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XMTR.OQ - Q1 2022 Xometry Inc Earnings Call

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**Seth Gilbert**

## PRESENTATION

### Operator

Good day, and thank you for standing by. Welcome to the Xometry First Quarter 2022 Earnings Conference Call. (Operator Instructions) I would now like to hand the conference over to your speaker today, Shawn Milne, Investor Relations, Xometry. Please go ahead.

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

Good morning, and thank you for joining us on Xometry's Q1 2022 Earnings Call. Joining me are Randy Altschuler, our Chief Executive Officer; and Jim Rallo, 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 2022.

During today's call, we will make forward-looking statements, including statements related to the expected performance of our business, future financial results, strategy, long-term growth and overall future prospects. Such statements may be identified by terms such as believe, expect, intend and may. These statements are subject to risks and uncertainties, which could cause them to differ materially from actual results. Information concerning those risks is available in our earnings press release distributed before the market opened today and in our SEC filings included in the Form 10-Q for the quarter ended March 31, 2022, that will be filed with the SEC. 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 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](http://investors.xometry.com). A replay of today's call will also be posted on our website.

With that, I'd like to turn the call over to Randy.

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

Thanks, Shawn. Good morning, everyone, and thank you for joining us for our Q1 2022 earnings call. We are pleased to report another strong quarter. We delivered 90% revenue growth and 235% gross profit growth year-over-year in Q1. We are rapidly delivering on our mission to build a leading global digital manufacturing marketplace, transforming one of the largest industries in the world.

While we're still in the early innings of the secular shift to the digital for manufacturing, Fortune 1000 companies are increasingly rethinking their supply chains and manufacturing strategies. Xometry is uniquely positioned to meet their needs to the breadth of our platform across verticals, processes, and capabilities. Likewise, we are uniquely positioned to meet the needs of our suppliers through our suite of supplier services. With our cloud-based software platform, we aim to be the operating system for hundreds of thousands of suppliers.

Since our founding in 2013, Xometry has grown very quickly. This growth has continued unimpeded during the disruptive events of the last 2 years, proving that our marketplace will deliver durable growth irrespective of the macro environment. In fact, the global events of the last 2 years, crippled supply chains, the war in Ukraine, COVID, product shortages and limited access to raw materials have further underscored the need for the rapid digital transformation of the manufacturing industry.

Our unique ability to match buyers and suppliers in real time and our weekly updates to our AI-driven pricing model provides reliable pricing and predictable margins even during periods of inflation. Likewise, with our supplier network expanding domestically and abroad, we offer customers resilient supply chains irrespective of macro events. The addition of Thomas only enhances our capabilities.

Moving on to our Q1 results, I will provide a review of our first quarter performance and provide an update on key business initiatives, including the integration with Thomas. Then I will turn the call over to our CFO, Jim Rallo, for a more in-depth review of our financial results and outlook.

We had a strong Q1 with revenue of \$83.7 million, driven by robust marketplace growth and expanding supplier services with the addition of Thomas. Our integration efforts are well on track. Q1 marketplace revenue was \$64.4 million, growing over 50% year-over-year. Marketplace revenue consists entirely of the historical Xometry business, excluding Xometry supplies and financial services. Marketplace revenue growth was driven by continued strong growth in active buyers and rapid adoption of the platform by larger accounts across both North America and Europe. Likewise, we experienced strong year-over-year growth in many of the different manufacturing processes offered in our marketplace.

In Q1, active buyers increased 44% year-over-year to 30,683. We saw strength across multiple verticals, including consumer products, automotive, electronics and semiconductors as well as ongoing strength in general manufacturing. The number of accounts with last 12 months spend of at least \$50,000 increased 92% year-over-year to 790, adding 89 accounts in Q1. In Q1, we received larger production orders from several customers across industries and manufacturing processes, including robotic assemblies in agriculture and injection molding for an electrical vehicle company. Given the success of our land and expand strategy, we continue to invest in our enterprise sales engine.

Within our large and rapidly growing active buyer base, we have a significant opportunity to become an enterprise solution, embedded in product design and procurement workflows. In Q1, we expanded our CAD integrations with the addition of PTC's Onshape product development platform, which has over 2 million users. The integration provides seamless instant quoting with their proprietary AI-driven Xometry instant quoting engine, enabling engineers and designers to instantly price parts in one integrated CAD workspace, saving time and creating greater speed to market.

