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XMTR.OQ - Q1 2024 Xometry Inc Earnings Call

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PRESENTATION

Operator

Good morning. My name is Dustin, and I will be your conference operator today. At this time, I would like to welcome everyone to the Xometry Inc Q1 2024 earnings call. (Operator Instructions)

I'd like to introduce you to our CEO, Randy Altschuler; CFO, James Miln; and our VP of Investor Relations, Shawn Milne. Sir, you may begin the conference.

Shawn Milne - *Xometry Inc - VP, Investor Relations*

Good morning, and thank you for joining us on Xometry's Q1 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 first quarter and discuss our guidance for the second 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 our actual results. Information concerning those risks is available in our earnings press release distributed before the market opened today and in our filings with the US Securities and Exchange Commission, including our Form 10-Q for the quarter ended March 31, 2024, that will be filed later today.

We caution you not to 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 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 us for our Q1 2024 earnings call. Powered by AI, our marketplace continues to gain significant market share as buyers and suppliers realize the value, convenience, and resiliency of our platform to strengthen their supply chains globally.

In Q1, we grew revenue 16% year over year to $123 million, driven by our marketplace business. Q1 marketplace revenue grew 24% year over year. We saw strength across many end markets, including semiconductors and industrial equipment, electronics, aerospace and defense, and automotive.

Q1 gross profit increased 22% year over year. Q1 marketplace gross profit increased 37% year over year, driven by our AI-powered marketplace and increasing network of active suppliers. We expect to further expand marketplace gross margin and drive strong gross profit growth throughout 2024.

On top of strong marketplace revenue and gross profit growth, we improved our adjusted EBITDA loss in Q1 by 37% on a year-over-year basis, driven by leverage in our core US marketplace. As our first-quarter results clearly show, with our market-leading position and the size of the available opportunity, we can drive strong revenue and gross profit growth and improve operating leverage regardless of the manufacturing backdrop.

Of course, we want to grow as much as possible, which will not only strengthen our competitive moat, but also enable us to achieve our long-term profit margins faster. Here are the investments we've been making to accelerate our results. First, expanding our network of active buyers and suppliers.

In Q1, active buyers increased 32% year over year with net additions growing 8% quarter over quarter. For 2024, we expect our active buyer growth to remain healthy as there are millions of potential buyers and Xometry brand awareness continues to improve. We also continue to expand our supplier base globally with 36% growth in 2023.

In Q1, we expanded our domestic network and added new partners in India, China, and Turkey. For our suppliers, we continue to enhance work center, the digital operating system for manufacturers. We are improving the overall experience for suppliers, reducing the effort required to review jobs, track material purchases, and monitor fabrication progress.

Second, expanding the marketplace menu. We want to be the go-to destination for our customers' manufacturing needs. To help accomplish that, we need to provide instant quoting for as many manufacturing processes and materials as possible.

Like any other industry, the faster and easier you can make it for someone to buy the more traction you will get. In Q1, we continue to make progress doing just that. For example, in Europe, we expanded the Instant Quoting Engine to include vacuum casting, for customers to take advantage of low-cost, high-quality plastic production.

To further expedite our deployment of new auto quoted processes within Xometry's AI-powered Instant Quoting Engine, in Q4 of 2023, we partnered with Google's Vertex AI team. Our progress has been encouraging. And in the third quarter of this year, we expect to test multiple new auto quoting models with our US and then European customers.

Third, driving deeper enterprise engagement. Some of our biggest customers are the largest companies in the world. While our growth within 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.

First, we are leading with our technology. In addition to reducing friction for customers by integrating purchasing directly into the ERP systems, we have deployed and continue to enhance our Teamspace software.

Teamspace moves the Xometry marketplace from a focus on individual buyers and parts to procurement teams managing programs. The feedback remains positive, with rapid adoption, including over 2,300 teams and strong engagement on the platform.

This year, we've already integrated new features for our injection molding offering directly into Teamspace, which includes a tooling dashboard providing engineering review and fabrication status. Second, we continue to invest in our enterprise sales effort, increasing our bench strength and ramping our sales force to service and grow relationships with our largest customers.

We are making progress with global companies as they look for a technology partner to help manage dispersed and complex supply chains. In the United States, a leading global medical device company chose Xometry for an injection molding production program after first prototyping with our platform.

