

KEYSTONE'S

Small-Cap Stock Report

SEPTEMBER 2017

Independent Equity Advisors

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Associate Analyst: Aaron Dunn, CFA

Xpel Technologies Corp.

Focus BUY Portfolio

Price: \$1.42

Symbol: DAP.U:TSX-V

Near Term: ▲ SPEC BUY (HALF POSITION)

Long Term: ▲ SPEC BUY (HALF POSITION)

Summary

XPEL Technologies Corp. is based in San Antonio, Texas and manufactures, sells, distributes, and installs after-market automotive products, including automotive paint protection film, headlight protection film, automotive window films and other related products. In the United States, Canada and parts of Europe, the company operates primarily by selling a complete turn-key solution directly to independent installers and new car dealerships which includes XPEL protection films, installation training, access to Xpel's proprietary design software, marketing support and lead generation. Additionally, Xpel operates five company-owned installation centers in the United States as well as one installation center each in the United Kingdom and the Netherlands that serve wholesale and/or retail customers in their respective markets. In other parts of the world, Xpel operates primarily through third party distributors, who operate under agreement to develop a market or a region under the company's supervision and direction. Xpel operates through 100% owned subsidiaries in Canada and the Netherlands and through an 85% owned subsidiary in the United Kingdom.

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Xpel Technologies Corp.**Current Price (September 12/2017): \$1.42****DAP.U:TSX-V****RECOMMENDATION: SPEC BUY (HALF POSITION)**

Shares Outstanding.....27,612,597
 Fully Diluted Shares Outstanding.....27,612,597

SELECTED QUARTERLY DATA

Income Statement	Q2 2017	Q2 2016
Revenues	\$17,048,492	\$13,661,356
Net Earnings	\$750,105	\$765,793
EPS	\$0.03	\$0.03
Fully Diluted EPS	\$0.03	\$0.03
EBITDA	\$1,694,127	\$1,594,847
EBITDA/Share	\$0.06	\$0.06
Balance Sheet	30-Jun-17	31-Dec-16
Current Assets	\$21,507,111	\$14,948,368
Total Assets	\$28,517,064	\$21,795,017
Current Liabilities	\$14,111,132	\$9,542,876
Long-Term Debt	\$979,325	\$1,434,425
Total Liabilities	\$15,490,783	\$11,501,573
Shareholder's Equity	\$13,026,281	\$10,293,444

SELECTED ANNUAL DATA (\$US)

Income Statement	2016	2017
Revenues	\$51,759,267	\$41,470,126
Net Earnings	\$2,163,500	\$1,470,669
EPS	\$0.08	\$0.05
Fully Diluted EPS	\$0.08	\$0.05
FCF	\$2,987,638	\$2,125,005
FCF/Share	\$0.11	\$0.08
Balance Sheet		
Total Assets	\$21,795,017	\$19,526,220
Total Liabilities	\$11,501,573	\$11,184,544
Working Capital	\$11,301,215	\$9,546,962
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Book Value	\$10,293,444	\$8,341,676
ROE	21%	18%

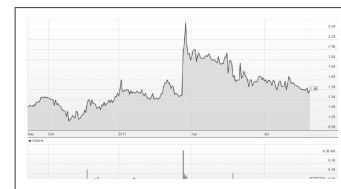
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OPERATIONAL HISTORY

Xpel is a leader in the paint protection film market. The company markets and distributes a number of lines of thin film that is applied to the surface of a car to protect it from stone chips and minor abrasions. While the company is expanding into the residential window market and has already expanded into the automobile window tint segment (more mature market) basically all of current revenues come from the auto segment. The company does not own the technology behind the paint protection film and contracts a third-party manufacturer to produce its lines. The film is most effective when installed at the time of initial purchase and provides a solid value proposition to the consumer, preserving the appearance of their new car while also maintaining the resale/trade-in value. The value proposition is equally enticing for car dealers, providing them with a high-margin up-sell while also lowering their risk of receiving rock chip complaints, which happens to be the number one complaint found on customer satisfaction index surveys.

The paint protection film industry has relatively low penetration in the North American market, which Xpel

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EPS	\$0.05
P/E	30.00
PEG Ratio	1.00
P/S	0.73
P/EBITDA	11.1
EV/EBITDA	10.7
BV/Share	0.47
	3.00

GROWTH

Revenues	25%
FCF	30%
EPS	30%
	4.00

RISK/LIQUIDITY

D/E	0.08
Current Ratio	1.52
SGR	n/a
	3.75
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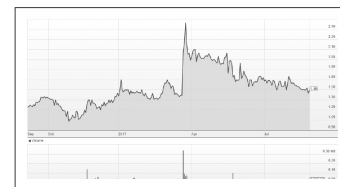
currently estimates to be in the range of 2-4%. The low penetration can be primarily attributed to low-quality early generation products (3M's Scotchguard film) that became notorious for causing an "orange peel" discoloration that lead dealers to abandon the product altogether after a barrage of customer complaints. Xpel's ULTIMATE Film helped drive the industry forward providing a leap forward in paint protection.



