Transcript of
XPEL, Inc.
Fourth Quarter and Year End 2025 Earnings Call
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Participants

Jennifer Belodeau - IMS Investor Relations
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Barry Wood - Senior Vice President & Chief Financial Officer, XPEL, Inc.

Analysts

Matthew Raab - Craig-Hallum Capital Group LLC
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Presentation

Operator
Good morning, everyone, and welcome to the XPEL Incorporated Fourth Quarter and Year End 2025 Earnings Call. At this time, all participants are in a listen-only mode, and the floor will be open for questions following the presentation. [Operator Instructions] Please note, this conference is being recorded.

I will now turn the conference over to your host, Jen Belodeau of IMS Investor Relations. Jen, the floor is yours.

Jennifer Belodeau - IMS Investor Relations
Thank you. Good morning, and welcome to our conference call to discuss XPEL's fourth quarter and year end 2025 financial results. On the call today, Ryan Pape, XPEL's President and Chief Executive Officer; and Barry Wood, XPEL's Senior Vice President and Chief Financial Officer, will provide an overview of the business operations and review the company's financial results. Immediately after the prepared comments, we will take questions from our call participants. A transcript of this call will be available on the company's website after the call.

I'll take a moment now to read the safe harbor statement. During the course of this call, we will make certain forward-looking statements regarding XPEL, Inc. and its business, which may include, but are not limited to, anticipated use of proceeds from capital transactions, expansion into new markets and execution of the company's growth strategy. Such statements are based on our current expectations and assumptions, which are subject to known and unknown risk factors and uncertainties that could cause our actual results to be materially different from those expressed in these statements.

Some of these factors are discussed in detail in our most recent Form 10-K, including under Item 1A, Risk Factors, filed with the SEC. XPEL undertakes no obligation to

publicly update or revise any forward-looking statement, whether as a result of new information, future events, or otherwise.

With that out of the way, I'll turn the call over to Ryan. Please go ahead, Ryan.

Ryan Pape - Chairman, President & Chief Executive Officer, XPEL, Inc.
Thank you, Jen, and good morning, everyone, and welcome from me also to the fourth quarter of 2025 and year end conference call. 2025 was a significant year for us. We accomplished a lot, including our long-planned China distribution acquisition, significant completion of our plans to have a direct position in the largest car markets in the world, and then also positioning ourselves for significant change going forward with planned investments in manufacturing and supply chain.

We closed out the year with good momentum, Q4 revenue growing 13.7% and Q4 EBITDA growing 37.6%. Our U.S. region, which is the largest, saw revenue growth of 11% in the quarter, which is a good result in light of sort of all the ongoing dynamics, which is sort of largely unchanged. The corporate stores, dealership service business, and aftermarket all saw growth in their various piece parts.

I think our results are probably consistent with the macro car sales trends, Q4 being sequentially down in terms of units, reflecting normalization of earlier strength in the year and attempts to front-run tariffs and then get ahead of the EV credit expiration. In our case, we likely saw greater than expected negative impact in Q4 for the U.S. as a result of that EV pull forward due to the expiring credits.

Compared to what we were expecting, this probably cost us $1 million to $2 million of end product demand from our referral program channel alone, not including the rest of the market. And that referral program has really been a bright spot this year. So, we saw that manifest with just outstanding revenue performance in September and October, which would have correlated with the end of the EV credits and then the following month, which is really replenishment cycle for our dealers. And then, the demand in the referral program was down sharply for the rest of the year, but we're seeing signs of that recovering this year.

The correlation between our buyer and the EV buyer writ large remains a little bit elusive for us. So, obviously, the credit expiration is known and many have prognosticated on what that would be, but extrapolating exactly how that impacts the sales through our channels is proven a little bit harder. But, we see significant rebound in the EV sales through the referral channel, obviously in the slower part of the year, so we're pretty optimistic for that going forward. We definitely felt that in the U.S. in the fourth quarter.

Q4 was our first full quarter of post-acquisition, China revenue came in at $14 million, probably a little bit higher than we expected. Well underway in our integration efforts in the region. As I mentioned previously, our team is doing a great job. Our acquisition here sets the stage really for growth in three segments of the business:

the aftermarket, which for the longest time had been the entirety of our business in China, 4S or dealership, and then further OEM partnerships, which we've been engaged in for the past 18 months.