The company found value in our quality, time to deliver, and increasing ease of management with our new Teamspace software. We expect to see continued growth with this customer in the quarters ahead as they look to Xometry for additional injection molding services and other manufacturing processes that we bring to market.

Also in Q1, we signed a multiyear agreement with a European customer in the vehicle and delivery space. Xometry was chosen due to the breadth of our marketplace. Using the network of suppliers in the Xometry marketplace, this customer doesn't need to build and manage their own supply chain for their critical product.

Fourth, growing internationally. In Q1, international revenue increased 69% year over year, driven by strong growth in Europe. In 2024, we continue to push deeper in our existing international markets. In Q1, we added Czech as a language in our EU site.

Through xometry.eu, xometry.uk, and xometry.asia, we have leveraged Xometry's core technology to provide localized marketplaces in 15 different languages with networks of suppliers across Europe and Asia as well as North America. In Q1, international revenue accounted for 18% of total marketplace revenue. We believe international can reach the 30% to 40% level in the long term as is with many other global online marketplaces.

Fifth, enhancing supplier services solutions. In Q1, we continued to invest in important foundational work to modernize the Thomas advertising platform. We remain focused on restoring Thomas advertising growth given the 85%-plus gross margins and strong contribution opportunity of the platform.

We are now beta testing new self-serve advertising campaign creation tools for suppliers. While still early, we're seeing some positive signs of supplier engagement, including end-to-end self-serve campaign configuration and checkout.

We expect the returns on these investments to be strong. We've made similar bets in the past, and they paid off. For example, in 2019, we invested in international expansion, launching in Europe in early 2020. We scaled the international business from $3 million in revenue in 2020 to over $60 million in fiscal year 2023.

In addition, we continue to invest in our machine learning-based AI, which is fueling marketplace gross margin expansion. When we went public in the middle of 2021, our marketplace gross margin was in the 24% range, and we ended Q1 of this year at 32%.

Improving our scale in revenue and gross profit dollars provides a clear path to profitability. Coupled with those investments, we remain committed to delivering improving operating leverage each quarter, which James will discuss in more detail.

I'm proud of the collective efforts of our team worldwide. Our continued strong growth demonstrates the significant strides we're making to digitize manufacturing supply chains.

I'll now turn the call over to James for a more detailed review of Q1 and our business outlook.

James Miln - *Xometry Inc - Chief Financial Officer*

Thanks, Randy, and good morning, everyone. As Randy mentioned, Q1 revenue increased 16% year over year to $123 million, driven by strong marketplace growth. Q1 marketplace revenue was $107 million and supplier services revenue was $15.5 million.

Q1 marketplace revenue increased 24% year over year and was stronger than expected as large order activity improved from the early soft start in January, which we discussed on our Q4 2023 earnings call. Q1 active buyers increased 32% year over year to 58,504 with a net addition of 3,179 active buyers.

Q1 marketplace revenue per active buyer decreased 6% year over year, primarily due to the impact of a soft start for larger orders in the quarter. The number of accounts with last 12-month spend of at least $50,000 on our platform increased 25% year over year to 1,381, with 50 net new accounts as we continue to deepen our relationships with our customers across many end markets. Supplier services revenue declined 17% year over year in Q1, primarily driven by the discontinuation of the sales of tools and materials in the US.

As Randy mentioned, we are modernizing the Thomas advertising platform and are now testing new self-serve advertising tools for suppliers. The number of active paying suppliers for Q1 2024 was 7,159 on a trailing 12-month basis, a decrease of 6% year over year. Excluding the impact of the exit of the tools and materials business, active paying suppliers was down approximately 2% year over year.

Q1 gross profit was $47.9 million, an increase of 22% year over year, with gross margin of 39.0%. Q1 gross margin for marketplace was a record 32.0%, up 320 basis points year over year. Q1 marketplace gross profit dollars increased 37% year over year.

We are focused on driving marketplace gross profit dollar growth through the combination of top-line growth and gross margin expansion. Q1 gross margin for supplier services was 87.9%, driven by the high gross margin of Thomas marketing and advertising services. Supplier services gross margin increased more than 10 percentage points year over year due to the discontinuation of the sale of tools and materials, which carried a significantly lower gross margin.