When it was introduced around 2011, Xpel's ULTIMATE film line was immediately considered the best paint protection film on the market. Xpel rode that product to fantastic growth - consistently ~50%+ revenue growth over the first 4 years. However, the company has faced some challenges over the past 2 years. First, the competition has narrowed the gap on Xpel's offering. This is a natural expectation with almost any product or service. Second, the company was hit with a patent infringement lawsuit from giant 3M (MMM:NYSE).

On December 30th 2015, 3M announced a lawsuit against Xpel. The suit alleged the company's paint production lines infringed on 3M's patents. Shares of the company, which had been on a tremendous run to trade just under US\$4.00, were hit very hard, bottoming out in the mid US\$0.60 range.

On May 16, 2016, Xpel filed an answer to the suit denying infringement and challenging the validity of the patent in question. On March 22, 2017, the parties settled this dispute and mutually agreed to dismiss the lawsuit without prejudice. The company does not ex-

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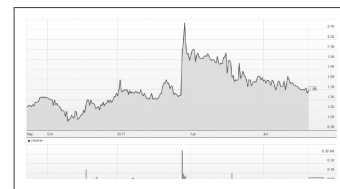
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pect this settlement to have a material impact on business going forward. While the settlement took a bite out of the company's cash and marginally increased the cost structure, it removed a huge uncertainty and a massive distraction from management's plate allowing the team to focus on the growth task at hand. The stock strengthened significantly on the settlement from the US\$1.45 range to US\$2.50 within a couple days – prematurely in our opinion. Shares have drifted right back to US\$1.45 as the story has shifted from a company with a technology leadership with tremendous low hanging growth to one which will require superior execution to produce growth. We view the share price decline, particularly for those buying with Canadian dollars in light of the recent decrease in the US\$, as an opportunity long term.

The key will be management's ability to keep North American SG&A costs in place at current levels while driving 15%+ revenue growth to produce better margins. This type of operational leverage has alluded the business as it has grown, due to competitive pressures, growth spending or the distraction of the lawsuit. We did witness a gross margin uptick, after several years of declines from Q1 2017 to Q2 2017. For consolidated growth to continue long term in the 20-25%+ range, the key will be employing strong and growing cash flow from the Canadian and U.S. operations to the untapped European market.

BUSINESS MODEL

Xpel's business model is rather unique in its industry as it sells its product directly to installers (independent and dealerships) instead of going through distributors for the bulk of its business. There are a number of advantages to this model including the fact it gives the company low customer concentration and allows them to bypass the middlemen who would extract a sizable portion of the profit pool and don't have much of an incentive to sell one product over another. Developing this advantage does not happen overnight and requires a sizable trade-off. Xpel must have a support staff and sales force in-place to educate each customer about the advantages of their product, ensure each installer is properly trained, and service the account over the lifetime of the relationship. Given the infrastructure necessary to support this model, the company has, until its recent European expansion, operated this way domestically. The model requires significant capex to get



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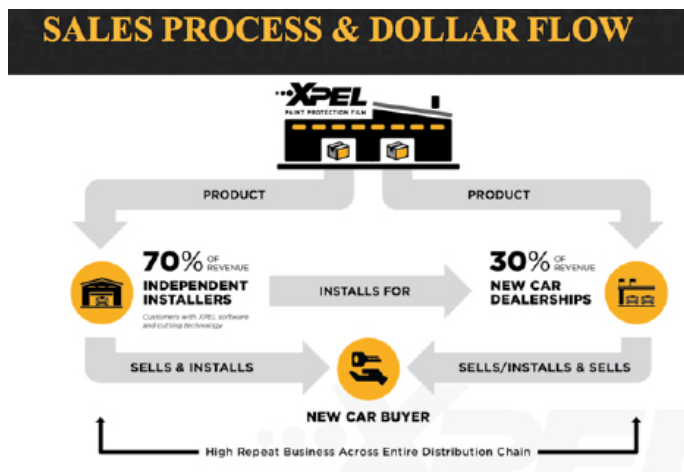
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the engine running as the company has experienced in Europe, but with solid revenue growth year-to-date in this new market, the light could be appearing at the end of the tunnel.