As had been the case all year long, continue to see headwinds in Canada, revenue declining slightly compared to the prior year. Canada has been tough all year. You saw car sales in Canada down sequentially 13%, Q4 from Q3, so it's obviously not helpful. Europe was a bright spot in Q4, revenue growing 26.8% in the quarter. Really strong performance in our different multiple channels there.

Indian Middle East was good, although timing of distributor orders was a bit of a drag in the quarter, but very bullish about what we're doing there and we're seeing the beginnings of activation in India in all of our channel types, not just the aftermarket, so that's really encouraging. Latin America was flat. Weakness there we saw in Q3 continued into Q4. A big part of that is conversion of Brazil into a direct market, which is really our last or close to last market where we want a direct presence.

Our expectation for Q1 revenue is in the $112 million to $114 million range. This assumes ongoing U.S. trend, continuous softness in Canada, and then obviously considerations for the impact of Chinese New Year, which historically always impacts Q1. We'll see that a little bit differently now, where we're selling directly versus the sell-in, so get through that quarter, and then really our China sales will really start matching the end market demand. So, we're happy to see that.

Our gross margin in the quarter finished at 41.9%, relatively flat to Q3. As we discussed in last quarter's call, we're managing through some price increases, which have largely been mitigated, as well as selling through acquired inventory that we acquired in the China distributor purchase, so that's obviously at a stepped-up cost basis, so lower margin as we sell through that. We exited the quarter in an upward trend in terms of gross margin and expect gross margins to improve as the year progresses, consistent with our comments on the previous call.

As I alluded to earlier, we saw good operating leverage in the quarter, EBITDA growing 37.6%. As we've been discussing, we continue to expect to gain leverage on our added channel costs as we grow all of these operations. Reflecting on the year, I'm happy with our overall performance, top-line growth of 13.3% was solid relative to the environment. We've done a nice job managing through some of these headwinds in gross margin and being able to largely complete our strategy of being direct in these top car markets. I think that's going to be a significant accomplishment and represents significant expense that we've added that now the team is going to grow through that for us.

We continue to advance our DAP platform. This has become more integrated and continues to become more integrated into the business of our customers. We're getting great feedback really on the accelerated rate of development here. I think, due to a couple factors being bulk of our sort of legacy tech debt being eliminated

for having been in this business a long time. And also, we're certainly seeing productivity gains from AI, like many are talking about, specifically in that field.

We've sharpened our product strategy to focus really on our core products and just the immediate adjacencies and improvements to the core products that comprise most of our sales and where we have the technical competence. I would say, overall, we've probably focused on too many incremental product adds rather than the full focus on selling more of our core. And I don't think these are things we talk about on this call.

The products we've talked about here that we've launched like the colored films, windshield films, these are really straight to the core. But sort of behind the curtain, there's been a desire to sort of be all things to our customers and supplying them everything they might need to run their business. And reflecting on that, we really pulled back on that, because we're not adding a lot of value there and the effort really needs to be on selling more of the core product. So, I think we've successfully made that pivot this year, and I think that's actually quite important.

We started the year with an incredible dealer conference, despite terrible weather at the time, really across the country and in Texas, where we host the conference. We had 720, I believe, registered attendees, all-time record. Pretty amazing in my mind, given the fact that we've added international conferences since we started, which obviously takes some of the demand for the main conference, and in spite of the weakness in the aftermarket. So either way, it was really great, and good validation. And it's a firehose to our team of customer input that really helps us sharpen what we're doing.

In terms of our previously discussed investments in manufacturing and supply chain, our work there continues. Expect to have more to discuss over the next several months. But as compared to our previous call, there's really no further update for today, except to say the plan and strategy remains on track.

We're excited and optimistic about 2026. I think this is a sentiment shared by our team and many of our customers. Certainly, as we hear their feedback in person at our conference, and we'll see how that plays out. I think it's an open question exactly what drives that relative optimism that we see, but I think it's encouraging nevertheless.

We've got strong prospects for growth in every part of our channel, in every customer type, in every geography. And as you know, we've got retail customers, we've got aftermarket installers, we've got car dealers, we've got car manufacturers. And we're seeing opportunities in really all of those customer types around the world. So, I think it's really a validation of the strategy of why we need the presence that we've built.

