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XMTR.OQ - Q3 2022 Xometry Inc Earnings Call

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PRESENTATION

Operator

Good day, and thank you for standing by. Welcome to Xometry's Q3 2022 Earnings Conference Call. (Operator Instructions) Please be advised that today's conference is being recorded.

I would now like to hand the conference over to your first speaker today to Shawn Milne, Vice President of Investor Relations. Please go ahead.

Shawn Christopher Milne - Xometry, Inc. - VP of IR

Good morning, and thank you for joining us on Xometry's Q3 2020 Earnings Call. Joining me are Randy Altschuler, our Chief Executive Officer; and James Rallo, our Chief Financial Officer. During today's call, we will review our financial results for the third quarter and discuss our guidance for the fourth quarter 2022.

During today's call, we will make forward-looking statements, including statements related to the expected performance of our business, future financial results, strategy, long-term growth and overall future prospects. Such statements may be identified by terms such as believe, expect, intend and may. These statements are subject to risks and uncertainties, which could cause them to differ materially from actual results. Information concerning those risks is available in our earnings press release distributed before the market opened today and in our SEC filings included in the Form 10-Q for the quarter ended September 30, 2022, that will be filed with the SEC.

We caution you to not place undue reliance on forward-looking statements and undertake no duty or obligation to update any forward-looking statements as a result of new information, future events or changes in our expectations.

We'd also like to point out that on today's call, we will report GAAP and non-GAAP results. We use these non-GAAP financial measures internally for financial and operating decision-making purposes and as a means to evaluate period-to-period comparisons. Non-GAAP financial measures are presented in addition to and not as a substitute or superior to measures of financial performance prepared in accordance with U.S. GAAP. To see the reconciliation of these non-GAAP measures, please refer to our earnings press release distributed today and in our investor presentation, both of which are available on the Investors section of our website at investors.xometry.com. A replay of today's call will also be posted on our website. With that, I'd like to turn the call over to Randy.

Randolph Brody Altschuler - Xometry, Inc. - Co-Founder, CEO & Director

Thanks, Shawn. Good morning, everyone, and thank you for joining us for our Q3 2022 earnings call. We are pleased to report another strong quarter with record revenue and record gross profits. We delivered 83% revenue growth and 182% gross profit growth year-over-year in Q3. The value of our marketplace is enabling us to gain significant market share, and we expect those share gains to continue in Q4 and into fiscal year 2023. We reduced our adjusted EBITDA loss by \$1.8 million quarter-over-quarter to \$6.5 million, underscoring the operating leverage in our model. Moving on to our Q3 results. I will provide a review of our third quarter performance, marketplace trends in Q4 and provide an update on key business initiatives. Then I will turn the call over to our CFO, James Rallo, for a more in-depth review of our financial results and guidance. We had a strong Q3 with revenue of \$103.6 million, driven by robust marketplace growth and expanding supplier services with the addition of Thomas. Q3 Marketplace revenue was \$84.1 million, nearly 55% year-over-year and 11% quarter-over-quarter growth.

Marketplace revenue consists entirely of the historical Xometry business, excluding Xometry supplies and financial services. Marketplace revenue growth was driven by continued strong growth in active buyers and rapid adoption of our platform by larger accounts across both North America and Europe. Likewise, we experienced strong year-over-year growth in many of the different manufacturing processes offered in our marketplace. In Q3, active buyers increased 40% year-over-year to 36,789. We added a record 3,298 active buyers in Q3, a 17% increase over the prior record set in Q2. Our value proposition resonates strongly with customers.

We saw strength across multiple verticals, including automotive, robotics and automation, education, food and beverage as well as ongoing strength in general manufacturing. The number of accounts with last 12 months spend of at least \$50,000 increased 62% year-over-year to 974, adding 80 accounts in Q3. Given the success of our land and expand strategy, we continue to invest in our enterprise sales engine. While the number of active buyers and their activity level in the Xometry marketplace increased throughout the quarter, we did see marketplace pricing trends become a headwind late in the quarter due to a step change in lower supplier costs.