Moving on to Q1 operating costs, Q1 total non-GAAP operating expenses increased 9% year over year to $55.5 million. Within our operating expenses, sales and marketing is our largest component. In Q1, non-GAAP sales and marketing expenses increased 21% to $24.9 million as compared to $20.6 million in Q1 2023. This increase was driven by the hiring of additional salespeople to support enterprise and international growth.

Q1 advertising spend increased 2% year over year to $8.3 million or 7.8% of marketplace revenue, down 160 basis points from 9.4% a year ago as we maintained discipline on advertising efficiency. Q1 adjusted EBITDA loss was $7.5 million or 6.1% of revenue compared with 11.2% of revenue in Q1 2023.

Q1 adjusted EBITDA loss improved $4.3 million year over year or 37% driven by growth in revenue and gross profit. At the end of the first quarter, cash and cash equivalents and marketable securities were $254 million.

Before moving to our guidance, I'd like to share my early thoughts on Xometry and our path to profitability. Since joining cometary two months ago, I have been able to dive deep into our business and discover some of the customer stories that drive our 58,000-plus buyers to transact on our leading global marketplace.

In a massive structural change for our industry, our AI-powered quoting engine provides real-time instant pricing and lead times for our buyers as it matches them with the optimal supplier. As we scale our networks of buyers and suppliers, our machine learning AI gets smarter, delivering more efficient pricing and improving gross margin to Xometry.

Our teams are dedicated and hardworking and passionate about the customers and markets we serve. The market opportunity is very large, reinforcing our goal of driving compounding growth for many years to come. As we work to realize our long-term potential, I'm going to leverage my prior finance and operating experience to apply stronger discipline and rigor to our capital and resource allocation across sales and marketing, operations, product development, and G&A.

As we continue to scale our revenue and gross profit, we believe that we can reach adjusted EBITDA breakeven as we surpass an approximately $600 million annual revenue run rate. At that level, targeting a gross margin of 38% to 40%, we believe that there is room for growth investments while improving our operating expense efficiencies. As we scale the business above the $600 million level rate, we would expect a healthy flow through of incremental margin.

Entering 2024, we continue to invest in our sales team and international growth. Coupled with the inflationary impact on overall costs, operating expenses increased approximately $3.6 million quarter over quarter.

We believe that we can drive a healthy return from these investments and have also identified efficiency opportunities. For example, in supplier services, we expect an approximately $1 million a quarter improvement in the second half of 2024 from the first half of 2024, driven by further optimization of operating costs.

Now moving on to guidance, we expect Q2 2024 revenue in the range of $127 million to $129 million, representing year-over-year growth of 14% to 16% or 15% to 17% adjusting for the discontinuation of the sale of tools and materials. We expect Q2 marketplace growth to be approximately 20% year over year. We remain focused on our growth initiatives despite an uncertain manufacturing environment.

We expect Q2 supplier services to be down approximately 15% year over year, primarily due to the exit of the tools and materials business in May 2023. In Q2, we expect adjusted EBITDA loss to be in the range of $6 million to $8 million and adjusted EBITDA margin of negative 4.7% to negative 6.2%, improving from a loss of $8.7 million and 7.8% of revenue in Q2 2023.

In Q2, we expect stock-based compensation expense to be approximately $7 million to $8 million or approximately 5% to 6% of revenue. For 2024, we continue to expect marketplace growth of at least 20% year over year and expect supplier services to be down approximately 10% year over year.

We expect to continue to improve our year over year profitability through 2024, driven by operating leverage. Since underlying marketplace metrics are healthy, we're going to continue to execute on our strong roadmap of initiatives outlined earlier by Randy.

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

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Nick Jones, JMP.

Nick Jones - *JMP Securities LLC - Analyst*

Great. Thanks for taking the qquestions. As we think about 2Q guidance and when you provide 1Q guidance, I think you pegged it to trend in January. Can you elaborate on what's informing the 2Q guidance?

Is it quarter-to-date trends? Or you're really pegging to kind of what you're seeing here? Or what level of conservatism is baked in? I guess, can you try to provide a little more color as to what informed the top-line guidance for 2Q? And then I have a follow-up.

James Miln - *Xometry Inc - Chief Financial Officer*

Hey, Nick. It's James. Thanks for the question. No, we're really pleased with our Q1 performance across the board, including a 24% marketplace revenue growth and the 37% gross profit growth. As Randy mentioned earlier, we saw some strength across many end markets and are becoming more important for our largest customers. And we're really clearly taking share powered by AI-driven marketplace.