While not set up as a traditional franchisor, Xpel operates more like a franchisor than just an automotive supplier. In a way, the company treats installers like a franchisee: they provide them hands-on training, assist them with sales pitches to large dealerships, and generates leads for them in their local markets. In return, Xpel receives a loyal customer who will do the work for them as they grow their own local business. Since each film type requires a slightly different method to install, Xpel also benefits from customer switching costs once the installer gets comfortable with their film and learns to use their software for cutting patterns.

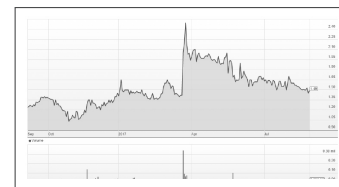
In fact, the company's in-house Internet-based manufacturing and quoting software program is a significant competitive advantage. The software tracks 70,000 different vehicle specific applications and its patterns reduce install time and film waste. The company regularly updates the software with its dedicated design team.

Below is a simple diagram detailing Xpel's sales process.



STRATEGIC OVERVIEW – Q2 2017

Management believes the company continues to execute on its core strategy to "Get Close to the Customer". Xpel's strategy involves setting up company-owned distribution points to place inventory close to custom-



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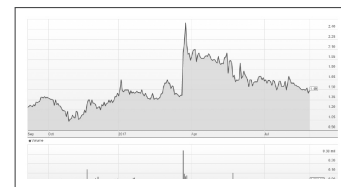
ers to support their just-in-time (JIT) desires. A new car buyer most often wants to take possession of their product asap. The quicker the job is done, the easier the sale. The strategy also puts sales people close to the customer for strong support. Additionally, the company has been building or buying (acquiring) installation facilities for market development & support. The final prong of the strategy is to replicate the successful model in North America by operating internationally (Europe) via its distribution points versus through distribution with third parties. This has begun in full force with the London Headquarters.

GCTC - DISTRIBUTION PRESENCE

The overall benefit from this strategy is that it allows Xpel to oversee and manage the delivery model for its products and services. Additionally, this strategic initiative allows the company to substantially differentiate itself from competitors. The company's industry leading proprietary pattern software creates a "sticky" relationship with customers. The value of its proprietary software is augmented with superior products, informative "hands-on" training and creative and actionable marketing support and lead generation.

RISKS**Economic Dependency**

Xpel depends directly or indirectly on suppliers to supply goods and services necessary for carrying on its core business, including a sole manufacturing facility, a urethane supplier and an adhesive supplier and other suppliers of other intermediate manufacturing elements. Approximately 88% (2016 – 89%) of the company's inventory purchases are dependent on these direct and indirect suppliers. If any of these suppliers

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were unwilling or unable to provide such products in the future, Xpel's ability to provide products and services to its customers may be adversely affected and the company might not be able to obtain similar products or services from alternate suppliers on a timely basis or on terms favourable to Xpel.

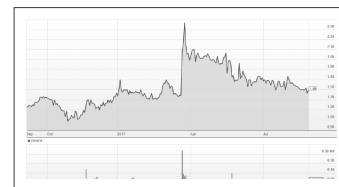
To address this risk the company increased inventory levels during the second quarter to better serve its customers pursuant to Xpels Get Close to the Customer strategy. In addition, these higher inventory levels help insulate the company from potential future supply interruptions.

Lower U.S. Vehicle Sales

As Xpel sells the majority of its paint protection film for use on new vehicles, a significant drop in new vehicle sales could negatively impact sales. U.S. consumers bought a record number of new cars and trucks in 2016. A repeat performance in 2017 appears not to be in the cards. Low gas prices, rising employment and low interest rates kept buyers coming to car dealerships last year. There was also the allure of new technology, including backup cameras, automatic emergency braking and Apple CarPlay. Year-to-date in 2017, U.S. vehicle sales have trailed behind 2016 levels every month, but it's a tough comparison since last year's car sales hit record highs. If the declines continue, this will be the first year since 2009 that sales are down across the industry. Overall sales levels remain at historically strong levels and European sales are on the rise.

Competition

Xpel continues to experience competition for its products. The company continues to see new entrants into the paint protection market and increased emphasis on the paint protection film marketplace from existing competitors. Management believes it has significant competitive advantages through its database of products, proprietary product distribution software, training curriculum and facilities, and established sales channels; however, the company must continually upgrade and improve its products, or develop new products. Xpel will be negatively affected if other products similar to those of the company with similar or superior features at lower prices become available.