We will discuss these dynamics in further detail shortly, but the overall health of our marketplace ecosystem is strong. Q3 supplier services revenue was \$19.5 million, including Thomas, which we acquired in December 2021. The vast majority of supplier services revenue is the Thomas Marketing Services and advertising business plus historical Xometry supplies and financial services. We provide convenient access to supplies, enabling manufacturers to lower their cost of operations. We also improved their cash flow through our growing basket of fintech products. With Thomas, we've expanded our basket of supplier services, including marketing and advertising solutions.

Our international business continues to deliver strong growth with revenue increasing 75% year-over-year and 10% quarter-over-quarter. In Q3, we added Polish Norwegian and Dutch languages to our European site. Additionally, Europe introduced new production technologies, including vacuum casting and compression molding. Alongside strong top line growth, Europe continues to rapidly expand gross margins, underscoring the success and demand for our marketplace across geographies. We remain pleased with the ramp in buyer demand in China as we're seeing orders from across many verticals, including medical, biotech, new energy and universities.

We expect China to contribute to revenue growth in 2023. On top of strong revenue growth, gross profit grew 182% year-over-year in Q3, driven by significant improvements in marketplace gross margin and the addition of higher-margin supplier services. In Q3, marketplace gross margin increased 120 basis points quarter-over-quarter to 30.4% and increased significantly year-over-year.

Over the past 3 years, Marketplace gross margin has grown from 18% in 2019 to now over 30%. As our marketplace continues to scale and as the number of transactions grow, our machine learning becomes smarter, driving better matches for buyers and suppliers and helping improve gross margins. At the same time, we continue to ramp up our network of active suppliers, which further enables our marketplace to successfully match supply and demand and improve gross margins.

The combination of these factors gives us significant confidence in reaching our long-term marketplace gross margin target of 35% to 40% at a faster pace than previously expected. James Rallo will provide more detail about this later in the call. Following up on our Xometry Summit at the end of June, in Q3, we rolled out new products, including the industrial buying engine and Workcenter to provide an integrated solution for buyers and suppliers and to further scale our networks.

The industrial buying engine provides buyer choice, including Xometry's instant quoting engine for those customers who want to buy it now. It also digitizes the cumbersome and time-consuming request for quote process, taking what was once on off-platform and integrating it into the heart of Thomas net. The buyer gets to work with trusted high-value suppliers and benefits from the convenience of a secure checkout, payment options and customer support. Suppliers benefit from additional exposure to high-quality buyers and can take advantage of convenient payment options. With the industrial buying engine, we're creating an incremental and scalable revenue stream on thomasnet.com.

We remain pleased with the early activity in the industrial buying engine and are seeing healthy top of the funnel activity as the number of projects submitted continues to grow. In Q4, we continue to improve the user experience for buyers and suppliers, creating one call to action and a unified buying experience across the Thomas platform. Also in Q3, we began rolling out our new cloud-based software Workcenter to help suppliers digitize all aspects of their operations. Workcenter is a fully featured all-in-one manufacturing execution system that gives suppliers a one-stop view into all of their orders. The premium version of the software was developed with the acquisition of Factory IV in Q4 of 2021. Xometry Workcenter brings everything our suppliers love about Xometry, like our popular job board and our financial services and everything they love about Thomasnet on to one easy-to-use system. By digitizing all aspects of their operations, it lets manufacturers focus on what they need to do to grow their businesses and attract new buyers.

One of the best features of Workcenter is that our suppliers can use it to manage all of their work, including work from their non-Xometry customers. All the cash flow benefit suppliers know and love are integrated seamlessly in the Xometry Workcenter. Through the shop finances dashboard, suppliers can track payouts, take advantage of our Instant Pay Fast pay and advanced card financial products. We are pleased with the initial rollout of Workcenter as we've activated thousands of suppliers in the platform, including many Thomas suppliers who are not Xometry partners.

