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XMTR.OQ - Q3 2024 Xometry Inc Earnings Call

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PRESENTATION

Operator

Good day. And thank you for standing by. Welcome to the Xometry Q3 2024 earnings 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, Shawn Milne VP of Investor Relations.

Shawn Milne - Xometry Inc - Vice President - Investor Relations

Good morning. And thank you for joining us on Xometry's Q3 2024 earnings call. Joining me are Randy Altschuler, our Chief Executive Officer and James Miln, 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 and full year 2024.

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 our filings with the US Securities and Exchange Commission, including our Form 10-Q for the quarter ended September 30, 2024.

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 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 US GAAP.

To see the reconciliation of these non-GAAP measures, please refer to our earnings press release distributed today and 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 Altschuler - Xometry Inc - Chief Executive Officer, Co-Founder, Director

Thanks Shawn. Good morning, everyone and thank you for joining our Q3 2024 earnings call. Q3 was a strong quarter for Xometry across many fronts. Our AI powered marketplace delivered record revenue, record gross profit and record marketplace gross margin. And in Q4, we expect to be slightly adjusted even not profitable, which is another important milestone in our mission to digitize the multitrillion dollar global custom manufacturing industry.

We expect strong secular growth and continued operating leverage as we scale the \$1 billion and beyond driven by our key growth initiatives.

Powered by AI, Our manufacturing marketplace continues to gain significant market share globally as buyers and suppliers realize the value convenience and resiliency of our platform. Xometry is increasingly embedded in our customer supply chains, digitizing inefficient and cumbersome processes and delivering value and reliability for buyers.

We've made great progress in Q3 and are focused on driving further penetration in this massive market. In Q3, we expanded within strategic accounts, deepening our relationships across their buyer base. For example, one of the largest global technology companies is leveraging the Xometry marketplace as a source for 3D printing, machining and assembly for their consumer technology products. This move reduces the burden and risk of maintaining their broader supplier network.

Similarly, suppliers use Xometry's platform to digitally monetize their manufacturing capacity, improve their profitability and access global demand at minimal cost. In Q3, active suppliers surpassed 4,200 growing nearly threefold since the beginning of 2021.

Our network spans all 50 states and three continents, enabling our marketplace to react quickly to changing customer demands. Our supplier network is a key differentiator and further expands our competitive mode, providing buyers with resilient supply chain solutions and geographic flexibility. Our network has a broad range of expanding capabilities including CNC, injection molding, sheet [metal], urethane casting, added manufacturing and the recently released tube bending and cutting.

In Q3, we delivered strong growth with revenue increasing 19% year over year to a record \$142 million driven by our marketplace business. Q3 marketplace revenue grew 24% year over year in a robust 8% quarter over quarter, we saw strength across many end markets including engineering, aerospace consumer and robotics.

Q3 gross profit increased 21% year over year to a record \$55.8 million. Q3 marketplace gross profit increased 34% year over year driven by our AI powered marketplace and increasing network of active suppliers. As we scale our data, our machine learning AI model gets better at pricing and matching which in turn fuels gross profit dollar growth. Q3 marketplace gross margin expanded 250 basis points year over year to a record 33.6%.

In the past three years, we expanded our marketplace growth margin from 23.5% to 33.6% underscoring the power of our AI driven model. Strong marketplace revenue and marketplace gross profit growth drove an 85% improvement in our adjusted EBITDA loss to a record low of approximately \$600,000. We delivered strong leverage in our US marketplace while making investments to drive international growth and scale.

In order to drive sustained market share gains, we are focused on these growth initiatives. First, expanding our network of active buyers and suppliers. In Q3, active buyers increased 24% year over year with net additions of over 3,300. We expect our active buyer growth to remain healthy as there are millions of potential buyers and Xometry's brand awareness is growing but still low.

We continue to increase the breadth and depth of our supplier network which as I mentioned earlier reached over 4,200 in Q3. In Q3, we extended our supplier base in the US with a focus on adding new suppliers with key quality certifications to serve the production needs of our larger customers.

We're also growing our supplier reach in new instant quoting categories including tube cutting, tube bending and other tooling-based processes to support anticipated areas of growth.

Second, expanding the marketplace menu. Our goal is to be the primary destination for our customers' manufacturing and supply chain needs. To help accomplish that, we need to provide instant quoting for as many manufacturing processes and materials as possible. In Q3, we made progress doing just that, driven by our continued investments in next Gen AI and our partnership with Google Verdicts.