As we look into Q2, we look at the trends that we're seeing in our business and the healthy marketplace trends as well as taking into account the opportunities and risks that we see ahead given the uncertain manufacturing environment. And that's still into the guidance range that we've given for the quarter.

Nick Jones - *JMP Securities LLC - Analyst*

Great. And then there's some volatility in revenue per active buyer. I think you called out larger orders kind of tough to here so far. Can you speak to just overall order volume or demand for orders? I mean, are orders or conversions pretty consistent, and it's really just squish in pricing or how much people are willing to spend? Any additional color there would be great.

James Miln - *Xometry Inc - Chief Financial Officer*

Hey, Nick. James, again. So really pleased with our active buyer growth in the quarter, up 32% year over year, adding 3,179 buyers. So that was up 8% quarter on quarter. As we said, the revenue by in the quarter was somewhat impacted by the mix of larger orders.

As we look across the marketplace, pricing and conversion and active buyers and suppliers, we're pleased with what we're seeing there. A lot of consistent trends with what we've seen in the past few quarters. And then as we look at that again, that's reflected in our guidance going forward.

Nick Jones - *JMP Securities LLC - Analyst*

Great. Thank you.

Operator

Jake Hall, Citibank.

Jake Hall - *Citi - Analyst*

Hey, guys. Thanks for taking the question. Can you guys -- I would love to hear more about where you see the most opportunities on the advertising side. Maybe you could elaborate a little bit more in terms of certain enhanced search as well as things potentially we should be aware of or keeping in mind on the roadmap, where you see the biggest opportunity given your prior relevant experience there. Thank you so much.

James Miln - *Xometry Inc - Chief Financial Officer*

Hey, James, thank you. And I see you're talking about Thomas and the Thomasnet supplier services?

Jake Hall - *Citi - Analyst*

Yeah. I mean, partly what you see in terms of self-service capabilities. We've seen some announcements there, beta testing and things. But would really love to hear what we should expect on the product side in this year. Thanks.

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

Yeah, and thanks for the question. This is Randy jumping in. So we're enhancing -- as we talked about now, we've been investing in the handing the Thomasnet platform and the journey for both the searchers and for the advertisers.

So on the searching side, we are putting enhancements to the accuracy of the search. We're looking at different ways to display that search, sort of modernize it from the search end of it. And then on the supplier side or the advertising side, we talked about moving to a pay-for-performance model. And we've been adding -- we've been beta testing that as well.

So that will help guarantee better searching results for the searchers and a better ROI for the advertisers. And we've been working on this for a number of quarters. And as we said, this quarter, we started beta testing it, or in Q1, we started by testing it, and early results are positive.

James Miln - *Xometry Inc - Chief Financial Officer*

Yes. Jay, I was just looking, I think that Thomasnet gives us an exciting opportunity that really -- the influence in the marketplace. And as Randy mentioned, like a lot of opportunities to improve the performance there and experience for our customers and suppliers. So looking forward to working with the team on improving that as we go forward.

Jake Hall - *Citi - Analyst*

Thanks. That's helpful. And just a quick follow-up, in terms of investment priorities, Randy, really great to hear you lay those out and the clarity there. Could you speak to any plans for headcount increases this year tying it back to those various areas? Thanks.

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

We don't really comment about specifically headcount. I think, in general, we are trying to be rational with our costs as we push to the profitability. So we're going to be balancing that, and we'll make those headcounts selectively in the areas that line up with our initiatives.

And I think, in particular, we did call out on the enterprise sales, we've been increasing our bench strength here and that's investing in that. So that's why you saw some uptick in the sales expense quarter over quarter.

Jake Hall - *Citi - Analyst*

Okay. Thanks so much.

Operator

Brian Drab, William Blair.

Tyler Glover - *William Blair - Analyst*

Hey, guys. This is Tyler on for Brian. I appreciate you taking the questions. Just to start off with, can you explain the sequential improvement in marketplace gross margin? Obviously, marketplace revenue was down sequentially, and you (technical difficulty). Can you just explain what actually happened there? So it was just finding suppliers for jobs at lower prices? Thank you. And then I have a follow-up.