We are seeing jobs scale rapidly on the platform. We will add important new functionality in Q4, including workflow customization, enabling suppliers to accurately reflect their unique processes and integrations with several accounting systems, most prominently QuickBooks and Oracle NetSuite, enabling invoice generation directly from Workcenter. The supplier side of our marketplace is incredibly fragmented with over 625,000 manufacturing businesses in the United States, 75% of those businesses have fewer than 20 employees. With our Workcenter platform, we have a tremendous opportunity to become their easy-to-use operating system and provide products and services to these businesses. Now turning to current business trends. In Q4, we expect Marketplace revenue to grow 40% to 45% and Marketplace gross profit to grow over 55%. We saw continued strong active buyer growth in October and expect another quarter of record new active buyer additions in Q4.

Also in October, orders increased over 55% year-over-year. Use of our manufacturing marketplace is increasing. Our AI pricing engine and matching algorithms are responding quickly to changing market conditions, delivering better value for our customers and consequently increasing order frequency. We saw a step change in supplier activity as they are increasingly attracted to our marketplace as it provides them with access to a rapidly growing base of buyers and orders.

We believe the uncertain macro environment may have accelerated this dynamic. One measure of the significantly changed behavior is how long it takes for a job to be accepted. From August to September, jobs were taken at a 36% faster rate as suppliers more aggressively accepted orders, which resulted in the cost of jobs on the marketplace to decline at an unprecedented rate. As our costs declined, our AI-driven marketplace lowered prices to buyers, which boosted conversion rates while dampening our revenue growth in the near term. While we've observed lower job costs in recent weeks, we can optimize our pricing while maintaining strong order growth and conversions through changes in our algorithms.

We expect the combination of pricing optimization and higher order frequency will grow our revenue per buyer in early 2023, enabling us to deliver robust marketplace growth. Additionally, we expect Marketplace gross margin to continue to expand in 2023, driving robust gross profit growth as well. Our TAM is over \$2 trillion in the massive \$35 trillion global manufacturing industry. We will continue to invest to further capitalize on our position as the leading 2-sided marketplace. In 2020, our revenue was \$141 million. In 2022, we expect that to nearly triple. At the same time, we expect gross profit dollars to grow over fourfold with significant gross margin expansion. With that, I'll turn the call over to our CFO, James Rallo, for a closer look at third quarter financial results and our business outlook.

James M. Rallo - Xometry, Inc. - CFO

Thanks, Randy, and good morning, everyone. As Randy mentioned, we had a strong third quarter, and we are expecting continued significant revenue and gross profit growth for Q4 2022 despite near-term pricing headwinds. We generated Q3 revenue of \$103.6 million, up 83% year-over-year, driven by strong marketplace growth and the addition of Thomas in supplier services. The stronger U.S. dollar negatively impacted revenue by \$1.2 million on a year-over-year basis.

Starting with Q1 2022 financial results, we provided an additional disclosure for marketplace and supplier services, including revenue and cost of goods sold for each. Q3 marketplace revenue was \$84.1 million and supplier services revenue was \$19.5 million. Marketplace growth was driven by a strong increase in the number of active buyers as well as existing buyers increasing their spend on the platform. Q3 active buyers increased 40% year-over-year to \$36,789.

In Q3, the percentage of revenue from existing accounts was 96%, underscoring the efficiency and transparency of our business model that leads to increasing account stickiness and spend over time. We believe the repeat purchase activity from existing accounts reflects the underlying strength of our business and provides us with substantial revenue visibility and predictability. Once an account joins our platform, we aim to expand the relationship and increase engagement and spending activities from that account over time.

The number of accounts with the last 12-month spend of at least 50,000 on our platform reached 974 at the end of Q3, up 62% year-over-year. The strength of the U.S. dollar created a slight drag in this metric for Q3 by approximately 12 accounts. Supplier services revenue declined 3% quarter-over-quarter in Q3. The decline was primarily driven by the lower supplies revenue. Q3 gross profit was \$40.9 million, an increase of 182% year-over-year. Gross profit margin was 39.5%. Q3 gross margin for Marketplace was 30.4%, up 120 basis points quarter-over-quarter.

As our marketplace continues to scale and as the number of transactions grow and we expand our network of suppliers, our machine learning becomes smarter, driving better matches, increasing our gross margin over time. Q3 gross margin for supplier services was 78.5% driven by the high gross margin of Thomas marketing and advertising services and growing financial services. Supplier services gross margin expanded 60 basis points quarter-over-quarter due to the lower mix of supplies revenue.