We launched laser tube cutting and two bending, instant quoting, which is a differentiator for these large processes. We are seeing early customer interest for these processes including production orders from a strategic aerospace customer.

Third, driving deeper enterprise engagement. Some of our biggest customers are the largest companies in the world. In Q3, we made strong progress with our land and expand efforts. As the number of marketplace accounts with the last 12 month spend of at least \$50,000 increased 23% year over year to 1,506.

While our growth with these accounts has been strong over the years, there's a terrific opportunity to significantly accelerate their adoption of Xometry. To make that happen, we have a two pronged approach of technology and enterprise solutions. Technology features include Xometry's team space and integrating directly into our customers' ERPs.

Fourth, growing international. In Q3, international revenue grew 55% year over year driven by strong growth in Europe. It is now approaching \$100 million annual run rate. Currently, 19% of total marketplace revenue, we believe international can represent 30% to 40% of marketplace revenue consistent with many other global online marketplaces.

Xometry, EU expanded its marketplace with the addition of a suite of collaboration tools. These tools enable engineers, procurement professionals and project managers to collaborate and manage higher volume complex orders. In Q3, a French design and manufacturing company specializing in unmanned vehicles and robotics, leveraged Xometry's manufacturing solutions to strengthen their supply chain and reduce operating costs by streamlining procurement.

Xometry, Asia continues to expand including the recent launch of an English site in APAC. This is already bearing fruit with a small consumer product company in Australia choosing Xometry's marketplace to move from prototype to production for an entire assembly including CNC and 3D processes. This production order is our first seven figure order in APAC and will deliver over a number of quarters.

Through Xometry, EU, Xometry, UK and Xometry, Asia, we've leveraged Xometry's core technology to provide localized marketplaces in 16 different languages with networks of suppliers across Europe and Asia, as well as North America.

Fifth, enhancing supplier services solutions. In Q3, we continue to invest in important foundational work to modernize the Thomas Advertising platform. We are focused on restoring Thomas advertising growth given the 85% plus growth margin and strong contribution margin opportunity.

By improving the underlying platform technology, we will enhance the experience for both users and advertisers providing opportunities for growth and engagement. One of our top goals is to drive increasing advertiser penetration on the platform which is approximately 1% today out of the roughly 500,000 suppliers listed on Thomas.

In Q3, we enhance self serve advertising capabilities on the Thomas platform. With these enhanced tools, businesses of all sizes can leverage the platform to instantly define and enable custom campaigns to reach targeted audiences.

Modernizing Thomas's technology will enable us to grow its profitable advertising services and further realize synergies between our supplier services and marketplace businesses. These include but are not limited to our efforts to be the one stop destination for our customers' custom manufacturing needs and leveraging the Thomas supplier network to aid in expanding our marketplace menu.

For example, we jump started the launch of tube cutting and tube bending processes with many Thomas suppliers. Driven by our growth initiatives, we expect to deliver marketplace growth in the range of 22% to 23% for the full year 2024, ahead of our prior outlook of at least 20%. We believe these initiatives can drive at least 20% marketplace growth in 2025 given the large fragmented market opportunity and secular shift to the digital.

In addition, we expect overall revenue growth in 2025 to exceed that of 2024. I'm proud of the collective efforts of our global team. Our continued strong execution and growth demonstrates the significant strides we're making to digitize supply chains. Our momentum demonstrates the trust buyers and suppliers place in Xometry.

The combination of our extensible technology platform, expanding data lake and rapidly growing networks of buyers and suppliers will continue to fuel strong growth and margin expansion. Our competitive mode is expanding each day.

I'll now turn the call over to James for a more detailed review of Q3 and our business outlook.

James Miln - Xometry Inc - Chief Financial Officer

Thanks, Randy and good morning everyone. As Randy mentioned, Q3 was a record quarter for Xometry across many fronts. Q3 revenue increased 19% year-over-year to \$142 million, driven by strong marketplace growth. Q3 marketplace revenue was \$127 million and supplier services revenue was \$14.7 million. Q3 marketplace revenue increased 24% year-over-year driven by strong execution growth with larger accounts and accelerated international growth as we continue to capture significant market share.

