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XMTR.OQ - Q2 2024 Xometry Inc Earnings Call

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**Matt Swanson** *RBC - Analyst*

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## PRESENTATION

**Operator**

Good day and thank you for standing by, and welcome to the Xometry Q2 2024 earnings call 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, Shawn Milne, VP of Investor Relations.

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

Good morning, and thank you for joining us on Xometry's Q2 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 second quarter and discuss our guidance for the third 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 in our filings with the US Securities and Exchange Commission, including our Form 10-Q for the quarter ended June 30, 2024. We caution you not to place undue reliance on forward-looking statements and undertakes 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 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*

Good morning, everyone, and thank you for joining us for our Q2 2024 earnings call. Q2 was a strong quarter for Xometry across many fronts. Our AI powered marketplace delivered record revenue, record gross profit ,and record gross margins. Powered by AI, our on-demand custom manufacturing 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. We've made great progress in Q2 and are focused on driving further penetration in this massive market through our key growth initiatives.

As I spent time with customers around the globe, I see firsthand that we are increasingly becoming embedded across our customers' supply chains as our marketplace digitizes, inefficient and cumbersome processes while delivering value and reliability for buyers. Likewise, Xometry's platform enables suppliers to digitally monetize manufacturing capacity, improve profitability and access global demand at minimal costs.

In Q2, many Fortune 500 customers dependent upon Xometry to help strengthen their supply chains as we surpassed the $500 million (sic - see press release,"$600 million") annual revenue run rate. One of the largest global technology companies expanded production programs into a new line of business and a top global medical device company embedded design, energy marketplace directly into their procurement programs.

We have a tremendous runway for growth by increasing our penetration rates across manufacturing processes and end markets in a highly fragmented industry. In Q2, we delivered accelerating growth with revenue increasing 19% year-over-year to a record $133 million, driven by our marketplace business. Q2 marketplace revenue grew 25% year over year and a robust 9% quarter over quarter. We saw strength across many end markets, including semiconductors, industrial equipment, consumer products, aerospace and defense.

Q2 gross profit increased 21% year-over-year. Q2 marketplace gross profit increased 33% year over year and a strong 15% quarter-over-quarter, driven by our AI-powered marketplace, an increasing network of active suppliers. As we scale our data, our machine learning AI models get better pricing and matching, which in turn fuels gross profit dollar growth. The proof is in the results in the past three years, we expanded our marketplace gross margin from 23.5% to 33.5%, underscoring the power of our AI-driven model.

In Q2, we further invested in our marketplace technology, including key hires in machine learning and data science. We expect to expand marketplace gross margin and drive strong gross profit growth in the second half of 2024. Strong marketplace revenue and marketplace gross profit growth drove a 70% improvement in our adjusted EBITDA loss to a record low 2% of revenue. 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're focused on these growth initiatives. First, expanding our network of active buyers and suppliers. In Q2, active buyers increased 27% year-over-year with net additions of over 3,000. We expect our active buyer growth to remain healthy as their millions of potential buyers and geometries. Brand awareness is growing but still low. We continue to increase the breadth and depth of our supplier network, which increased 36% in 2023.

In Q2, we expanded our supplier base in the United States and other markets such as India and Turkey. We're also growing our supplier reach in specific processes, including to cutting to bending and other tooling base processes to support anticipated areas of customer growth. For our suppliers we continue to enhance work center, the digital operating system for manufacture in Q2, we further digitize the recruitment and onboarding experience for suppliers directly through works.

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 Q2, we made progress doing just that, for example, in Europe, we added 10 new materials, including new steel and aluminum grades for CNC and expanded 3D printing, finishing options to expedite our development of new auto quarter processes within geometries a high-powered instant quoting engine. We are leveraging Google's Vertex AI alongside of proprietary data and algorithms. We are now beta testing new auto quote tube bending and tube cutting, which we expect to release later in Q3.

Third, driving deeper enterprise engagements. Some of our biggest customers are the largest companies in the world. In Q2, we made strong progress with our land-and-expand efforts at the number of marketplace accounts with last 12 months spend of at least $50,000 increased 24%

year over year to 1,436. While our growth with these accounts has been strong over the years, there's a terrific opportunity to significantly accelerate geometries adoption by them to make that happen. We have a two-pronged approach.

First, we're leading with our technology. In Q2, we launched an ERP integration with a large global medical device company, which reduces friction in the procurement process. Additionally, the feedback for team stays remains positive with rapid adoption, including over 3,300 teams and strong engagement on the platform. Team space moves -- the Xomerty marketplace from a focus on individual buyers and parts to procurement teams managing programs.