RATINGS

VALUE (TRAILING)

EPS	\$0.05
P/E	30.00
PEG Ratio	1.00
P/S	0.73
P/EBITDA	11.1
EV/EBITDA	10.7
BV/Share	0.47
	3.00

GROWTH

Revenues	25%
FCF	30%
EPS	30%
	4.00

RISK/LIQUIDITY

D/E	0.08
Current Ratio	1.52
SGR	n/a
	3.75
	3.58

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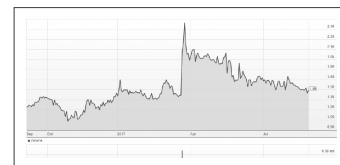
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President

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Xpel Technologies Corp.**Current Price (September 12/2017): \$1.42****DAP.U:TSX-V****RECOMMENDATION: SPEC BUY (HALF POSITION)**

Shares Outstanding.....27,612,597

Fully Diluted Shares Outstanding.....27,612,597

**SELECTED QUARTERLY DATA**

Income Statement	Q2 2017	Q2 2016
Revenues	\$17,048,492	\$13,661,356
Net Earnings	\$750,105	\$765,793
EPS	\$0.03	\$0.03
Fully Dilluted EPS	\$0.03	\$0.03
EBITDA	\$1,694,127	\$1,594,847
EBITDA/Share	\$0.06	\$0.06

Balance Sheet	30-Jun-17	31-Dec-16
Current Assets	\$21,507,111	\$14,948,368
Total Assets	\$28,517,064	\$21,795,017
Current Liabilities	\$14,111,132	\$9,542,876
Long-Term Debt	\$979,325	\$1,434,425
Total Liabilities	\$15,490,783	\$11,501,573
Shareholder's Equity	\$13,026,281	\$10,293,444

SELECTED ANNUAL DATA (\$US)

Income Statement	2016	2017
Revenues	\$51,759,267	\$41,470,126
Net Earnings	\$2,163,500	\$1,470,669
EPS	\$0.08	\$0.05
Fully Dilluted EPS	\$0.08	\$0.05
FCF	\$2,987,638	\$2,125,005
FCF/Share	\$0.11	\$0.08

Balance Sheet	2016	2017
Total Assets	\$21,795,017	\$19,526,220
Total Liabilities	\$11,501,573	\$11,184,544
Working Capital	\$11,301,215	\$9,546,962
Long-Term Debt	\$1,434,425	\$2,385,265
Book Value	\$10,293,444	\$8,341,676
ROE	21%	18%

FINANCIAL PERFORMANCE**Segmented Reporting**

Xpel sells paint protection film and related kit and material sales to customers across multiple geographic regions. It considers the basis on which it is organized, including geographic areas and service offerings; in identifying its reportable segments. Operating segments of the company are defined as components of the company for which separate financial information is available and is evaluated regularly by the chief operating decision maker in allocating resources and assessing performance.

The regional geographic areas are evaluated at the subsidiary level whereby U.S. includes XPEL Technologies Corp. and ArmourfendCAD LLC, Europe includes XPEL Ltd. and XPEL B.V., and Canada includes XPEL Canada Corp. Specifically for revenues, the amounts included are from the originating country. Below are breakdowns, by operating segment, of current and non-current assets, current and non-current liabilities, revenues and net earnings.

Geographic Segments

The following consists of the financial information as of June 30, 2017 for the six months ended June 30, 2017.

2017	US	Europe	Canada	Total
Current assets	\$ 11,828,809	\$ 2,701,884	\$ 6,973,451	\$ 21,504,144
Non-current assets	3,744,685	875,510	2,389,757	7,009,952
Total	\$ 15,573,494	\$ 3,577,394	\$ 9,363,208	\$ 28,514,096
Current liabilities	\$ 12,092,795	\$ 724,620	\$ 243,433	\$ 13,060,848
Non-current liabilities	1,153,610	-	1,279,292	2,432,902
Total	\$ 13,246,405	\$ 724,620	\$ 1,522,725	\$ 15,493,750
Total revenue	\$ 28,927,825	\$ 1,860,886	\$ 5,420,437	\$ 36,209,148
Less: inter-segmental revent.	(6,530,188)			\$ (6,530,188)
Total external revenue	\$ 22,397,637	\$ 1,860,886	\$ 5,420,437	\$ 29,678,960
Net income (loss)	\$ 723,377	\$ (317,177)	\$ 279,057	\$ 685,257