And to that end, our regional leaders and P&L owners, they're all budgeted to grow their operating leverage this year. And combined with the gross margin growth that

we expect, we'll see benefits at the operating line of the business. And, obviously, that's net of any incremental costs we might add pursuing our manufacturing and supply chain, should we add costs prior to manifesting in any COGS savings. But if and when that happens, we'll certainly talk about that.

So, overall, our team is doing an amazing job. I really couldn't be happier. And we've really seen incredible focus on what's going to be important for us going forward. And I want to thank all of them.

So with that, I'll turn it over to Barry. Barry, go ahead.

Barry Wood - Senior Vice President & Chief Financial Officer, XPEL, Inc.
Thanks, Ryan, and good morning, everyone. As Ryan said before, it was really a solid revenue quarter for us. And just to note a couple of the components, our total window film product line grew 10%, which is a good result given the seasonality of the product. And for the year, total window film grew 21.7%, which was primarily driven by market share gains in auto, along with a nice lift from windshield protection film, our new product. Our total installation revenue increased a little over 17% in the quarter, and 17.2% for the year with, again, solid performance in each of our core channels within that line item.

Our gross margin in the quarter grew 17.1%, and for the year grew 13.3%, which I think are really good results in light of some of the headwinds we face in the quarter and during the year.

Our total SG&A expenses grew 13.9% in the quarter to $35.7 million, representing 29.2% of total revenue. And this was relatively flat to Q3, which I think is a good result. We have elevated SG&A in Q4 due to our largest tradeshow of the year that occurs each November. And we saw, as we expected, our SG&A growth rates moderate during the second half of the year. And as Ryan mentioned, we still have some leverageable costs in our cost structure, which we will realize as we continue to grow. And for the year, our SG&A grew 17.1% and represented 29.1% of revenue.

Our EBITDA grew 37.6% versus prior quarter to $19.6 million, which was essentially flat versus Q3, despite lower Q4 sequential revenue. Our EBITDA margin finished at 16%. And for the year, our EBITDA grew 11.4% to $77.4 million, and our 2025 EBITDA margin finished at 16.3%.

Our effective tax rate in the quarter was a little under 14%, as we took advantage of some provisions in the new legislation and other one-time items that were booked in Q4. So for future planning purposes, you can assume 21% effective rate going forward. But, this along with some FX effects, drove some of our net income attributable to stockholders' growth in the quarter, which increased 50.7% to $13.4 million, reflecting 11% net income margin.

Our operating income, which doesn't have that noise, increased 25.4% in the quarter. EPS for the quarter was $0.48 per share. And for the year, net income attributable to

stockholders grew 12.6% to $51.2 million, reflecting a 10.8% net income margin. And our 2025 EPS closed out at $1.85 per share.

Early in the quarter, we did buyback a relatively small amount of shares to the tune of approximately $3 million. As we've discussed on our last call, our capital allocation strategy is centered on investing in the core of the business, including manufacturing and supply chain. We'll continue to evaluate further buybacks relative to our planned investments in M&A, and M&A, I should say, with an appetite for modest leverage to accelerate our returns.

Our cash flow provided by ops was $2.7 million for the quarter and $66.9 million for the year, which was a little over 86% of our total EBITDA and right at 40% higher than last year. The cyclicality of our operating cash flows is similar to our revenue cycle, where our highest cash flow quarters typically occur in the second and third quarter, and this year was certainly no different.

Just a reminder on the revenue cyclicality, Q1 is typically our lowest quarter of the year. Q2 and Q3 are our highest quarters, and Q4 is usually lower than Q2 and Q3, but not as low as Q1. So, really good year for the company, and we're excited for what the future holds for us here at XPEL.

And with that, operator, we'll now open the call up for questions.

Operator
Thank you very much. We are now going to conduct our question-and-answer session. [Operator Instructions] Thank you very much. Our first question is coming from Steve Dyer of Craig-Hallum. Steve, your line is live.

Q: Hey, great. This is Matthew Raab on for Steve. Just want to ask, what's contemplated in the Q1 revenue guide, which was in line to our estimate at least? We saw auto demand was a little bit weaker in Q4. It feels like that continued into January, and we'll see how Q1 shakes out. We had some weather impacts recently. Ryan called out the EV mix changes, luxury was a little worse, so quite a few puts and takes there. Are you able to parse through kind of what all that means for you guys? I'm just trying to get a sense of where you're seeing some headwinds and maybe if there are some more transitory elements in the very near-term.