Second, we continue to invest in our enterprise sales efforts, increasing our bench strength, including the hiring of our new Chief Sales Officer, Subir Dutt in May. Subir brings significant experience leading high performing high gross sales teams that cater to large enterprise customers across nearly every sector.

Fourth, growing internationally. In Q2, international revenue increased 31% year over year, driven by strong growth in Europe, Xometry Asia, expanding to new English-speaking countries, including Australia, Singapore, and New Zealand.

In China, Xometry launched enhanced customer service capabilities and its reach at mini app for buyers to quote order and track delivery. 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.

Our enterprise strategy is successful in Europe as well. In Q2, a UK-based aerospace equipment manufacturer chose Xometry for high-volume manufacturing. Xometry enable them to move away from in-house production by providing flexible scalable capacity ,to quickly produce certified parts significantly reducing lead times. This partnership simplifies their business processes and effectively make Xometry an extension of their procurement department.

In Q2, international revenue accounted for 15% of total marketplace revenue. We believe international can reach the 30% to 40% level in the long term as with many other global online marketplaces.

Fifth, enhancing supplier service solutions. In Q2, we continued to invest in important foundational work to modernize the Thomas advertising platform. We're focused on restoring Thomas' advertising growth, given the 85% plus gross margin and strong contribution margin opportunity of the platform. 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. Thomas platform continues to attract new logos and expand relationships with key customers. In Q2, Thomas signed a new partnership with the Italian trade agency Machines Italia to connect buyers to the North American subsidiaries of dozens of tire manufacturers.

Also, Thomas expanded its relationship with American crane, one of the largest manufacturers and distributors of cranes in the United States. 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. 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.

I'll now turn the call over to James for a more detailed review of Q2 and our business outlook.

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**James Miln** - *Xometry Inc - Chief Financial Officer*

Thanks, Randy, and good morning everyone.

As Randy mentioned, Q2 was a record quarter for Xometry across many fronts. Q2 revenue increased 19% year-over-year to $133 million driven by strong marketplace growth. Q2 marketplace revenue was $117 million and supplier services revenue was $15.3 million. Q2 marketplace revenue increased 25% year-over-year, driven by strong execution across our teams and growth initiatives. Q2 active buyers increased 27% year-over-year to 61,530, with a net addition of 3,026 active buyers. Q2 marketplace revenue per active buyer decreased 1% year-over-year and increased 4% quarter-over-quarter. The number of accounts with last 12 months spend of at least $50,000 on our platform increased 24% year-over-year to 1,436 with 55 net new accounts.

As we continue to deepen our relationships with our customers across many end markets, supplier services revenue declined 13% year-over-year in Q2, primarily driven by the discontinuation of the sale of tools and materials in the U.S. and wind down of non-core services.

As Randy mentioned, we are modernizing the Thomas advertising platform, including investments to improve user and advertiser engagement. The number of active paying suppliers for Q2 2024 was 6,992 on a trailing 12-month basis, a decrease of 7% year-over-year. Q2 gross profit was $52.9 million, an increase of 21% year-over-year with gross margin of 39.9%. Q2 gross margin for marketplace was a record 33.5%, up 180 basis points year-over-year. Q2 marketplace gross margin is a clear validation of our machine learning AI-powered economic model, which optimizes pricing with more data and improves matching with an expanding supplier network.

Q2 marketplace gross profit dollars increased 33% year-over-year. We are focused on driving marketplace gross profit dollar growth through the combination of top line growth and gross margin expansion. Q2 gross margin for supplier services was a record 88.9%, driven by our increasing focus on the higher gross margin Thomas marketing and advertising services.

Moving on to Q2 operating costs. Q2 total non-GAAP operating expenses increased 6% year-over-year to $55.7 million, well below revenue growth. As I said last quarter, we are applying stronger discipline and rigor to our capital and resource allocation across teams. In Q2 2024 this resulted in non-GAAP operating expenses remaining flat quarter-over-quarter, driving strong leverage across sales and marketing, operations, and product development.

Marketplace advertising spend increased 9% year-over-year, or 6.9% of marketplace revenue, down 100 basis points year-over-year, as we continue to closely monitor advertising spend and efficiency. Q2 adjusted EBITDA loss was $2.6 million, or 2% of revenue, compared with 7.8% of revenue in Q2 2023. Q2 adjusted EBITDA loss improved $6 million year-over-year, or 70%, driven by growth in revenue and gross profit.