Q3 active buyers increased 24% year-over-year to 64,851 with a net addition of 3,321 active buyers, our highest net additions this year. Q3 marketplace revenue per active buyer was flat year-over-year and grew 3% quarter-over-quarter as our larger accounts increase their spend with us. The number of accounts with last 12-month spend of at least \$50,000 on our platform increased 23% year-over-year to 1,506 with 70 net new accounts, our highest net new accounts this year.

We continue to grow wallet share with accounts across many end markets. Supplier services revenue declined 10% year-over-year in Q3 primarily driven by the wind down of non-core services and to a lesser extent Thomas advertising and marketing services. As Randy mentioned, we are focused on improving engagement on the platform, which remains a leader in industrial sourcing, supplier selection and digital marketing solutions.

The number of active paying suppliers in our supplier services segment was 6,762 for Q3 on a trailing 12-month basis, a decrease of 9% year-over-year.

Q3 gross profit was \$55.8 million, an increase of 21% year-over-year with gross margin of 39.4%. Q3 gross margin for marketplace was a record 33.6%, up 250 basis points year-over-year. Q3 marketplace gross margin expansion underscores the success of our machine learning AI powered economic model which optimizes pricing with more data and improves matching with an expanding supplier network. Q3 marketplace gross profit dollars increased 34% year-over-year.

We are focused on driving marketplace gross profit dollar growth through the combination of top line growth and gross margin expansion. Q3 gross margin for supplier services was a record 89.6% driven by our increasing focus on the higher gross margin Thomas advertising and marketing services.

Moving on to Q3 operating costs. Q3 total non-GAAP operating expenses increased 12% year-over-year to \$56.6 million, well below revenue growth. We are applying strong discipline and rigor to our capital and resource allocation across teams.

In Q3 2024 this resulted in non-GAAP operating expenses growing less than 2% quarter-over-quarter, driving strong leverage across sales and marketing and other operating expenses. Marketplace advertising spend increased 9% year-over-year and was 6.3% of marketplace revenue, which is down 80 basis points year-over-year as we balance growth and profitability.

Q3 adjusted EBITDA loss was \$0.6 million or 0.4% of revenue compared with the loss of \$4.2 million or 3.5% of revenue in Q3 2023. Q3 adjusted EBITDA loss improved 85% year-over-year driven by growth in revenue, gross profit and operating efficiencies.

At the end of the third quarter, cash and cash equivalents and marketable securities were \$234 million. We are focused on improving working capital efficiency and free cash flow conversion given our asset light model and limited capital spending.

Q3 demonstrates the ability of our AI powered marketplace to deliver strong gross margin expansion and gross profit growth. We remain focused on our operating expense discipline while investing in our growth initiatives. In prior years we delivered 20% plus incremental adjusted EBITDA margin year-over-year.

In the first nine months of 2024 we have delivered 23% year-over-year incremental adjusted EBITDA margin. As we scale towards \$1 billion of revenue, we expect continued 20% plus incremental adjusted EBITDA leverage. Given our large market opportunity and low penetration rates, we will continue to balance investing in the future with driving operating leverage.

Now moving on to guidance. For the fourth quarter, we expect revenue in the range of \$145 million to \$147 million. We expect Q4 marketplace growth to be approximately 16% to 18% year-over-year. As a reminder, Q4 2023 was a strong marketplace growth comparison up 42% year-over-year.

We expect Q4 marketplace gross profit to grow faster than marketplace revenue. We expect Q4 supplier services to be down approximately 10% year-over-year. In Q4 we expect to be slightly adjusted EBITDA profitable while continuing to invest in our growth initiatives, improving from a loss of \$2.9 million in Q4 of 2023. We're tracking slightly ahead of our previous target of reaching adjusted EBITDA profitability at an approximate \$600 million revenue run rate.

In Q4, we expect stock based compensation expenses, including related payroll taxes to be approximately \$7 million to \$8 million or approximately 5% of revenue. For the full year 2024, we expect to deliver marketplace growth in the range of 22% to 23% ahead of our prior outlook of at least 20%. As Randy mentioned, we believe that our growth initiatives can continue to drive at least 20% marketplace growth in 2025 given the large fragmented market opportunity, initiatives to expand wallet share with strategic accounts and further international expansion.

We expect marketplace gross profit to grow faster than revenue. In addition, we expect overall revenue growth in 2025 to exceed that in 2024. Lastly, we expect to be adjusted EBITDA positive for the full year 2025.