James Miln - *Xometry Inc - Chief Financial Officer*

Hey, Tyler. You cut out a little bit there, but I think you're asking about our gross margin performance in the quarter and the improvement year over year and sequentially. We were very pleased with this performance. As we mentioned on the call, Q1 marketplace gross margin was a record at 32.0%, up 320 basis points year over year and up 70 basis points quarter over quarter. This drives our gross profit growth to 37%.

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

Yeah. One thing I do want to add, and this is Randy, just to be clear, and you were cutting out a little bit. But we are seeing consistent pricing trends across the marketplace consistent with what we saw in the first quarter and last year as well.

So as James talked about, we're seeing gross margin improvement. As we get more data, that empowers our algorithms and as we grow our number of suppliers. But overall, ranking trends are very consistent over the last first quarter, currently since first quarter and also last year as well.

Tyler Glover - *William Blair - Analyst*

Okay. Sounds good. And I apologize for cutting out. Let me know if it's really coming in choppy. But my follow-up is with your Google Cloud partnership, is that going to impact how you currently auto quote? Or is this just for bringing on new services? Like for example, if someone want to go quote C&C service right now, that new partnership hasn't changed how that algorithm is working. Thank you.

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

The algorithm is intended to shorten the time that we can launch new auto quoted processes. And as we mentioned in the script, we expect in the third quarter to start testing multiple new processes in the third quarter first here in the United States with US customers and then Europe. That's the focus of the partnership.

Shawn Milne - *Xometry Inc - VP, Investor Relations*

Yeah, Tyler, there's nothing from the Google partnership that's influenced the algorithms here in the first quarter.

Tyler Glover - *William Blair - Analyst*

All right. Thank you, guys. I'll pass it along.

Operator

Matt Swanson, RBC.

Matt Swanson - *RBC - Analyst*

Great. Thank you so much for taking my question. Jim, I know it's still early days for Teamspace. But maybe thinking more so on like the customer feedback side, could you just discuss the ability of the solution to help you maybe become more pervasive or deeper into your customers and then also kind of enhance that value proposition as a platform versus the tool? And then at scale, is there any thoughts on how this might be able to help with revenue visibility?

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

Yeah. This is Randy. I'll take particularly the first part of it. So we are very pleased with the acceptance adoption that we're seeing at Teamspace. We have over 2,300 teams right now, which is a really nice increase since we last reported.

We've also been making enhancements. So it can be not just to really enhance the platform and go deeper into our enterprise customers, in particular. As we talked about during the call, that includes tooling processes in enhancements we're making with our injection molding offering and tool libraries and being able to share that and run it all through Teamspace, who as you can imagine, those are often group projects.

And we also did talk about a large customer that we've been doing injection molding with a started prototype with us and now with production. And that's being done in part because of their adoption of the Teamspace software. Our sales team is continuing to show that to customers, and we expect to get continued deeper penetration with our customers, with enterprise customers using Teamspace.

Matt Swanson - *RBC - Analyst*

Yeah, that makes a ton of sense. And then maybe just as a follow-up on the guidance side, I'm thinking about just the macro implications. And then from macro indicators, PMI improved a bit. Can you just give us a reminder on how you think about that in relation to your business, whether or not that's a good leading indicator?

James Miln - *Xometry Inc - Chief Financial Officer*

Yes. Thanks, Matt. So as we talked about, we're really pleased with our Q1 performance. We've seen a lot of the trends that we're seeing across our buyers, the conversion margin suppliers. We look at those. We look at the guidance ahead, but we do take into account the uncertainty in the macro environment.

There are various indicators out there. I think -- so we look at the aggregate of those as well as what we're seeing internally. There is some choppiness out there, and so we're taking that into account.

Matt Swanson - *RBC - Analyst*

Thank you.

Operator

Eric Sheridan, Goldman Sachs.

Eric Sheridan - *Goldman Sachs - Analyst*

Thank you so much. Maybe a two-parter on international, and thanks for all the detail in the prepared remarks. When you look out at the contribution potential for international on a multiyear view, maybe can you break it into pieces of how much of it is down to sort of execution on what's already been put in place versus elements where the company still needs to do incremental investments broadly in the international opportunity? Just trying to understand the mix of growth and margin and how you think that sets up for contribution in the years ahead. Thank you.