At the end of the second quarter, cash and cash equivalents and marketable securities were $241 million. Q2 was a clear demonstration of the ability for Xometry's AI-powered marketplace to deliver strong gross margin expansion and gross profit growth.

We remain focused on operating expense discipline while investing in our growth initiatives. In prior years, we delivered 20% plus incremental adjusted EBITDA margin year-over-year, driven by our efforts. In the first half of 2024, we delivered 25% year-over-year incremental adjusted EBITDA margin. We expect to reach adjusted EBITDA profitability at the $600 million revenue run rate.

As we scale above that level towards $1 billion-plus, we expect continued 20% plus incremental adjusted EBITDA leverage. We have a large market opportunity ahead and low penetration rates across many end markets such as aerospace and processes, including CNC. We will continue to balance investing in the future with driving operating leverage in the model.

Now moving on to guidance, we are reaffirming our fiscal 2024 revenue outlook and continue to expect marketplace growth of at least 20%. Marketplace growth for the first six months of 2024 has been stronger than expected, increasing close to 25% year-over-year, driven by healthy underlying metrics and excellent execution by our team.

While the underlying metrics continue to be strong, we remain mindful of the uncertain macro. We expect marketplace gross profit to grow faster than marketplace revenue and we expect to drive improving operating leverage year-over-year through 2024, as we execute on our strong roadmap of growth initiatives.

For the third quarter, we expect revenue in the range of $136 million to $138 million, representing year-over-year growth of 14% to 16%. We expect Q3 marketplace growth to be approximately 18% to 20% year-over-year. We expect Q3 supplier services to be down approximately 5% to 10% year-over-year due to the wind-down of non-core services.

In Q3, we expect adjusted EBITDA loss to be in the range of $1.5 million to $3.5 million, improving from a loss of $4.2 million in Q3 of 2023. In Q3, we expect stock-based compensation expense, including related payroll taxes, to be approximately $8 million or 6% of revenue.

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

## QUESTIONS AND ANSWERS

**Operator**

[Operator Instructions]

Brian Drab with William Blair.

**Brian Drab** - *William Blair - Analyst*

Hi. Good morning. Thanks for taking my questions and congratulations on a solid result in a tough environment. I just wanted to ask first, I think a question that's going to be on a lot of people's minds is what are you seeing here in the first five weeks of the third quarter? You just put up 25% growth in the first half of the year. James just mentioned is stronger than expected. But if you're going to hit 20% for the full year, I guess, you said at least 20%. It seems to imply maybe a little bit of a slowdown in growth year-over-year for the second half. So what are you seeing so far in the third quarter?

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

Yes. Hi, Brian, this is Randy, and thank you. And I just want to reiterate, we're seeing strong metrics across the business, continue to be strong. We're not signaling that we think there is going to be a slowdown in the second half of the year, but we're sticking to the guidance that we provided through the beginning of the year, which is marketplace growth of at least 20%, and supplier services down 10% year-over-year. So we're just being consistent, but the underlying metrics continue to be strong.

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

Yes, Brian, hi, it's Shawn. Just remember, Brian, in the fourth quarter, the year-of-year comparison goes from 22% last year in Q3 to 42%. Just keep in mind that the comp in Q4. And the second thing that James said in his prepared remarks is we expect very strong gross profit dollar growth in the second half. We saw a real step up in our gross margin in Q2 for marketplace, and that's important when you think about your models in the second half of the year.

**Brian Drab** - *William Blair - Analyst*

Yeah, definitely see the tough Company mp coming in the fourth quarter. So I appreciate that. And I guess I'll just ask one more question for now on what are you expecting after such a solid gross margin result in the marketplace? What are you expecting for gross margin in the marketplace in the third quarter and going forward in general?

**James Miln** - *Xometry Inc - Chief Financial Officer*

Yes, Brian, it's James. Thanks for the question. So we're really pleased with the performance of the gross margin, as we said on the call, this really validates the AI-driven model. The increasing data we're seeing on the platform, the ability for us to connect -- match best with the best and optimal supplier, optimizing pricing, hitting 33.5% in Q2, that's up 180 basis points year over year. That's really helping drive this gross profit improvement.

We still think we can target towards 35% by the end of the year. We'll -- we believe that with the increasing growth of the marketplace, the data, the suppliers, you know that we've got all the components that continue that drive. Really excited about that. I think it's a really important part of the value proposition of the marketplace in Xometry as we go through the rest of this year. Perfect. Okay. Thank you very much.