Finally, I'd like to thank our Xometry colleagues worldwide. Their dedication to our buyers and suppliers is helping us digitize manufacturing and strengthen supply chains around the world.

With that operator, can you please open up the call for questions?

QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

Nick Jones, Citizens' JMP Securities.

Nick Jones - Citizens JMP Securities - Analyst

Great. Thanks for taking the questions. I guess first, can you speak more to or elaborate more on one of the key inputs to driving growth higher in 2025 versus 2024? Is it expectations around spend per buyer growth in buyers? Any kind of additional clarity would be helpful? And then I have a follow up. Thanks.

James Miln - Xometry Inc - Chief Financial Officer

Nick, its James. Thanks for the question. We're really pleased with seeing the performance that we're delivering this year in 2024 with marketplace growth now projected at 22% to 23%. As we look at that performance this year, it's really driven by great execution across the team, across all of our initiatives: growing the buyer and supplier network, continuing to develop the marketplace menu, making progress in international and enterprise.

So as we look towards 2025, we see those same themes playing a role in being able to drive at least 20% growth in the year ahead. And I think that those initiatives can help us grow both buyers and revenue per buyer.

Randolph Altschuler - Xometry Inc - Chief Executive Officer, Co-Founder, Director

Yes. And Nick, this is Randy. Just too also emphasize, we've been making these investments in these key initiatives for a while now. So we're seeing them pay out the dividends increasing from them and so we expect that to continue in 2025 and as we said, result in overall higher revenue growth in the year based on the investments we've been making, including in the supplier services as we're modernizing that the Thomas advertising platform.

Nick Jones - Citizens JMP Securities - Analyst

Great. Thanks Randy. And I guess that's a leads into the follow up question I had around supplier services. So it sounds like next year we should expect to see that maybe flip to growth more meaningfully. That kind of indicate maybe some of the investments are going to start getting rolled out on self serve advertising and things like that? Any color kind of, I guess on specific supplier services would be helpful. Thanks.

James Miln - Xometry Inc - Chief Financial Officer

Hi Nick. Yes, it's James again. So we're working well on supplier services of improving the foundations of the Thomas advertising marketing model there. I think as you see for Q4, we still have that projected to decline year-over-year in Q4, but really looking to stabilize that and flatten that out on a Q-over-Q basis as we move into 2025. And the initiatives that the team are driving here is really about getting that very highly profitable business at a gross margin level back into quarter-over-quarter growth as 2025 plays out.

Nick Jones - Citizens JMP Securities - Analyst

Great. Thanks Randy. Thanks James.

Operator

Ron Josey, Citibank.

Ron Josey - Citibank - Analyst

Great, thanks for taking the question. I have two please. Randy, really quickly, just on given the benefits of expanding the marketplace menu, I wanted to understand how maybe instant quoting, now that it's available more often in more places. How has that driven just improved conversion rates overall now that you have active suppliers in all 50 states, continents, et cetera? That's point number one.

And then James, on gross margins specifically, I think in the past we talked about exiting 4Q of this year, getting to around that 35%-ish mark. Wanted to hear sort of your thoughts there and overall gross margins for the marketplace business going forward? Thank you.

Randolph Altschuler - Xometry Inc - Chief Executive Officer, Co-Founder, Director

Ron thanks so much. Yes. Just as we're expanding the menu of what we can instantly quote, that's helping us accomplish a couple of things. One is, you talked about conversion rates. We had for 2024 our highest number of net new ads this quarter with over 3,300. So as we're getting more and more buyers, this is helpful, attracting those and converting those as they're coming to our platform.

And then the second thing is as we're not only attracting new buyers, improving conversion, we're also going deeper as we expand our processes into existing customers. So you saw really nice pickup in the number of accounts with more than – with more than \$50,000.

And that was of annual spend, an LTM basis. In Q3 we added 70 again, that's the highest for this year. So two high marks for this year in both net ads overall and then accounts more than \$50,000. And certainly expanding the menu is helping to contribute to those trends.

James Miln - Xometry Inc - Chief Financial Officer

And Ron, James on the gross margin question. So AI is the main driver of our gross margin expansion. That's based on continual improvements in our AI price prediction accuracy, the machine learning as we have more quotes, more transactions, more data and expanding the supplier network.