Q3 2017

Revenues increased approximately 25% to US\$17.0 million from the prior year period. On a constant currency basis, revenues grew 26.4% to US\$17.3 million. The increase in revenues is primarily a result of increases in paint protection film and window film sales. Direct costs of sales increased approximately US\$2.5 million over the prior year period and increased slightly as a percentage of revenues from 72.5% to 72.9%. Direct costs include the costs of physical goods, the costs related to Design Access Program software, and the

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D/E	0.08
Current Ratio	1.52
SGR	n/a
	3.75
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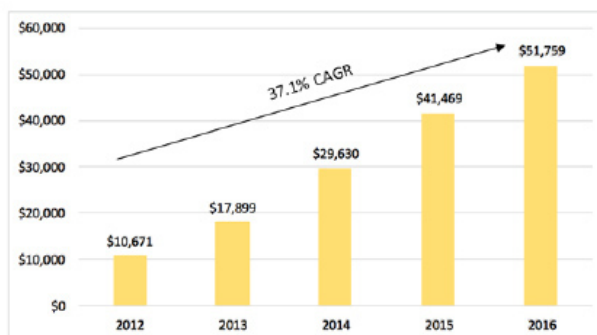
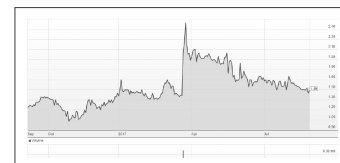
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costs of labor directly associated with the production of product. Gross margin for the quarter grew 23.1% to US\$4.6 million vs. prior year quarter and decreased slightly as a percentage of sales from 27.5% to 27.1%.

Selling, general and administrative expenses increased US\$0.96 million or 39% vs. prior year period and increased as a percentage of sales to 19.8% from 17.8% in the prior year period. This increase was due mainly to increased personnel costs, increased occupancy costs, increased information technology costs and increased travel related costs to support the on-going growth of the business. These increased costs were partially offset by a reduction in professional fees. Additionally, the company changed its depreciation method from double declining balance to straight line resulting in additional depreciation expense of approximately US\$0.09 million vs. prior year quarter.

EBITDA increased US\$0.99 million or 6.23% vs. prior year period. On a constant currency basis, EBITDA increased 6.29%. Net income before tax decreased approximately 4.7% for the quarter to US\$1.20 million. Net income for the quarter decreased approximately 2.0% to US\$0.75 million. On a constant currency basis, net income for the quarter decreased approximately 1.9% to US\$0.75 million.

Historical Revenue Growth Rate**ANNUAL REVENUE (000's)****RECENT DEVELOPMENTS****Legal Proceedings
3M Lawsuit****RATINGS****VALUE (TRAILING)**

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P/E	30.00
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On December 29, 2015, 3M Company and 3M Innovative Properties Company filed a suit in the United States District Court for the District of Minnesota alleging that Xpel has been and is infringing United States Patent No. 8,765,263 and were seeking a permanent injunction to prevent the company from selling the allegedly infringing product. On May 16, 2016, the company filed an answer to the suit denying infringement and challenging the validity of the patent in question. On March 22, 2017, the parties settled this dispute and mutually agreed to dismiss the lawsuit without prejudice. Xpel does not expect this settlement to have a material impact on business going forward.

Private Placement

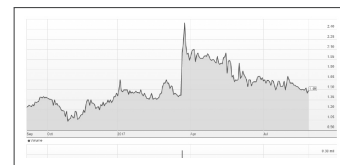
In January 2017, Xpel announced its intention to issue, by way of a non-brokered private placement up to 2,097,903 of its common shares at a purchase price of \$1.43 USD per share for gross proceeds of up to \$3.0 million. The company completed a first tranche of this private placement resulting in the issuance of 1,659,181 common shares at a price of US\$1.43 USD per share for gross proceeds of US\$2.37 million. In connection with this offering, 1,260,000 common shares were issued to certain directors and officers of the company.

KEY AREAS OF GROWTH**New Product Introductions - Automotive Window Film (launched) & Commercial/Residential Window Film**

As we stated, the vast majority of Xpel's revenue is derived from the sales of automotive paint protection and window film. The company's delivery model allows for the efficient introduction of new products and services into the customer base as evidenced by the successful launch of its window tint product line in late 2015. Window tint represented 8.4% of total second quarter revenue and 7.4% period-to-date revenue.

While the market for window film (tint) for heat rejection and cosmetic purposes is well established, it is significantly larger than the company's existing paint protection film segment. Xpel's current customer base is very active in this market and the product was an easy "bolt on" to its exiting channel.

