-over-year growth in China compared to Q3 2019 for Q3, which was the first quarter in which we saw significant increases last year, which also then translates to modest sequential growth in China from Q2 2020 to Q3 2020. As a reminder, in 2019, our China revenue is very back half loaded. So obviously, we're very pleased with China. I'm very pleased to see how the markets performed coming out of a very severe shutdown, very severe COVID impact."

- "As we look over the rest of the year, we're expecting growth in the high teens in Q3 compared to Q3 2019 based on what we're seeing in the U.S. and beyond, recognizing that our China business ramped significantly last year in Q3 of 2019 compared to Q2."

- "I think this process, whether you're someone in our industry or us, it exposes your vulnerabilities and weaknesses. And I think that when you look at the profile and the type of acquisitions we look at, I think that point has been acutely made to a lot of people. So I think that, that does help us in that process. We had talked earlier that we kind of had a hard time closing some of the deals we were looking at because we just thought the valuation was not meeting our criteria coming into this. So I think we're a little bit optimistic that's going to help us open that up. But that will be proven out really over the rest of the year, if we're right about that."

Share price at the end of Q2 2020: **$15.64**



Q3 2020

Notes:

- Acquired French distributor France Auto Racing. This further enhanced XPEL's development in the French market.

Excerpts from CEO Ryan Pape's Q3 earnings call:

- "By all measures, Q3 was the best quarter we've ever had at XPEL. We had record revenue, $46.1 million, coupled with record net income of $6.6 million and record EBITDA of $9 million. Revenue for the quarter grew just south of 30% and was led by robust 40% year-over-year growth in the U.S. region, our largest. Momentum we saw beginning in the second half of Q2 carried over into Q3, which is great to see. The revenue growth was broad-based. As I mentioned, our U.S. business grew 40% year-over-year to $22 million, which was a record for the region. In fact, we had records in almost every region and almost every financial metric this quarter with just a handful of exceptions."

- "You may recall, last month, we announced our intent to acquire assets of France Auto Racing, which is a distributor of ours serving France. We did close that acquisition last week. And France is another underpenetrated market for us. Consistent with our acquisition strategy, which centers around this notion of getting close to the customer to provide better service and drive increased product adoption, the acquisition of our distributor in France is certainly consistent with that strategy. France will be managed as part of our Netherlands European head -- based European headquarters. We welcome our new team members in France and look forward to growing that team next year. As we've mentioned in the past, we still expect to use up our excess cash and our cash flow from operations, primarily on acquisitions, and we have multiple acquisitions that we are currently pursuing."

- "We also had record sales for our automotive ceramic coating product, FUSION PLUS during Q3. In October, we launched 5 new FUSION PLUS product line extensions to complement our core ceramic coating product. These are designed to protect glass, wheels, plastic trim and other surfaces. This gives our customers more opportunity to increase their revenue per vehicle while simultaneously provides more coverage options for the car owner. So another important add to that channel as we build out that product line. Also of note, in the FUSION PLUS product line is a marine product, but it's really to complement the automotive lineup. And marine applications exist across our product line, paint protection film, the coating, as I just mentioned, and for window film. So we're going to look to focus on this next year to really highlight and develop these applications."

- "We just completed our 2021 planning process, really excited as ever about the growth opportunities that lie ahead. I know I'd say it on most calls, but I couldn't be more proud of our team and their efforts to serve and take care of our customers. That's what really sets XPEL apart and I'm really honored to be part of it and look forward to continuing that for the long term."

Share price at the end of Q3 2020: **$26.08**

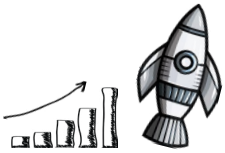
Q4 2020

Notes:

- Named "Official Paint Protection Film" of Spring Mountain Motor Resort and the Ron Fellows Performance Driving School. This was a significant win for XPEL because Corvette C8 owners are a core target audience.

The final year-end 2020 results and Q4 earnings call are expected around mid-March of 2021.