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**Operator**

Nick Jones with Citizens' JMP.

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**Nick Jones** - *JMP Securities LLC - Analyst*

Great. Thanks for taking the questions. I have two. The first one on kind of marketplace revenue per active buyer, sequentially it improved. Can you speak to or put a fine reply on kind of active buyer purchasing behavior, are they looking for kind of longer delivery times? Looking for steeper discounts through your kind of portal? Is there any color there would be really helpful just to kind of understand how they're behaving?

And then the second question is really on sales and marketing, you're driving nice leverage there in terms of kind of maybe absolute dollars. I guess, how flexible are you planning to be with the sales and marketing spend through the rest of the year? Thank you..

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**James Miln** - *Xometry Inc - Chief Financial Officer*

Thanks, Nick. So this is James. Okay, thanks for the question. Really pleased again with the performance in the quarter. Active buyers up net add of over 3,000, active buyers growing 27% year-over-year. And a lot of our growth initiatives are supporting both buyer growth with continuing to expand the network, bringing more market menu options, increasing growth in enterprise as well as they can grow revenue per buyer. We grew accounts with more than $50,000 up 24% year-over-year. So that was a nice add in the quarter. And I think those enterprise and marketplace menu efforts are all there to help us continue to drive both of these metrics going forward.

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

Yeah, I'm just going to add also again we're seeing very strong underlying metrics. Customers are obviously -- buyers are leaning into Xometry and we're taking market share. And just to double down what James said, we can see that not only in the absolute number of buyers but also as you think about these larger accounts, the enterprise accounts, these bigger 50,000 plus more and more of them are coming to us as Xometry is a terrific option for them in this -- in the broader market.

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

Yes, it's Shawn, just on the advertising side we continue to certainly monitor that closely and balance that against our growth initiatives. We talked about on the call, we saw a real good leverage there, year-over-year was -- advertising as a percent of marketplace revenue was 6.9%, in Q2 down 100 basis points year-over-year, while we drove 25% marketplace growth. So feeling good about our marketing efforts.

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**Operator**

Ron Josey with Citi.

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**Ron Josey** - *Citi - Analyst*

Hi, thanks for taking the question. Randy, you talked about new auto-quote categories, overall the benefits and expanding internationally. I wanted to understand a little bit more as instant quoting expands, just how has this capability improved conversion rates? Wondering how it's changed sort of the go-to-market approach overall. And we've mentioned a few times over the past year, just the use of Vertex to accelerate development here. We'd love to understand a little bit more how Vertex is helping to expand or accelerate this instant quoting capability.

And then second question is for James. You mentioned or reiterated the goal to end 4Q with the 35%, I think, marketplace gross profit margin. Just wanted to understand a little bit more on the drivers there. Is that basically the results of land and expand coming out there and working more complex products on the platform international? Any specific products or factors to call out that drives continued gross margin expansion here? Thank you.

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

Thanks for the question. This is Randy. So, the benefits of more and more that we can auto-quote are sort of mirrored. First of all, it reduces friction within the buyer experience. And we know not just in the case of manufacturing, but across all markets, the more and more you can reduce friction, and make it easier for a customer, the more they're going to lean in and buy from you, frankly.

And the same thing is true as you digitize it. Again, our customers are used to more and more of their lives being digitized. It's logical for them for that to happen in manufacturing. So, the more that it can be digitized, that's also very powerful. And then we become more and more that one-stop shop for that customer. So, many of our buyers, when you think about a company, particularly larger companies, they're buying across multiple categories of manufacturing technologies.

The more that we can be that one-stop shop and they can lean into us from everything, from machining to two, 3D printing all those things under one roof, the more likely they are to stay with us and put more and more of their share of wallet. And again, it's talked about, sort of strong underlying metrics in our market, taking market share. And part of that is, because we're just making it easier-and-easier for the buyers to come to us.

The Google Vertex AI relationship has been terrific, because they're giving us AI techniques that they've got that are helping us release these models faster. And that will be key. We're looking at increasing the pace of the new auto-quote technologies that we add to our marketplace and Google's techniques. And they're really good at this, that that team are helping us make that happen. And as I said, you'll start seeing that this quarter and in quarters to follow.

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**James Miln** - *Xometry Inc - Chief Financial Officer*

And hi, Ryan, it's James. So, on the gross margin and gross profit growth, just to reiterate on the progress to-date, records 33.5% in the quarter, up 180 basis points year-over-year. And that's driving gross profit growth 33% on the marketplace outpacing the 25% on revenue. So, as we said before, and we outlined also in our best of deck, AI is the main driver of gross margin expansion over time.