Q1 supplier services revenue was \$19.3 million, including Thomas, which we acquired in December of 2021. The vast majority of supplier services is the Thomas Marketing Services and advertising business, plus historical Xometry supplies and financial services. We provide convenient access to supplies, enabling manufacturers to lower their cost of operations. We also improve their cash flow through our growing basket of fintech products. With Thomas, we've expanded our basket of supplier services, including marketing and advertising solutions.

Our international business continues to deliver strong growth, increasing 146% year-over-year. In Q1, our European team expanded operations, including an enhanced site for European customers at Xometry.eu. This makes it even easier for buyers to compare and price technologies, materials and finishes in real time. Xometry.eu is available in English, German, French and Italian and now in Spanish too.

We also expanded our local sales efforts in the U.K. In addition, in late Q1, we formally launched a platform in China at Xometry.asia and began taking orders from Chinese customers in April.

On top of strong revenue growth, gross profits grew 235% year-over-year in Q1, driven by significant improvements in marketplace gross margin and the addition of higher-margin supplier services. As our marketplace continues to scale and as the number of transactions grow, our machine learning becomes smarter, driving better matches for buyers and suppliers and helping improve gross margins. At the same time, we continue to ramp up our network of active suppliers, which further enables our marketplace to successfully match supply and demand and improve gross margins.

On top of strong financial results in Q1, we released new products and services to improve our marketplace experience for buyers and suppliers and made further progress in our integration plans with Thomas. In March, we introduced Xometry Everywhere, which extends the reach of Xometry's AI-driven instant quoting pricing engine to popular third-party sites where engineers and other buyers spend significant amounts of time. Xometry Everywhere is also available for integration into procurement processes of major Fortune 1000 companies.

Later in Q2, we will utilize Xometry Everywhere software to integrate our AI-driven pricing engine into the Thomasnet platform. This will extend the Xometry marketplace to Thomas' 1.4 million registered users. Additionally, in Q2, we will expand the menu of our marketplace, extending our quoting capabilities into new categories based on the data and suppliers from the Thomas network. Buyers will not only be able to choose from expanded categories and processes, but will be able to more easily find local suppliers with expanded sets of certifications.

Also, by the end of Q2, we will introduce One Identity single sign-on. Our buyers will be able to seamlessly purchase across Xometry's instant quoting engine and Thomas's RFQ with a single sign-on. One Identity will create a unified shopping cart across platforms to facilitate easy purchasing and payment.

For suppliers in Q1, we introduced a self-serve option to purchase Thomas advertising services on the platform. Our new self-service option removes friction for new customers and introduces a new entry price point for our marketing and advertising service offerings. Also for suppliers, in Q2, we will release a new version of our order management software to integrate seamlessly with the Xometry marketplace and with the Thomasnet platform, giving suppliers a one-stop view into all of their orders. At the end of Q2, we expect to launch a freemium version of the software as we look to drive deep adoption within our supplier base.

The operating system will serve as the platform to deliver our basket of supplier services to our base of manufacturers and drive further engagement on our marketplace. We expect that our product release schedule will deliver additional growth and revenue synergies for the balance of 2022. We remain confident in our plan to deliver up to \$400 million of revenue in 2022, which Jim will provide more detail on later in the call.

We have limitless opportunities to fuel our growth. This year, we'll see us expand our marketplace domestically and abroad and deliver additional services to buyers and suppliers. Our TAM is over \$2 trillion in the massive \$35 trillion global manufacturing industry. We will continue to invest to further capitalize on our position as the leading 2-sided marketplace.

In 2020, our revenue was \$141 million. In 2022, we expect that to nearly triple to \$400 million. At the same time, we expect gross profit dollars to grow over fourfold with significant gross margin expansion, and we're just getting started.

With that, I will turn the call over to our CFO, Jim Rallo, for a closer look at first quarter financial results and our business outlook.

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

Thanks, Randy, and good morning, everyone. As Randy mentioned, we had a strong first quarter, and we are expecting continued significant revenue and gross profit growth in Q2 and for the balance of 2022. We generated Q1 revenue of \$83.7 million, up 90% year-over-year, driven by strong marketplace growth and the addition of Thomas in supplier services.

Starting with Q1 2022 financial results, we are providing an additional disclosure for marketplace and supplier services, including revenue and cost of goods sold for each. Thomas is included in supplier services.

Q1 marketplace revenue was \$64.4 million and supplier services revenue was \$19.3 million. Marketplace revenue consists entirely of the historical Xometry business, excluding e Xometry's supplies and financial services. The vast majority of supplier services is the Thomas Marketing Services and advertising business, plus historical e Xometry supplies and financial services. Marketplace growth was driven by strong growth in the number of active buyers, resulting from our continued investment in sales and marketing as we leverage our attractive unit economics as well as existing buyers increasing their spend on the platform. Supplier services includes a full quarter of Thomas, which we acquired in December 21.