Share price at Year-End 2020: **$51.56**

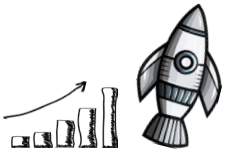


SUMMARY

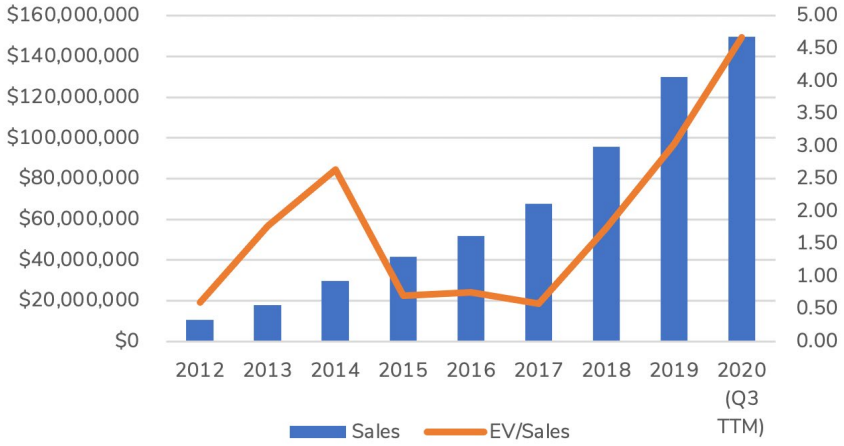
In his book on 100-baggers, author Chris Mayer describes the "twin engines" that almost always need to be present over time for a stock to achieve that 100-bagger status.

> "Remember, you need growth—and lots of it—a fact I will repeat again and again. Ideally, you need it in both the size of the business and in the multiple the market puts on the stock, as we've seen—the twin engines, as I call them."

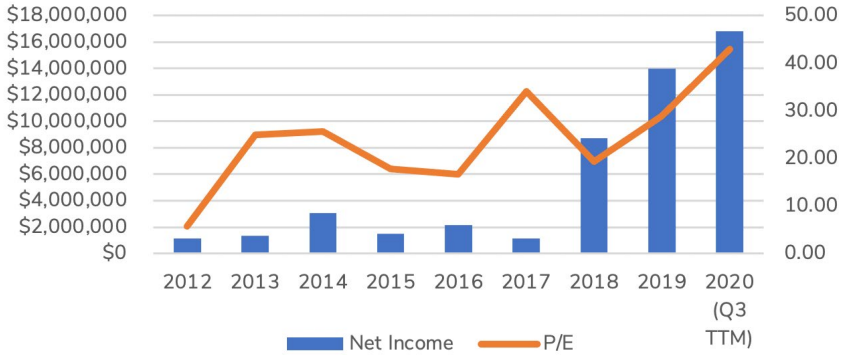
This is exactly what happened with XPEL on its path to becoming a 100-bagger. High growth and a much more favorable multiple concluded in remarkable performance for those investors able to buy right and hold on throughout this period. And while one would not quite have achieved 100-bagger status, XPEL also spent much of the first half of 2016 under $1 per share, and a good portion of the rest of 2016 and 2017 under $1.50 per share, during the overhang from the 3M patent infringement lawsuit, even as the company continued to increase sales and execute on its growth plans, with only a modest, almost non-existent, increase in the total number of shares outstanding over this period.



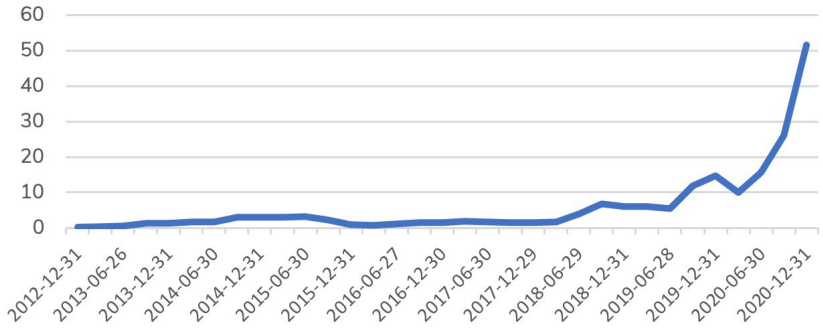
Sales and EV/Sales Growth

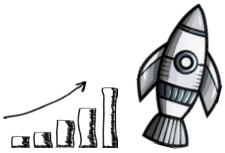


Net Income and P/E Growth



Share Price





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