Ryan Pape - Chairman, President & Chief Executive Officer, XPEL, Inc.
Yeah. Well, it's a great question. I mean, I think the answer to your question is really half yes and half no. I mean, I think if you look at our business across all the different customer types, I think in 2025, if I'm saying the number correctly, we have something like 20,000 customers that we've transacted with in some form or fashion across all the different customer types. And that's obviously grown through the increase in our referral program. We're actually selling to more individuals with that. All of these things have just fundamentally different drivers.

If you're looking at the OEM business, for the most part at the mercy of production versus sales. If you look at the dealership business, half of it's driven by sales in terms of F&I, half of it's derived from inventory and growth or reduction in inventory on the ground when products are being preloaded. Distributor pieces are subject to timing impacts in the quarter. Although that's a much smaller part of our business now. And then the aftermarket is typically more consistent, but ordering on such an infrequent cycle that you could really only extrapolate from recent ordering.

So, I guess all that to say that we have a process that we use to forecast the business, and it continues to improve over time, but it hasn't largely changed. And so as things change off of their run rate in particular, that method of doing that is more vulnerable to having a wider outcome. So I think to your point, obviously, the weather has been bad. You've seen lost days in some places, days of sales that may be shifted into the rest of the year. So, we do our best to capture all that in that guide, but subject to the limitations there are.

And then the other part, as Barry mentioned, in terms of seasonality, March is really the month every year that sort of makes the quarter for the first quarter, because it's really when you start to see the aftermarket pieces come alive. So, a lot of what happens depends on March. But, I think within the constraints of what we have, we've factored a lot of that in.

Q: That's great. Maybe switching over to the in-house manufacturing. I'm curious how you see that playing out over time. Do you think it's a gradual buildout over the next several years, where you guys are adding capacity as you go along, or are there opportunities for adding bigger chunks? I guess I'm trying to get a sense of the cadence of margin expansion as we look out over the next couple of years. Is it a step function change as you add capacity, or is it maybe more linear with a more gradual buildout over time?

Ryan Pape - Chairman, President & Chief Executive Officer, XPEL, Inc.
Yeah, that's a great question. And I think the answer is depending on the final decisions that are taken, it could be either of those or both. We talked before that as we get kind of into the March and April timeline, we're going to be making decisions around that. If there's more sort of internal new build, there's probably a more incremental step change and then more incremental. But, if we were to pursue M&A and some of the JV opportunities we see, then there's more of an opportunity for a more pronounced step change. So, I think it's still a little bit too early to say, and we'll certainly keep everybody updated on that, but there's an opportunity for either or both or some combination of the two.

Q: Understood. I'll pass it on. Thank you very much.

Ryan Pape - Chairman, President & Chief Executive Officer, XPEL, Inc.
Thanks.

Operator

Thank you very much. Our next question is coming from Jeff Van Sinderen of B. Riley. Jeff, your line is live.

Q: Good morning, everyone. Just kind of more of a housekeeping question to start with. I think the DSOs were up a little bit. Maybe you can speak to what's going on there. And then also kind of at a two-part question here, maybe add a bit more color on what underpins your optimism for 2026?

Ryan Pape - Chairman, President & Chief Executive Officer, XPEL, Inc.
Yeah, I mean, I'll defer the first question to Barry if you've got a comment on that. I don't think there's anything significant reflected there.

Barry Wood - Senior Vice President & Chief Financial Officer, XPEL, Inc.
No, there's nothing significant going on with the DSOs. It is trending up a little bit, and probably if I'm going to attribute that to anything, it's going to be some of the OEM business that we've been getting the new OEM business. The terms on those are a little longer than what you historically see, but that would probably be the main thing that's causing it to tick up. Nothing alarming to see there.

Q: Okay.

Ryan Pape - Chairman, President & Chief Executive Officer, XPEL, Inc.
Yeah, I would add to that, I think, a question that we would get occasionally is sort of, well, just when you look at the aftermarket and the health of the aftermarket over time, are we seeing degradation in sort of the timely pay and things like that, just if there's stress in any of the channel? And the answer there is really no. I think it's been quite healthy even as you've seen all those customers sort of off their peak.