So what's really going on there with more data, with the expanding supply network and the improvements on our own machine learning and AI price prediction, which has continued to optimize, and as we grow and lead as a leading marketplace and we're getting more and more data, it's enabling the system - to be able to really optimize between the supplier cost side, and the pricing and the buyer side.

So our system really balances that buyer and supplier pricing and conversion rates over time, driving overall gross profit dollar growth. So adding new processes to the menu, adding new options is really helpful. Those are things that over the long-term continue to just grow, again, the data and the supplier network that we have, and help us continue on what we've done over the last few years and expand.

As Randy said on the call, and expanding the margin already 10 points. It's not always going to be exactly a linear trend. It will depend on what's going on supply and demand in the market as well. But from the progress we've seen so far this year and over multiple years, I think we feel confident we'll continue to be on a track towards this 35% goal.

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**Operator**

Cory Carpenter with JPMorgan.

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**Unidentified Analyst** - - *Analyst*

Hi, this is Dannyon for Cory. Thanks for the questions. For the first, it looks like international growth decelerated a bit in 2Q. Can you maybe parse out the different trends you're seeing from international customers versus trends in the U.S.? And then for the second question, I believe you called out semiconductors as a strong end market in 2Q. Can you maybe expand on what you're seeing here, and kind of whether this is being driven by broader demand for AI adoption? Thanks.

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**James Miln** - *Xometry Inc - Chief Financial Officer*

Thanks, this is James. On the international, really pleased with the performance there. I think we look at Q-on-Q, continuing to see really good additions to that growth through the first half of the year. We did have a very strong comp a year ago. That business nearly doubled in growth a year ago. So, we're really pleased with the performance that we're seeing there and continue to see that as a big driver and a big opportunity to become a bigger part of our business as we move forward.

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

Yeah, and to be clear, I mean, the trends in international are very strong. As James said, it's really just a comp issue. It's nothing more than that. And we're very pleased with what's going on internationally and continue to see huge opportunity to continue to grow that market aggressively. On the semiconductor side, we're definitely benefiting from a lot of different trends, whether it's the trend in AI.

You've got domestic investments that are being happening as well here in the United States. So it's a multiple - or multitude of factors that are driving that. And that's become a nice sector for us.

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**Operator**

Matt Swanson with RBC.

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**Matt Swanson** - *RBC - Analyst*

Yeah, thank you for taking my question and congratulations on the quarter. Maybe building on some of the comments about market share gains and people leaning into telemetry, it was great to hear the traction in Teamspace. I think you said up to 3,300 teams. Maybe you could just give us a little bit more color on kind of the customer feedback as it's starting to get more broadly adopted, and anything you're noticing from kind of the usage trends with it?

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

Yeah, this is largely a technology story. And the more that we can reduce that friction for the customer, the more that we can make it, when you think about teams of buyers together building projects or products, or entire programs, things like communication between them, being able to share documentation, being able to integrate within the ERP system, that the purchasing system of the customer.

The ability to reorder more parts from that program, because the programs will - go over periods of time and need to be able to reorder parts periodically. All those different factors, the more that we can make those seamless, the more that we can digitize those, and make it intuitive to the customer, the more that they're going to continue to lean into telemetry.

And particularly when you think about our B2B audience, reliability and convenience are key factors. And with our digital and extensible platform, that's very attractive to them. And we're constantly adding. I talked about in my script, we're making investments on the machine learning side and on the data science side. And just overall, in our technology team to continue to make it easier for our customers.

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**Matt Swanson** - *RBC - Analyst*

That's super helpful. And that was really nice to hear the resiliency, in what feels like an uneven macro environment. I was just curious, if we do see headwinds, are there any tailwinds that come from that? And the idea that either you see more supplier interest because demand is harder to come by or just the ROI of the platform making it more attractive to buyers. Do you see any offsets, or is it change your go-to-market motion at all?

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

Yes, it's Shawn. I mean, it's a good point. I mean, clearly we're becoming more important for both our buyers and suppliers. And we've said before, we spend very little on supplier acquisition and certainly this environment, they're leaning in more with Xometry. And the more we can offer them with our work center software, we can help them improve their operations.

And really again, as Randy said on the call, it's important to understand we're allowing these suppliers to monetize their capacity digitally. This is something that's not been done before. So we've got more suppliers coming to us and expanding the network.