While sales of the automotive product lines will represent the majority of Xpel's revenue for the foresee-

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	3.00

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RISK/LIQUIDITY

D/E	0.08
Current Ratio	1.52
SGR	n/a
	3.75
	3.58

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Book Value	\$10,293,444	\$8,341,676
ROE	21%	18%

able future, management has identified a significant opportunity for growth from the pending launch of Xpel's new commercial/residential window film lines later this year. The company plans to leverage its existing technology to revolutionize the delivery of these new products which, in turn, will create added value for new and existing customers.

Europe

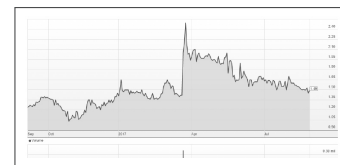
As part of Xpel's Get Close to the Customer strategy, the company is currently in the process of replicating its successful model in North America by operating internationally (Europe) via its owned distribution points versus through distribution with third parties. This has begun in full force with the London headquarters. One of company's founders and larger shareholders, Tim Hart, is leading the European strategy execution and channel development efforts. The company recently established Netherlands operations with the acquisition of Connectin Europe BV.

In its emerging European operations revenue growth is strong. Sales were up from US\$755,000 in Q1 2017 to US\$1.08 million in Q2 2017. Near term we continue to see strong revenue growth but the company will be challenged to produce consistent profitability until revenues scale higher. We see the current investment in this comparatively untapped market to possess some risk, but a solid reward profile given the company's solid success building operations in other markets.

Acquisitions

Part of the company's growth strategy includes the purchase of installation facilities to move closer to end customers in current and new markets.

On December 1, 2016, Xpel acquired 100% of the net assets of Pro-Tect Film Distribution, a provider of film protection products in the Las Vegas, Nevada market. The aggregate purchase price for the acquisition was \$1,190,989. With this acquisition, the company expects to enhance its presence in the Las Vegas market. On top of automotive paint protection and window tint products, Pro-Tect provides commercial/residential window tint and security film in Las Vegas, NV. The acquisition helps expand and diversify Xpel's product offerings outside of automotive protection.

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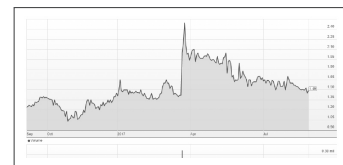
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On April 3, 2017, Xpel announced its acquisition of Stratashield LLC, a provider of installation services for automotive paint protection and window film in Dallas, TX. Stratashield has a great business and enjoys a strong reputation in the Dallas-Fort Worth metroplex for providing outstanding service. This acquisition gives Xpel local presence in this growing market and is indicative of the company's continuing execution of its 'Get Close to the Customer' strategy.

VALUATIONS

Over the trailing 12 months, Xpel had earnings US\$0.05, which leaves the company at a relatively pricey earnings multiple of 28. Over this period, the company faced some significant one-time litigation costs, European expansion capex and management could not be blamed for being somewhat distracted from the execution task of growth and cost control at hand. Q2 was the first quarter in almost 2 years where those distractions were largely removed and the company showed strong revenue growth and reasonable profitability. We think the company can currently earn US\$0.09 per share in earnings over the next 12 months. Xpel is positioned, if management executes well, focusing on growing the top-line and keeping costs in-line in North America and growing revenues in Europe to the point of break-even, to post US\$0.11 in 2018. If we apply a market equivalent multiple of 18 to the stock we see fair value in the range of \$2.00 or 33% higher than the current price range.

CONCLUSION

Xpel is an interesting study which has faced significant challenges over the past couple of years while continuing to grow operations. With its litigation issue in the rear-view mirror, the company's 2017 second quarter was the first in almost 2 years in which management could concentrate on business. The result, revenues grew 25.0% versus prior year quarter to \$17.0 million which was the highest revenue quarter in the company's history. Gross margin for the quarter remained relatively steady vs. prior year quarter and up-ticked slightly from Q1. Those who bought the company in the \$3.00 plus range on the hopes of a revolutionary technology advantage, huge pricing power and hockey stick type growth profile were overly optimistic. Xpel sells an advanced product in its industry, but it is not a technology company. It should be thought of more as a marketing and distribution company within its

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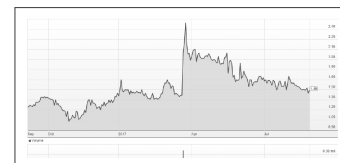
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EPS	\$0.08	\$0.05
Fully Dilluted EPS	\$0.08	\$0.05
FCF	\$2,987,638	\$2,125,005
FCF/Share	\$0.11	\$0.08

Balance Sheet		
Total Assets	\$21,795,017	\$19,526,220
Total Liabilities	\$11,501,573	\$11,184,544
Working Capital	\$11,301,215	\$9,546,962
Long-Term Debt	\$1,434,425	\$2,385,265
Book Value	\$10,293,444	\$8,341,676
ROE	21%	18%

core automotive segment in which the execution of its business plan will be key to unlocking the operational leverage moving forward. It is all about execution as Xpel continues to build the company to scale. To address potential supplier issues the company increased its inventory levels during the second quarter to better serve customers pursuant to its Get Close to the Customer strategy. The company continues to invest in people, process and technology to ensure it is well positioned for continued growth.