We passed an important milestone getting the supply network over 4,200 that Randy mentioned in the prepared remarks here. That was 3,500 at the end of 2023. So the combination of those things really helps drive the economic model here.

And so we're super pleased with the Q3 performance margin was a record 33.6%, that's up 250 basis points year-over-year, so really making great strides. It was relatively flat, up 10 basis points quarter-over-quarter. And as we said before, this won't always be linear each quarter, but we believe that the work we're doing, the more data the supply network drives us.

And as we look towards the end of the year here, we still have a target of approaching that 35% level as we exit the year. As we look to the long term, we still believe that 35% to 40% is the right range here to think about for the long-term marketplace margin.

Ron Josey - Citibank - Analyst

That's great. Thanks Randy. Thanks, James.

Operator

Brian Drab, William Blair.

Brian Drab - William Blair - Analyst

Good morning. Thanks for taking my questions. Can you just talk a little bit more about the international business? And I'm curious, is – do you have visibility toward when that business can reach profitability given it looks like you're going to be, I guess if the overall business is slightly profitable in the fourth quarter, the US business is going to be quite profitable? And I'm just wondering on the timing and visibility you have for that international business getting to that scale?

James Miln - Xometry Inc - Chief Financial Officer

Hey, Brian. I'll kick it off and then maybe Randy can add on some of the longer term initiatives here on international. I think really pleased with the growth in the quarter up 55%, accelerating from Q2. The team are executing very well.

We continue to roll out improvements to the products as we've talked about in the prepared remarks, as well as continue to expand our footprint of languages. It was nice to see some good highlights there in terms of big deals, good production deals with-in France and with AsiaPac that we talked about on the call.

We're still early in international so, I think that it's an area of investment for us and I think it will – I think that's a – we're seeing a great return there and I think we'll continue to be smart about the investments we're doing in sales and marketing to drive that as well as in operations and product development. And I think it will be an important part of our growth and profitability over the next few years.

Randolph Altschuler - Xometry Inc - Chief Executive Officer, Co-Founder, Director

Yes, Brian, this is Randy. Just to add to what James just said, a couple of things. I think as we see growth in Europe and international, but particularly in EMEA right now in Europe, we talked about in the script about some technology tools that we've been launching there to facilitate larger orders. We're also adding more automation on the back end from an operations perspective. So these technology investments in Europe are really paying off in terms of helping us grow that business.

That growth has primarily been in Europe but as we noted, we've got a first seven figure deal in AsiaPac. So as you think about getting the profitability overall in the international segment, we've been investing in AsiaPac. It's really been Europe that's been driving the growth there, now we're seeing that beginning to come on and that's going to help us get to overall profitability there, just as you describe. And so growth has been great there. So we hope to get to that milestone sooner rather than later.

Brian Drab - William Blair - Analyst

Okay, thanks. And then just one more question for now, if I can. The operating environment, I think by everyone's account is not great and hasn't been for a long time but you're still putting up these great growth numbers.

And the one that, I'm looking at the moment is the number of buyers that you added in the quarter. I keep on thinking that maybe large numbers is going to catch up with you at some point and that you're that that number of buyers added in the quarter is going to start to tick down a little bit, but 3,300 in the quarter is really impressive.

I'm just wondering, Randy, if you can comment on where do you think you're going to serve something like 70,000 buyers probably this year? Where does that number go and do you have any expectation for that to start to potentially decelerate or what's the. Where do you envision that number of active buyers a few years from now and how does that maybe accelerate if the environment improves?

Randolph Altschuler - Xometry Inc - Chief Executive Officer, Co-Founder, Director

Yes, Brian, thanks for that. So look, we've talked about there are millions of buyers out there and while we're certainly proud of the results we're producing, we love to continue to do better and better. So we think there's a lot of opportunity to do that. So when I think about where the buyers are coming from now and how we could grow that buyer count even more, there's a couple different parts of that.

One is our larger customers we've been investing from particularly from a technology perspective with things like team space to embed ourselves deeper into our larger customers or land and expand strategy with our enterprise sales teams. Those are huge companies. We've talked about some of the largest companies in the world with many, many buyers. And so again, even though we're proud of our growth with them, there's a long way to go there and lots of buyers for us to capture from those larger customers.