Moving on to Q3 operating costs. Q3 total non-GAAP operating expenses increased 93% year-over-year to \$47.4 million, driven by the addition of Thomas, continued investments in the business and incremental public company costs. Within our operating expenses, sales and marketing is our largest variable component. In Q3, non-GAAP sales and marketing expenses were \$19.5 million, excluding stock-based compensation and amortization as compared to \$9.5 million in Q3 2021.

The increase in non-GAAP sales and marketing expenses on a year-over-year basis was driven by the addition of Thomas sales and marketing costs, continued investment to expand our network of buyers and sellers and hiring of additional salespeople to support strong growth in our land and expand strategy. Our adjusted EBITDA loss for Q3 was \$6.5 million or 6.3% of revenue compared with 17.7% of revenue in Q3 2021.

One quick note on GAAP EPS in Q3. As part of the IPO, we pledged 1% of the company's capitalization or approximately 403,000 shares to xometry.org for charitable contributions to nonprofit organizations. As a result, we recorded a nonoperating charge in general and administrative expenses, which is excluded from adjusted EBITDA. In Q3, we recorded a charge of \$1 million.

Turning to segment reporting. In Q3, revenue from our U.S. and international operating segments was \$94.8 million and \$8.7 million, respectively. Segment loss from our U.S. and international operating segments for Q3 was \$10.7 million and \$4.3 million, respectively. We continued to invest in our international business, which grew 75% year-over-year in Q3 and 96% year-over-year on an FX-neutral constant currency basis. At the end of the third quarter, cash and cash equivalents and marketable securities were \$341.2 million. Now moving on to guidance. We expect Q4 2022 revenue in the range of \$104 million to \$106 million, representing year-over-year growth of 55% to 58%. We expect marketplace gross margin to improve in Q4 quarter-over-quarter.

As a reminder, as marketplace revenue grows at a faster rate than supplier services, we would expect total gross margin to be lower in Q4 than Q3. Additionally, in Q4, there is seasonality in the Thomas business due to the timing of the publication of their trade magazine. This will impact revenue by approximately \$500,000. In Q4, we expect adjusted EBITDA loss to be in the range of \$8 million to \$9 million or 8% to 9% of revenue compared

to a loss of \$11.9 million or 17.7% in Q4 2021. Q4 adjusted EBITDA loss will be higher quarter-over-quarter due to the impact of lower-than-expected revenue, while non-GAAP operating expenses will grow quarter-over-quarter, in line with our prior expectations. Given our attractive unit economics and opportunity to gain share in this massive market, we are continuing to invest to grow our business. As Randy mentioned, we expect robust marketplace growth and gross profit growth in 2023.

In Q4, we expect stock-based compensation expense to be approximately \$5 million to \$6 million, which we will exclude from adjusted EBITDA. Based on a stronger-than-expected marketplace gross margin trends, -- we now expect to reach our long-term marketplace gross margin target range of 35% to 40% in 2024 versus prior expectations of 2026. We now expect to be profitable on an adjusted EBITDA basis in the second half of 2023, driven by strong buyer in order growth and further improvement in gross margins, driving faster gross profit growth in our marketplaces. We expect significant leverage over fixed and semi-fixed costs, including public company costs. With that, operator, can you please open up the call for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question comes from the line of Brian Drab from William Blair.

Brian Paul Drab - *William Blair & Company L.L.C., Research Division - Partner & Analyst*

So Jim, you just mentioned the expectation for profitability in the second half of '23. Is that a change -- are you calling out a change in your expectation? Or is that restating the expectation?

James M. Rallo - *Xometry, Inc. - CFO*

Yes. Yes. I'm making a slight change here, Brian. So I think, again, we said earlier that we would be adjusted EBITDA profitable for the entire year. I think we're looking more at really the second half of the year on that now.