A concern in reference to Xpel is the 5-year decrease in gross margins. We agree this is an issue which must be curtailed and pushed in the opposite direction. It does appear that Q2 saw a stabilization of this and the narrative from management is that with recent distractions behind the business, the company can hold the line on costs better moving forward and push revenue growth to a larger bottom line. This is the type of operating leverage we would expect as the business grows – particularly in North America where scale is in place to start reaping its rewards. We will monitor this closely. Some of the explanations for the decrease in margins are justifiable including the fact that 5-6 years ago Xpel was very lean – likely too lean to grow to its current level without major quality, culture, governance and customer satisfaction issues etc. Business growth was tremendously strong as the company had a technology leadership position in its film product line. Fast forward to today and the operational staff and structure had to grow and evolve to more a quasi-franchise model or owned distributor model for many of the reasons already discussed in this report. This involves higher ongoing operating costs. In this respect, the business is different than it was 5-6 years ago. The competition has increased and closed the gap on Xpel's product offering. While a concern, there are many very successful operations that sell in competitive spaces that can differentiate based on better marketing, branding, customer satisfaction, distribution, and a number of factors. This is a big part of Xpel's Get Close to the Customer strategy. It appears if revenues continue to grow as we saw in Q2 2017, the company will finally be well positioned at its current scale in North America to begin seeing the operation leverage we would expect. This would bode well for future cash flow growth, driving the share price higher long term. The company is not there yet, but appears at an important tipping point.

Business is showing continued strong growth in Can-

**RATINGS****VALUE (TRAILING)**

EPS	\$0.05
P/E	30.00
PEG Ratio	1.00
P/S	0.73
P/EBITDA	11.1
EV/EBITDA	10.7
BV/Share	0.47
	3.00

GROWTH

Revenues	25%
FCF	30%
EPS	30%
	4.00

RISK/LIQUIDITY

D/E	0.08
Current Ratio	1.52
SGR	n/a
	3.75
	3.58

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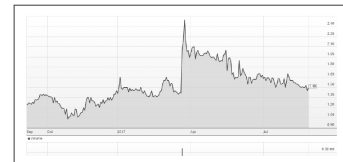
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Xpel Technologies Corp.**Current Price (September 12/2017): \$1.42****DAP.U:TSX-V****RECOMMENDATION: SPEC BUY (HALF POSITION)**

Shares Outstanding.....27,612,597

Fully Diluted Shares Outstanding.....27,612,597

**SELECTED QUARTERLY DATA**

Income Statement	Q2 2017	Q2 2016
Revenues	\$17,048,492	\$13,661,356
Net Earnings	\$750,105	\$765,793
EPS	\$0.03	\$0.03
Fully Dilluted EPS	\$0.03	\$0.03
EBITDA	\$1,694,127	\$1,594,847
EBITDA/Share	\$0.06	\$0.06

Balance Sheet	30-Jun-17	31-Dec-16
Current Assets	\$21,507,111	\$14,948,368
Total Assets	\$28,517,064	\$21,795,017
Current Liabilities	\$14,111,132	\$9,542,876
Long-Term Debt	\$979,325	\$1,434,425
Total Liabilities	\$15,490,783	\$11,501,573
Shareholder's Equity	\$13,026,281	\$10,293,444

SELECTED ANNUAL DATA (\$US)

Income Statement	2016	2017
Revenues	\$51,759,267	\$41,470,126
Net Earnings	\$2,163,500	\$1,470,669
EPS	\$0.08	\$0.05
Fully Dilluted EPS	\$0.08	\$0.05
FCF	\$2,987,638	\$2,125,005
FCF/Share	\$0.11	\$0.08

Balance Sheet	2016	2017
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ada resulting from improved economic conditions as well as effective execution of its strategy. European operations, which should be key for future growth, continue to scale and are well positioned to capture market share in this under penetrated region. Europe will continue to be a drag on consolidated profitability but this should lessen overtime as revenues grow and eclipse fixed costs.