Second, as we're broadening our menu, we added instant pricing for two bending and cutting, that will also continue to attract new buyers to our platform. And then third, the international growth as we're continuing to expand within Europe, as we're getting traction in AsiaPac, that will also be additive to that, that buyer count.

Shawn Milne - *Xometry Inc - Vice President - Investor Relations*

And Brian, its Shawn. And just to kind of double click on that a little bit, you talked about the operating environment. So we delivered a record or sorry, the highest net adds in the year this quarter. And as you'll see in the deck, you can look at the advertising spend that was well controlled in marketplace.

Advertising as a percent of marketplace revenue dropped 80 basis points down to 6.3%. So we're being very disciplined at the same time in balancing growth and profitability in this environment. We just as Randy said many times, there are millions of buyers out there for us.

Brian Drab - *William Blair - Analyst*

Yes. Okay. Thanks very much.

Operator

Eric Sheridan, Goldman Sachs.

Eric Sheridan - *Goldman Sachs - Analyst*

Thanks so much for taking the questions. Maybe two if I could. First, just coming back to the comments on the AI product set and how the platform is going to evolve. As you look towards 2025, I want to know if we go just a little bit deeper in some of the areas of incremental investments you see as pretty critical to sort of maintaining and possibly accelerating the growth rate tied to the AI Theme broadly for the platform, not only just one-year ahead, but on a multi-year time frame.

And I think a couple of folks have already asked about gross margin, but I guess broadening that out a little bit, now that you guys are at the level of breakeven for adjusted EBITDA ahead or slightly ahead of that target on the revenue base, how do we think about variable margins from here or incremental margins from here as you continue to build additional levels of revenue scale?

Is it a different formula than maybe what we had thought about in the more recent past? And how do we think about balancing investments versus increased leverage in the model in the coming years? Thanks so much.

Randolph Altschuler - *Xometry Inc - Chief Executive Officer, Co-Founder, Director*

Yes. I'll take the AI portion of it and then hand it over to James for the financial elements of it. So I think there are a couple, so investing just to take a step back, as you know, we, AI is [in sensible when] Xometry is done almost from its inception. And so we've been investing in these proprietary algorithms and building our data sets and our networks of buyers and suppliers for many years now.

And we've had since we went public in Q2 of 2021 just to remind people, at that point, we had 23.5% gross margins. And we just reported 33.6% even as we're growing very nicely. So we're really proud of that.

I think next year and beyond, you're going to continue to see us to invest in those algorithms. We've got that partnership with Google Vertex AI that we've talked about and there are a few different dimensions of that investment. So one is launching more instantly quoted processes. That's going to help us go deeper within our existing customers and also attract new buyers to our network.

So constantly expanding that menu, it's almost – there's many, many opportunities for us. This is a large addressable market and manufacturing has lots of different slices to it. So we're going to continually add new processes there.

Second, and this also goes a little bit to your question about margins. Making sure our pricing is smarter for both our buyers and our suppliers. So as we get to know our buyers better, understanding what are the right prices to convert and just understanding their behavior better. And then also on the supplier side, making sure, part of our algorithms are also the matching algorithms, figuring out who is the right supplier for a given job.

And in this very inefficient, opaque market, we have the ability with our AI to find the best supplier both from a delivery and a quality perspective, but also the one that has the optimal cost structure for a particular order from a customer. So as we get to know those suppliers better, as we gain more and more data, as we enhance those matching algorithms, that gives the opportunity to most make our suppliers happy, but also for that to be a more profitable transaction for Xometry.

James Miln - Xometry Inc - Chief Financial Officer

And Eric, on the longer-term profitability question, first of all, I think we're excited about this very important milestone for Xometry that we're coming up to in getting to adjusted EBITDA passing that breakeven slightly ahead now as we look at the trends we've had on the business. We've been delivering about approximately 20% incremental adjusted EBITDA over the last two years.

Year-to-date this year it's around the 23% range and that has been reflective of the strong progress we've made on the marketplace gross margin as well as working closely with the team on our OpEx and discipline around the investments we're making. As we look ahead to scaling this business, we think that's the right framework to think about as we move from here to \$1 billion thinking about a 20% incremental adjusted EBITDA coming through with that revenue.

As we think about it, contribution margin wise, we think about the overall gross margin being in that 39% to 40% range and driving continued efficiency on our variable ad spend as well as on variable sales and ops support. And important enabler is going to be continuing to make the right investments in our technology platform.