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

Yeah, Eric, it's Randy. I'll jump in here, and James can jump in afterwards. So as I think we talked about, particularly this year, we're really focused on going deeper in our existing geographies. So we set up the infrastructure there.

We've got our site in 15 different languages. We've localized it. We've got sales teams that are there and sort of built the infrastructure. So these are giant markets.

While we're very proud of the growth that we've seen in international, we know that even within the existing markets, it can be a lot larger. So I think you should expect to see us to gain some real leverage of those investments we've made in the existing markets.

Eric, are you still there?

Operator

I'm assuming we lost him. We'll be moving on.

Greg Palm, Craig-Hallum.

Greg Palm - *Craig-Hallum Capital Group - Analyst*

Yeah, thanks. Good morning, everyone. I wanted to dig in a little bit more on the investment side of things. And I guess my question is more or less why now? If I think back to maybe the last year, I feel like it was more characterized around sort of operational discipline in targeting that EBITDA profitability.

And it sounds like you're changing that a little bit in ramping up investments now, which pushes out EBITDA profitability, by my math, I think, to next year based on the implied guide for the second half. Maybe you can confirm that. But just a little bit -- or sort of color on exactly what you're doing, the timing around it. And then, I guess, more importantly, at what point will we see some of those benefits?

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

Sure. So this is Randy. Look, when we brought in James as our new CFO, I asked him to work with me and the rest of our team to refine and then really validate the healthiest path to profitability into our long-term operating margin. And this included having expense operating expenses a little higher than expected.

So as a result, we feel that -- and just to answer your question, a $600 million run rate, so about $150 million per quarter is the appropriate level for breakeven. Underlying marketplace metrics are healthy across buyers, pricing, margin suppliers by an uncertain macro. And we're going to continue to execute on a strong roadmap of growth initiatives.

James Miln - *Xometry Inc - Chief Financial Officer*

Yeah, Greg, this is James. So just building on Randy saying that, so I think as our first-quarter results clearly show with our market-leading position and the size of the opportunity, we can drive strong revenue and gross profit growth and improve leverage. So with marketplace growth up 24%, marketplace gross profit dollar growth at 37%.

And as Randy said, we've been working on what's the healthiest part to profitability so that we can continue to invest responsibly in our long-term growth initiatives. At the same time, 1Q OpEx did come in a little more than expected behind the investments that we're making as well as some inflationary impacts on overall expenses that we've seen across areas like employee benefit, software costs, and others.

So as we refine and validate that path forward, we believe that we can reach adjusted EBITDA breakeven as we surpass this approximately $600 million annual revenue run rate. At $424 million, we do expect to see continued leverage. As you can see, we've given you guidance overall on the annual revenue. I think we'll update you as we go in the future quarters.

Greg Palm - *Craig-Hallum Capital Group - Analyst*

Yeah. Okay. That makes sense. And I just want to dig in a little bit more to Q1 specifically. you were very clear. You guided initially Q1 based on what you saw in January, and you outperformed above the previous range. So can you just give us some sense on what you saw in February and March?

And then to be clear, can you give us a little bit color on what you're seeing in April? And is the Q2 guide similar to how you guided last quarter where it's based on what you're seeing in April? Or is it more based on what you've seen year to date and making some assumptions on how May and June trends might play out?

James Miln - *Xometry Inc - Chief Financial Officer*

Yeah. Thank you, Greg. It's James. So as we said, really pleased with the 24% year-over-year growth. It was better than expected as that large order activity improved from the early cost start that we talked about on the Q4 2023 earnings call.

I think it really demonstrates our ability to execute. It remains an uncertain manufacturing environment. So as we look at our trends, as we look at Q2, as well as taking into account the risks and uncertainties and opportunities in this environment, we built that into the guidance range for Q2.

Greg Palm - *Craig-Hallum Capital Group - Analyst*

Okay. And any color on what you saw in April versus maybe February, March, Q1 in general?

James Miln - *Xometry Inc - Chief Financial Officer*

Yeah. No, we're not going to provide more color on monthly, Greg.

Greg Palm - *Craig-Hallum Capital Group - Analyst*

Okay. All right, fair enough. All right, and best of luck.

James Miln - *Xometry Inc - Chief Financial Officer*

Thank you.

Operator

Thank you. This now concludes the meeting. Thank you for joining, and have a pleasant day.