We think the company can currently earn US\$0.09 per share in earnings over the next 12 months. Xpel is positioned, if management executes well, focusing on growing the top-line and keeping costs in-line in North America and growing revenues in Europe to the point of break-even, to post US\$0.11 in 2018. If we apply a market equivalent multiple of 18 to the stock we see fair value in the range of \$2.00 or 33% higher than the current price range. Quarterly results can fluctuate on a seasonal basis with Q1 and Q2 being the slowest and Q3 and Q4 being the strongest – following seasonal car buying patterns.

Xpel's shares trade on the TSX-Venture in U.S. dollars, which is an option but a relatively unique choice. With the recent strength in the Canadian dollar versus the U.S. dollar, the company has actually become significantly "cheaper" for those buying with Canadian dollars.

As such, we are initiating coverage on Xpel with a SPEC BUY (HALF Position) rating and placing the company in our Focus BUY portfolio. At present, the shares trade in relatively low volumes and we believe it prudent to place limit orders in the US\$1.40-US\$1.65 range. We would be patient and place limit orders, expecting to fill these orders over the next 30 to 60 days.

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BV (BV/Share): Book value (book value per share)

Book value per common share calculated as total shareholder's equity less preferred equity, and divided by the number of common shares outstanding. Should the company decide to dissolve, the book value per common share indicates the dollar value remaining for common shareholders after all assets are liquidated and all creditors are paid.

D/E: Debt-to-equity ratio

A measure of a company's financial leverage calculated by dividing long term debt by shareholders equity. It indicates what proportion of equity and debt the company is using to finance its assets.

Current ratio

One of many ratios designed to evaluate short-term liquidity of a company. Calculated as current assets divided by current liabilities, this ratio gauges the level of cash resources relative to current liabilities as a measure of cash obligations.

EBITDA

Earnings before interest, taxes, depreciation, and amortization. EBITDA is calculated as revenue minus expenses (excluding tax, interest, depreciation, and amortization).

EPS: Earnings per share

A company's earnings available to common shareholders, also known as net income or net profit, divided by the number of shares outstanding.

EV: Enterprise value

Enterprise value is calculated as market capitalization less cash and equivalents, plus debt. Evaluation of EV relative to the company's trailing EBITDA is used in identifying potential takeover targets.

FCF: Free cash flow

Capital expenditures are subtracted from cash flow from operating activities to arrive at free cash flow, which intends to measure the cash available to a company after making all cash outlays necessary to maintain existing productive capacity (as measured by capital expenditures on a company's cash flow statement).

Net working capital

A measure of the company's ability to carry on its normal business comfortably and without financial stringency, to expand its operations without the need of new financing, and to meet emergencies and losses. Calculated by deducting current liabilities from the current assets.

P/B: Price-to-book ratio

Calculated as a stock's market value (current closing price) divided by its latest quarter's book value. While a lower P/B ratio could mean that the stock is undervalued, it could also serve as a sign of weak fundamentals, and as with most ratios, this varies a fair amount by industry.

PEG ratio

The price/earnings to growth, or PEG ratio is calculated as P/E ratio divided by a company's annual EPS growth. The PEG ratio is used to determine a stock's value while taking into account earnings growth.

P/FCF: Price-to-free cash flow ratio

Calculated as a company's current share price divided by its free cash flow per share (i.e., free cash flow divided by the number of company's shares outstanding) over the last four quarters (called "TTM," or "trailing 12 months" calculation). It is a measure of the market's expectations regarding a firm's future financial health.

P/S: Price-to-sales ratio

It is calculated as a stock's current market price divided by its sales (revenue) per share. When calculating this ratio, we use the company's revenue from its latest four quarters, or on a TTM basis.

ROE: Return on equity

A measure of a corporation's profitability, calculated as net income divided by shareholder's equity. ROE is often useful in comparing the profitability of a company to other firms in the same industry.

Featured companies in KeyStone's Small-Cap Stock Report are evaluated on a scale of 1 to 5 on each of the following criteria:

Value: 1 - poor investment value
5 - excellent investment value

Risk/Liquidity: 1 - high exposure to liquidity concerns
5 - low exposure to liquidity concerns

Growth: 1 - poor growth potential
5 - excellent growth potential

Overall: 1 - poor fundamental characteristics
5 - excellent fundamental characteristics

Disclosure					
Stock Holding				Other	
Companies	KeyStone	KeyStone Employees	Related Companies	Investment Banking Client	Related Company Business Relationship
Xpel Technologies Corp.	YES	NO	NO	NO	NO

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