Brian Paul Drab - *William Blair & Company L.L.C., Research Division - Partner & Analyst*

Okay. Got it. Okay. Got it. And one thing that I noticed, I mean, when I'm looking at your lead times and the pricing you see some decline in the pricing. I was wondering if you could quantify that further? And then also, has there been any change? Have you been able to change your lead times at all in the last couple of quarters here? Because I seem to be detecting that for some of the parts that you're manufacturing that lead times may have actually improved slightly. I don't know if that's true or not. Just hoping you could comment on it.

Randolph Brody Altschuler - *Xometry, Inc. - Co-Founder, CEO & Director*

So Brian, it's Randy. So as we mentioned on the call, the time to acceptance dropped 36%. So things got taken 36% faster, which is unprecedented drop for us and time to acceptance is the key driver of cost. So that's why cost went down. So dramatically. And again, we weren't accustomed to that. We are now working on optimizing pricing and sort of the combination of that plus the increased order frequency makes us confident that in the beginning of next year, we can reverse the trend on revenue per buyer. And in terms of lead times, we're always working to optimize those, again, both on conversion from a pricing perspective. So it's another lever for us to push as we want to get -- grow market share with our customers, but at the same time, optimize our revenue as well.

Brian Paul Drab - *William Blair & Company L.L.C., Research Division - Partner & Analyst*

So you mentioned the speed with which the quotes are being accepted, but can you talk at all about what that resulted in, in terms of a decline in price?

Randolph Brody Altschuler - *Xometry, Inc. - Co-Founder, CEO & Director*

Yes, sure. And let me just take a step back just to be clear. And again, let me start with buyer demand is very healthy. As we said, we added the unprecedented number of or quarter-over-quarter add of active buyers, and we expect that number to be even bigger in Q4. And then on top of that, the order frequency has been increasing as well. The way that our pricing works is we actually do cost of discovery. So when a customer accepts a price, our algorithms do cause discovery with our suppliers, and we have an expected cost at which we think suppliers we'll take that order and then we have a margin on top of that. What happened in late Q3 and into Q4 is that suppliers were taking jobs much earlier in that schedule.

And as a result, the cost was unexpectedly lower, unprecedently lower than we had seen in the past. And so even with healthy margin on top of that, that drives down your gross revenue from that order. And again, we have never seen such a dramatic drop so quickly. We let it play out for some weeks. We're gathering the data. And now we're in the process of implementing this price optimization now that we're tuning our algorithms to take into account this kind of unprecedented decrease in time to acceptance.

Brian Paul Drab - *William Blair & Company L.L.C., Research Division - Partner & Analyst*

Got it. So said another way, you might not give up as much of that value...

Randolph Brody Altschuler - *Xometry, Inc. - Co-Founder, CEO & Director*

Exactly. Exactly. We're trying to optimize -- exactly, exactly. We want to optimize conversion rates and revenue, and we may have given up. That's exactly right. We don't need to -- we didn't need to give up as much as we had. We let it run for weeks. We wanted to get the data, and now we're improving our algorithm to take that kind of significant drop into account.

Shawn Christopher Milne - *Xometry, Inc. - VP of IR*

Yes. And then, Brian, just to double-click on that, as Randy was saying, like the buyer activity has never been stronger and the supplier engagement has never been stronger. You know how our pricing works, the jobs just got taken off at a much faster pace.

Operator

And I show our next question comes from the line of Eric Sheridan from Goldman Sachs.

Eric James Sheridan - *Goldman Sachs Group, Inc., Research Division - Research Analyst*

Maybe I'd just follow up on the element on the pricing dynamics that we can better understand some of the potential for behavior going forward on the platform. So in terms of the pricing coming down and jobs are getting sort of accepted quicker, how should we be thinking about that feeding into a more volatile macro environment in terms of elements of both buyer growth beyond Q4, elements of what can happen to pricing if demand slackens a little bit as well.

So maybe just give us a little bit of your base case analysis of how we should be thinking about the demand, pricing and sort of buyer growth dynamics in a more volatile macro environment. That would be number one. And then as we get into next year, I know it's a little early to be talking

about 23. But are there any guardrails or thoughts you want us to keep in mind in terms of thinking about the mixture buyer growth and revenue per buyer growth as you lap the Thomas acquisition into next year irrespective of what happens in the macro environment?