I think we see success in continuing to be technology led as a global marketplace and that will drive scale and differentiation for us with increasing network of buyers and suppliers. It's exciting time for us right now as we pass this milestone, but also plan for the year and years ahead. And I think we'll be able to come back to you in February as we look at the 2025 guidance in more detail in terms of the pace of that as we go through the quarters next year.

Operator

Thank you.

Eric Sheridan - Goldman Sachs - Analyst

Thank you.

Operator

Matt Swanson, RBC.

Matt Swanson - RBC - Analyst

Great. Thanks for taking my question. Maybe building a little bit on the expanded wallet share opportunity next year, but I wanted to click specifically on Team Space. Could you just talk a little bit about early adoption? And how you're seeing people use the product? And maybe if it's been enough time to see any kind of ramping or expanded usage and how that goes?

Randolph Altschuler - Xometry Inc - Chief Executive Officer, Co-Founder, Director

Yes, thanks. This is Randy. So Team Space was particularly suited to larger customers and larger opportunities. When you think about customers who have an entire assembly or entire product that multiple parts that are associated with it, ordering those parts, making sure logistically they can keep track of what's arriving, putting those parts all together into the assembly is very important for the customer.

And so Team Space enables customers to work together based on a particular project or product. And we've been seeing really great adoption of that.

We continue to have more and more teams created. I think if you look at something like the growth in accounts with more than \$50,000 spent on an LTM basis, we had a high watermark this year of adding 70 this prior quarter. That just is part of a testament of, hey, the success of Team Space and these larger companies adopting it for its use.

We're going to continue to enhance Team Space, add more and more functionality to it, but this should help us grow within these larger customers and other customers too, who want to bring us a larger order/reduction.

Shawn Milne - Xometry Inc - Vice President - Investor Relations

Yes. Hey Matt, it's Shawn. To – thanks for the question. And as Randy talked, I'll continue to see good growth on Team Space. We passed through the 4,000 teams created this quarter, continue to see very good viral growth. So we're happy with that product and we have a roadmap again to improve the features and functionality going forward.

Matt Swanson - RBC - Analyst

That's great. And maybe one more kind of the topic du jour on every call has to be a little bit of gen AI. So we've talked about the AI within your platform. Are you seeing anything from a generative side, from the buyer standpoint of just some of these new models that allow designs to be created, whether it be faster iterations or expanding the potential buyer set, users who maybe weren't able to create designs like that previously.

Randolph Altschuler - Xometry Inc - Chief Executive Officer, Co-Founder, Director

There isn't anything we want to talk about now. We're certainly invested in AI. We're continuing to invest AI and we're looking at it from all angles. So I think we're deep into it. And as we have more news, we'll talk about it.

Matt Swanson - RBC - Analyst

Thank you.

Operator

Cory Carpenter, JPMorgan.

Cory Carpenter - JPMorgan - Analyst

Good morning. Thanks for the questions. Randy, I wanted to ask you with the elections today, just how you're thinking about the potential impact at a high level from the potential policy changes around tariffs or trade policies. Perhaps you could remind us how this impacted Xometry, if at all, during the last administrative change.

And James, the 4Q guide implies marketplace growth of 4% sequentially. It was 8% to 9% the last two quarters. So just hoping you could talk about the drivers of the difference there and perhaps remind us of any seasonality? Thank you.

Randolph Altschuler - Xometry Inc - Chief Executive Officer, Co-Founder, Director

Yes, great. I'll take the first question. I'll let James handle the second one. So if there is only one thing that both parties agree on, it's the importance of the strength in manufacturing, and particularly here in the United States, strengthening American manufacturing. So we really don't see any change regardless of who wins. And we haven't seen any change in prior elections as well.

I think, frankly, if there's a big push for reshoring, that could be beneficial to our marketplace model. And remember, we have these marketplaces in 16 different locations around the world. So that could be a global phenomenon. I'd say the other thing too is that in periods of instability or uncertainty, customers particularly larger customers, like the fact that we're a public company.

Remember, traditional supply chain for them is going to be small manufacturers. With Xometry, they're able to access a very vast network of small manufacturers, but they get the certainty, reliability of a public company. So that becomes even more attractive in difficult times.

Shawn Milne - Xometry Inc - Vice President - Investor Relations

Yes, Cory, to just remember, we give the buyers the option to either choose to have it made in the US or we can flex them up and down to where they can choose their shipping and where the product's coming from. So it's the flexibility of the marketplace is well suited.