Q: Okay. Good to hear. And then...

Ryan Pape - Chairman, President & Chief Executive Officer, XPEL, Inc.
Yeah, if you could repeat your other question. Sorry.

Q: Yeah, sure. No problem. Just a bit more color on what underpins your optimism for 2026.

Ryan Pape - Chairman, President & Chief Executive Officer, XPEL, Inc.
Well, I mean, I think that like we talked about with the previous question, I mean you have so many different inputs in the data, and then you have all of these other sort of more subjective factors. And I just see increased optimism from our team and from our customers in general just in talking with them and visiting them that isn't a qualitative factor in the data. And I think you have to weigh that in how you look at the market and the opportunity, mainly because they're a pretty good indicator many times of what you can always measure and forecast. And I think you saw that when you really saw the aftermarket slow in the beginning of 2024.

As that happened, you start to hear from people, “Wow, I’ve not been this slow. I’ve not seen my shop this empty.” Those are all anecdotes. But when you take them together, I think that they’re not immaterial. I think if you want to look at sort of more structural things, I mean there’s probably some optimism to be had in terms of the overall sort of vehicle affordability. I mean there’s plans to really trade down content to get pricing right. The tariff thing, who knows? I mean, I guess that’s changed even within the past week. So, I think that’s really an open question, but was maybe some sort of certainty there was previously generating some type of optimism and then rates and things are down from their peak. So, I think all of those are better going into this year than perhaps the year before. So, I think it’s a combination of all of those.

And then, the added piece that we have is just looking at our pipeline of customers and new customer wins and why are we winning, who are we winning business from. All of that’s been quite positive. And this is really against a backdrop which I think is hard to appreciate from the outside looking in. When we talk to suppliers and component suppliers and different people in the industry, demand for many people and many of our competitors is down. It’s not a factor of wishing growth is higher; it’s a factor of demand is down.

And so, I think you’ve got to weigh that against what we see in our results in our pipeline and that’s another tick of the box in terms of being optimistic. And, I think for me, obviously I want good numbers in this quarter, that quarter, this year, that year. But way more important than that, I want to know that we’re doing a better job as a company next year than this year. We’re providing more value, we’re providing better service, we’re doing more things our customers want us to do. That’s my top priority.

Q: Okay. That’s all really helpful. If I can squeeze one more in, how do you expect gross margin to trend this year? Maybe any thoughts on Q1 gross margin? And then, I know you mentioned getting some leverage through the P&L, maybe just touch on OpEx, if you have any thoughts there?

Ryan Pape - Chairman, President & Chief Executive Officer, XPEL, Inc.
Yeah, I would go back really to our comments from last quarter in the sense that as we get through Q1, we’ll see those gross margin headwinds really abate being some pricing issues that we’ve talked about and then sell through of that lower higher cost acquired China inventory rather. So, our expectation would be as we get into Q2, we’re posting gross margins at or above sort of the best that we’ve been. Directionally, I don’t know exactly when that phase is in, if we see that in March or we see that in May. But there’s definitely a [Technical Difficulty]

For corporate SG&A, it has really been wrangled better over the past 18 months. Most of the investment has been sort of in the field and in the other operations costs incurred from the M&A costs incurred from these distribution businesses. There’ll be some incremental costs on those. But as I mentioned in my remarks, when we look at how we’ve got our region leaders budgeted to drive increased operating margins

this year into all those regions and all of that expense. So, I think that's a good upside for us.

And then, the only thing that could impact that would be any decisions made in any of these different modalities around the supply chain and manufacturing and what impact that could have in the immediately or over time. But that'll all be sort of well-described at the appropriate time.

Q: Okay. Thanks for taking my questions.

Ryan Pape - Chairman, President & Chief Executive Officer, XPEL, Inc.
Thanks, Jeff.

Operator
Thank you very much. Well, we appear to have reached the end of our question-and-answer session, so I will now hand back over to Ryan for any closing comments.

Ryan Pape - Chairman, President & Chief Executive Officer, XPEL, Inc.
I'd just like to thank everybody for your time today and for joining us on the call. Have a great day.

Operator
Thank you very much, everyone. This does conclude today's conference call. You may disconnect your phone lines at this time and have a wonderful day. We thank you for your participation.