Randolph Brody Altschuler - Xometry, Inc. - Co-Founder, CEO & Director

Yes. Thanks, Eric. So look, we -- in this quarter, we added about 3,300 active buyers, which was our quarter over-quarter net adds have been about \$2,500. Last quarter, we did 2,800. And in Q3, we did \$3,300. And as we indicated on the call, Eric, we think that number is going to jump up again in Q4 beyond that. So as we're in this uncertain macro environment, you're actually seeing more and more buyers coming to the Xometry marketplace. -- and we think that you'll continue to see that strong active buyer growth growing into next year. And the good thing is if you get those active buyers and as we turn -- as their revenue per buyer goes back up, that has an amplitude magnifying effect or multiplying effect moving forward.

So we think that's very strong. We also think that, again, we had not been accustomed. Our algorithm didn't take into account this sort of dramatic sudden drop. We didn't want to move too hastily to make changes to it, but kind of as I was just describing to Brian earlier, we didn't need to give up as much as we did. So when we're balancing that with conversion. So we're confident that going into Q1, we can reverse that trend on revenue per buyer and now on a larger gross base of active buyers than we had anticipated, that could, again, could have a multiplying effect as you go through 2023.

Shawn Christopher Milne - Xometry, Inc. - VP of IR

Hi Eric, it's Shawn. Just to double click on that. If you look at in your model with active buyers, and we're seeing, as Randy said, we expect that number to even grow in Q4. And you play that out starting in 2023, what you're going to see is the active buyer growth year-over-year is going to remain very strong.

Operator

And so our next question comes from the line of Cory Carpenter from JPMorgan.

Cory Alan Carpenter - JPMorgan Chase & Co, Research Division - Analyst

I had a couple. Maybe just to start, I want to talk a little bit more about international expansion. Curious what geographies you're seeing strength in? And then also based on what you're seeing early on in China. I'm curious how that informed you. You've long talked about, I think, international possibly being 40% of revenue over time. Is that kind of still the right ballpark based on what you're seeing today?

Randolph Brody Altschuler - Xometry, Inc. - Co-Founder, CEO & Director

Yes, in terms of...

Shawn Christopher Milne - Xometry, Inc. - VP of IR

(inaudible) Shawn, very strong growth. As Jim said on the call, 96% growth FX neutral. The other thing to keep in mind is we're going -- we were up against a 500% comp last year. So the demand trends in Europe are strong. We continue to add new languages, new people, new sales, new geographies in Europe. So Europe is going very well. And as we said on the call, we remain pleased with early demand in China, and we expect China to add to revenue growth in 2023. And certainly, no change from our perspective in terms of the long term. We think international will be 40% of our marketplace revenue long term.

Cory Alan Carpenter - JPMorgan Chase & Co, Research Division - Analyst

And certainly -- sorry, go ahead.

James M. Rallo - Xometry, Inc. - CFO

Yes. Jim. I would just -- I would add a couple of things right there. So when we look at the dynamics of China right now, we're seeing the same sort of growth trajectory as we have in Europe over the last couple of years. Additionally, we did add U.K., so that launched this quarter as well. And we added 3 or 4 different languages, I can't remember off the top of my head exactly which ones those are, but we continue to expand the capability of the marketplace in Europe.

Cory Alan Carpenter - JPMorgan Chase & Co, Research Division - Analyst

And maybe, Randy, for you, just -- you've certainly been busy the last few quarters with the integration of Thomas. Just as we think out to '23, you gave us some initial guardrails on the financial side, but just curious more from a product perspective and an integration of Thomas perspective, where can we expect your biggest focus areas to be next year?

Randolph Brody Altschuler - Xometry, Inc. - Co-Founder, CEO & Director

Yes. I mean it will continue to be, and I'm not sure we caught but we brought on a new Chief Product Officer, Brendan Stern, who came from us from indeed. So really excited with that addition. So I think when you think about comments on the supplier side overall, we have 2 key focuses. One is Workcenter. And as we reported, we have now thousands of activations. So we're very excited about that, and we're seeing a nice uptick in the amount of non-Xometry/Thomas work that's being processed in Workcenter as well as not only the Xometry suppliers who are using Workcenter, but it's also Thomas suppliers who weren't Xometry suppliers. So we're really excited about that.