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**James Miln** - *Xometry Inc - Chief Financial Officer*

Yeah, Matt, this is James. Just to add to that, I think yes the key offering that Xometry provides to both buyers and suppliers is this flexible, resilient supply chain solution. So for buyers being able to instantly access multiple solutions, cut the platform to be able to take away a lot of complexity. And then on supplier side, accessing in effect global demand at minimal cost, and being able to utilize their assets can optimize their profitability as well.

So I think, and this is a broader point on, I think whatever the macro trends and even as things go through the rest of this year and even with political changes as well, I think that our platform and the flexibility and resiliency that we have, it makes us well suited to support our buyers and our suppliers through that.

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

Yeah, and just to add one more thing for buyers, the transparency of our pricing and the ability for them to see in real time as they change quantities, materials, processes. If a buyer is looking to optimize, get the best deal and find that most efficient way to do that, our technology enables them to make that happen.

And again, just going back to that user experience and transparency, reducing the friction, making it easy for them to make choices and see what those choices cost. That's very powerful. And the more uneasy the environment, the more customers want that transparency.

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**Operator**

Greg Palm with Craig Hallum.

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

Yeah, thanks. Good morning, everybody. Just thinking back to Q2, just putting a finer point on outperformance. Can you just give us a little bit of sense on where you saw the most outperformance relative to maybe the initial guide? And then just in terms of kind of what you're seeing more broadly out there, I mean, it's very clear manufacturing trends are slowing here, but it doesn't sound like you're sort of seeing it. So can you maybe just give us a little bit of sense on, again, kind of why or how you're taking more shift, I guess, now in this kind of environment?

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**James Miln** - *Xometry Inc - Chief Financial Officer*

Hi Greg. Thanks for the question. It's James, I'll kick it off and then you can add. I think overall, we see some strong evidence that we're executing really well across all of our end markets and all of our processes, as well as controlling expenses in a disciplined way. So despite the uneven and uncertain macro environment, our focus on our growth initiatives and on executing on those, I didn't ask what's coming through here.

And then the gross profit performance coming in 33% that was a real strong highlight for the quarter. I think we were really pleased with how we were able to execute on that, the models and delivering that gross margin. That was probably part of the, an important driver of our relative outperformance when it came to adjusted EBITDA as well.

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

Yeah, and just to add, I mean, they said before the metrics, underlying metrics remain strong. We feel good about where the second half of the year as well. A lot of this, as we think about gaining market share, a lot of it is better technology and just making it easier for all the different segments of the markets or for the buyers, whether it's team space, more auto-quote processes, the ability to link into their ERP systems, all those things just make it very compelling for a buyer.

And then on the supplier side, work center, we continue to invest in work center. That's the system, the manufacturing execution system that we give to our suppliers to manage work from Xometry is their own work. We're continuing to develop that and reduce friction for them. So it makes them, the more that they can move quicker, more efficiently, the more profitable it is for our suppliers.

So not only are our buyers always wanting to do better, but our suppliers are too and our technology plus our matching algorithms that optimize, which employer makes which parts, you pair that together with work center and our continuous improvement in those, that's very appealing.

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

Yes, okay. Makes sense. And then just on the EBITDA guide for Q3, so essentially the same level of EBITDA as Q2, higher level of revenue. It's obviously, it implies something a lot less than that 20% incremental margin, James, so just give us a little bit of color kind of what's backed in or what's assumed in the EBITDA guide for Q3 versus what you saw in Q2?

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**James Miln** - *Xometry Inc - Chief Financial Officer*

Thanks Greg. So again, really pleased with the performance we drove in the second quarter. We saw a 70% increase improvement in the adjusted EBITDA loss, where 2% of revenue there on the loss. As we've talked about and framed, the path here is profitability beyond the $600 million run rate. And what Randy and I are working on with the team is to make sure that we're investing the right amount.

We're being disciplined on how we're executing across our OpEx space, and we're optimizing to the great growth opportunity that there is ahead as we scale. So, we were able to execute really well in the second quarter as we look to the second half of the year and getting to that $600 million run rate.

We're really just making sure that we've got those, we're putting our investments in place and allocating our capital in the most efficient way, they drive to that end result of getting, surpassing break-even and getting into profitability as we pass $600 million. And I think overall that fits within the 20% EBITDA incremental path.

**Operator**

This does conclude our question-and-answer session and the program for today. Thank you for your participation in today's conference. You may now disconnect and have a great day.