Randolph Altschuler - Xometry Inc - Chief Executive Officer, Co-Founder, Director

And that's something that any individual manufacturer couldn't provide. So that's very helpful. But everybody loves manufacturing and both parties can't stop talking about it.

James Miln - Xometry Inc - Chief Financial Officer

And Corey, this is James. So as we look at Q4, I think it's worth just taking a look at how we performed in Q3 and for the year here. We're clearly very pleased with how the team has been performing in an uncertain environment. We all know that the industrial readings have continued to be soft, but we've been focused on our growth initiatives and growing the marketplace again, 24% in the quarter in Q3 was great to see.

A highlight there being the trading 12 months, 50,000 accounts increasing 23%, the highest net adds for the year at 70. This does talk about the broad based execution that we're seeing despite that environment. So as we look at the full year here, including Q4, we're growing 22% to 23% on marketplace. That's against our prior outlook of at least 20%.

And as we look at Q4 specifically, I think we're in line with overall where we would expect to be for the year considering the environment that we're operating in. Remind people on a year-over-year basis, there's a type of comp with where we were a year ago with a strong Q4 2023 growth.

And we're really pleased with the gross profit dollar growth that we're driving. And so when it comes to Q4, I think we're just mindful of the uncertain macro as well as the holiday calendar that we have at this time of year. And we've taken that into account into our guidance. But the trends here are great to see on marketplace for 2024. And as we've shared, we've got good expectations for 2025 here.

Cory Carpenter - JPMorgan - Analyst

That's very helpful. Thank you.

Randolph Altschuler - Xometry Inc - Chief Executive Officer, Co-Founder, Director

Thank you.

Operator

Greg Palm, Craig-Hallum.

Greg Palm - Craig Hallum - Analyst

Yes, thanks. Maybe a two-parter on this one on the global supplier base. So it sounds like that's continue to grow this year. Do you think you're at all benefiting from this current software manufacturing environment, meaning you're adding more suppliers because they have open capacity in their own business. So just want to get kind of your thoughts around the sustainability of continued growth there.

And then the release specifically talks about adding new suppliers with maybe different capabilities or certifications to serve some of your larger customers. So hoping you can expand on that a little bit as well?

Randolph Altschuler - Xometry Inc - Chief Executive Officer, Co-Founder, Director

Yes. Thanks for the question. I think as Xometry awareness, we're very excited about our growth, but we think one of our opportunities is to drive higher awareness in this giant market. And that's true both on the buyer and on the supplier side. So as more and more suppliers are aware of us, they're attracted to what we can offer on the platform.

We can – with our AI, we're giving them access to jobs that they wouldn't have access to before. And we're also using that AI to give them jobs that are – we're hoping they're most profitable and best jobs for them. So really finding the sweet spot of their manufacturing capabilities, plus we've given them Workcenter, which is a free manufacturing execution system.

So I think as you look at the test, as you look at the growth of our supplier network, I wouldn't lean on that. It's a soft macro. I would actually say it's more and more suppliers recognizing the value that Xometry is driving and it makes sense for them. And there's really, there's no other opportunity out there like they have at Xometry, and they're recognizing that and adopting it.

Greg Palm - Craig Hallum - Analyst

And what about the sort of new capabilities or certifications? I guess, I'm just asking in light of broader sort of scope and service offering, maybe that's kind of what that's intended to do?

Randolph Altschuler - Xometry Inc - Chief Executive Officer, Co-Founder, Director

Yes, yes, absolutely. So, as we're doing – we're adding new processes like tube bending, tube cutting, and as we're expanding our production capabilities, we're adding more and more suppliers with those certifications, with those capabilities.

One more thing just to add to that as well. Thomasnet has been a huge help to that. So we – Thomasnet's got this tremendous directory of tens of thousands of hundreds of thousands of manufacturers. So as we're entering these new markets, whether it's additional production capabilities or it's new manufacturing capabilities like tube bending and tube cutting, Thomasnet is a great place for us to find those suppliers.

Greg Palm - *Craig Hallum* - Analyst

Understood. Okay, thank you.

Operator

Thank you very much. I am showing no further questions at this time. Thank you for your participation in today's conference. This does conclude the program, and you may now disconnect.

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