We're going to continue to invest in that, build out the suite of offering. That creates a very sticky relationship with our suppliers, which has knock-on effects throughout our ecosystem. And then as we -- we've got our financial products there, that also gives us a great monetization effort. So a lot of focus on Workcenter. And then on the IBE on Thomas, continuing to streamline that, make it very easy for buyers coming in to transact on Thomas Net. And likewise, just make it really easy for the suppliers to respond and to transact on Thomas Net as well. We think that also ties in nicely to the advertising. Thomas, a lot of times revenue comes from suppliers who are paying to bump up and searches on Thomas net. As we do more transactions on Thomas Net itself, we think that will enhance that advertising business.

Operator

And I show our next question comes from the line of Matt Hedberg from RBC.

Matthew George Hedberg - RBC Capital Markets, Research Division - Analyst

Randy, I wanted to double click on what is fundamentally causing these orders to be taken earlier? Because to me, it feels like a very bullish thing that these orders are being accepted quicker. But I guess I'm curious, what do you think is underpinning that change?

Randolph Brody Altschuler - Xometry, Inc. - Co-Founder, CEO & Director

Look, I think it's a couple of things. And it really is a step change for us. First, we're continuing to optimize our matching algorithms, getting to know which suppliers are good for which jobs. That's part of our algorithm is on the matching side. So we're continuing to optimize that. Clearly, we're getting stickier with our suppliers, things like Workcenter help with that. It just -- it continues to cement that relationship. So I think that's very important. And then it's a weird environment, as you know, with other companies. So there may be some impact as well from the macro. --

hard for us to do that to really know that. But certainly, we're very happy about this dynamic because in the long term, even entering early next year, it's a very positive change for us.

Matthew George Hedberg - *RBC Capital Markets, Research Division - Analyst*

Got it. Okay. And then maybe just to double click on Thomas. I think we're all excited about the ability to onboard those to Xometry. Maybe a little bit more granularity on how that's progressed since Workcenter -- and are there things that you look to further optimize to perhaps bring more of those buyers and sellers on to Xometry?

Randolph Brody Altschuler - *Xometry, Inc. - Co-Founder, CEO & Director*

Yes. I mean, I think it's more of the same. We're just constantly trying to make the user experience easier, make the communication easier between buyers and suppliers just streamline that. So it's easier for them just to complete the transaction, the checkout. On Workcenter in particular, continue to build out the capabilities to them to manage their overall business, so we can capture more of their share. So it's -- we're just doing lots of -- if you come -- we're doing lots of daily enhancements to our UI and what we're offering on all those products.

Shawn Christopher Milne - *Xometry, Inc. - VP of IR*

Yes. And Matt, just -- we called it out in the prepared remarks, but we're rolling out integrations with the accounting packages this quarter. And that's something they all want, and that's going to be great for Workcenter with QuickBooks. Remember, they don't -- typically, these machine shops run their business off clipboards and excel spreadsheets and simple accounting. So we'll integrate that in, and that should also continue to help with the rollout.

Operator

And I show our next question comes from the line of Karl Keirstead from UBS.

Karl Emil Keirstead - *UBS Investment Bank, Research Division - Analyst*

I've got 2. Randy and James, how the Street ends up modeling first half '23 post this print will depend on how comfortable we feel about how quickly Xometry can -- as you put it, Randy, tune the algo. So can you get us comfortable with your ability to tune it fairly quickly. So for instance, when was the last time that the algorithm sort of got caught off guard and how quickly were you able to tune it to get things back on track. In other words, how make us comfortable perhaps, if you can, that you can do so in Q1 as you're suggesting? And then I've got a follow-up.

James M. Rallo - *Xometry, Inc. - CFO*

Yes, Karl, it's Jim. I'll take the first part, and then I'll let Randy take the second as far as timing of the retune. But if you recall, right, we had a situation very similar to this back in the first quarter of '21. So before we went public. And we had talked about that openly about how we had some inflationary issues going on, particularly with materials. We didn't know if that was going to stay in place or not. So once we understood the dynamics of what was happening there, we implemented right new algorithm protocols, and we fixed that situation. So we have a very -- it's very similar to what is occurring right now. I'll Randy to give you some more details.

Randolph Brody Altschuler - *Xometry, Inc. - Co-Founder, CEO & Director*

I mean, Karl, we have control -- we have control over obviously, our pricing to our customers. So it's not difficult for us -- it's easy for us to literally change the algorithm from that perspective. What we wanted to do these last few weeks since the end of Q3 when we started seeing this trend is

to model out the trade-off between price and conversion rates, right? It's elasticity that's very important. And again, this was unprecedented. We had never -- we're always trying to balance that, but we have never seen such a rapid decline in price or in costs in such a short period of time.

So now that we've gathered weeks of data, and we do want to be too hasty on that, we feel confident and we're in the process of implementing changes to optimize that pricing. That's why we are confident that going into Q1. And the math is pretty simple. If the revenue per buyer increases in Q1 from Q4, with our growing base of active buyers, which has never been bigger. And as we said, we're in that continue to accelerate into Q4, that will have a good multiplying effect.

Karl Emil Keirstead - *UBS Investment Bank, Research Division - Analyst*

Got it. Okay. That's very helpful. And then my follow-up, maybe is for you, James, just checking my math. I think Randy said that for 4Q, you're expecting marketplace revenue growth of 40%, 45%. So at the midpoint, that would be \$87 million and gross profit -- marketplace gross profit growth of 55%, which would get you to \$27 million. So if I take \$27 million over \$87 million, it sounds to me, unless my math is wrong, that you're guiding to marketplace gross margin percentage of 31%. That would actually be up a smidge from what you did in the third quarter. I just want to stress test that math.

Randolph Brody Altschuler - *Xometry, Inc. - Co-Founder, CEO & Director*

Yes. We've indicated that we are going to have higher gross margins per marketplace in Q4 than Q3. That will continue.

Operator

(Operator Instructions) And I show our next question comes from the line of David Silver from CL King & Associates.

David Cyrus Silver - *CL King & Associates, Inc., Research Division - Senior VP & Senior Analyst*

I wanted to go back to just a comment or 2 in your opening remarks, but I believe at one point, you talked -- you discussed a step change in supplier activity. And I'm wondering if that's kind of the number of suppliers? Or is that similar to maybe the quicker acceptance rate? In other words, are suppliers becoming more engaged on your platform at a faster rate than, let's say, the buyers, which we track regularly. But what was that kind of step change effect that you discussed in your prepared remarks?

Randolph Brody Altschuler - *Xometry, Inc. - Co-Founder, CEO & Director*

Yes, absolutely. We always have more active buyers, but really the step change was there -- just as you said, their behavior on the platform, their activity level and just their eagerness to take the jobs much faster. That -- they took them 36% faster in a very short period of time that changes. And that's been a persistent change, which is endured. So it's just -- they're more comfortable. It's stickier. We've been -- again, we've been trying to optimize the matching algorithms, things like Workcenter are helping with that. So that's really been the step change. And again, it's in the long term, a very positive trend for us.

David Cyrus Silver - *CL King & Associates, Inc., Research Division - Senior VP & Senior Analyst*

Okay. Just trying to clarify if that was something beyond -- different than your earlier comments. Thank you for that. And then I was just wondering if you could maybe just make a comment on the trend. You've discussed the trend in marketplace revenue here quite a bit. But I guess, the supplier services revenue trend was just a little bit below what I was modeling and whatnot, and it is down a little bit sequentially. Is that also related to the quicker acceptance rate in some manner? Or is it due to other factors?

Randolph Brody Altschuler - Xometry, Inc. - Co-Founder, CEO & Director

So, it's really due to our materials business. We sell supplies to our -- so outside of Thomas, which grew quarter-over-quarter. It's really just our supplies business, and that can be somewhat a little bit -- it can change a little bit quarter-over-quarter. So that's why you saw a dip.

Operator

Thank you. I'm showing no further questions in the queue. This concludes our Q&A session and today's call. Thank you all for participating. You may all disconnect.

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