Q1 active buyers increased 44% year-over-year to 30,683 in Q1. The percentage of revenue from existing accounts was 94%, underscoring the efficiency and transparency of our business model that leads to increasing account stickiness and spend over time. We believe the repeat purchase activity from existing accounts reflects the underlying strength of our business and provides us with substantial revenue visibility and predictability. Once an account joins our platform, we aim to expand the relationship and increase engagement and spending activities from that account over time. The number of accounts with the last 12-month spend of at least \$50,000 on our platform reached 790 at the end of Q1 2022, up 92% year-over-year.

Q1 gross profit was \$32.9 million, an increase of 235% year-over-year. Gross profit margin was 39.4%. Q1 gross margin for marketplace was 27.4%. As our marketplace continues to scale and as the number of transactions grow, our machine learning becomes smarter, driving better matches for buyers and sellers and increasing our gross margin over time. Q1 gross margin for supplier services was 79.3%, driven by the high gross margin of Thomas marketing and advertising services and growing financial services.

Moving on to Q1 operating costs. Q1 total non-GAAP operating expenses increased 145% year-over-year to \$45.7 million, driven by the addition of Thomas for a full quarter, continued investment in the business and incremental public company costs. Within our operating expenses, sales and marketing is our largest variable component. Given our large TAM, we will continue to invest in growing our marketplace of buyers and suppliers.

Non-GAAP sales and marketing costs were \$17.9 million in Q1, representing 21.4% of revenue compared to 17% in Q1 2021. The increase in sales and marketing was driven primarily by the addition of a full quarter of Thomas sales and marketing costs as well as continued investment to expand our network of buyers and suppliers and hiring of additional salespeople to support strong growth in our land and expand strategy.

As Randy mentioned, we introduced new self-serve options on the Thomas platform in Q1 and believe there is significant room to drive sales and marketing leverage over the next several quarters. Our adjusted EBITDA loss for Q1 was \$12.7 million or 15.2% of revenue compared with 20.1% of revenue in Q1 2021.

Turning to segment reporting. In Q1, revenue from our U.S. and international operating segments was 77.2 and \$6.5 million, respectively. Segment loss from our U.S. and international operating segments for Q1 was 16.3 and \$3.7 million, respectively. We continue to invest in our international business, which grew 146% year-over-year in Q1, primarily driven by our European marketplace with improving gross margins as transaction volume increases.

At the end of the first quarter, cash and cash equivalents and marketable securities were \$368.7 million. In early February, we raised approximately \$278.2 million in net proceeds from our convertible notes offering.

Now moving on to guidance. We expect Q2 2022 revenue in the range of \$91.5 million to \$93.5 million, representing year-over-year growth of 81% to 85%. We expect operating leverage to improve quarter-over-quarter in Q2 and sequentially through the second half of 2022. In Q2, we expect adjusted EBITDA loss to be in the range of \$10 million to \$11 million or 10.7% to 12% of revenue compared to 15.2% in Q1 2022. In Q2, we expect stock-based compensation expense to be approximately \$5 million, which we exclude from adjusted EBITDA.

One quick note on GAAP EPS in Q2. As part of the IPO, we pledged 1% of the company's capitalization or approximately 403,000 shares to Xometry.org, for charitable contributions to nonprofit organizations. As a result, we record a nonoperating charge through general and administrative expenses,

which is excluded from adjusted EBITDA. In Q1, we did not record the charge due to restrictions on trading windows in the quarter. In Q2, we expect to record a 6-month charge of approximately \$1.5 million.

As a reminder, on top of our strong organic growth, there are 2 factors influencing revenue for Q2 and the balance of 2022. First, we expect the majority of revenue synergies from the Thomas acquisition to be driven by the conversion of Thomas users to buyers on the Xometry marketplace. Based on the timing of our product release and road map, we expect the revenue synergies to commence later in Q2 and build through the balance of 2022. Second, we are seeing a notable shift to production orders from many of our biggest customers. This shift can be seen in the strong growth in accounts with LTM spend of at least \$50,000. As a result, revenue from these accounts will ramp up significantly as the year progresses.

For fiscal year 2022, we are raising the bottom end of our revenue guidance and now expect revenue in the range of \$392 million to \$400 million, representing year-over-year growth of 80% to 83%. We are now targeting a gross margin range of 38% to 39% for 2022 based on the mix between marketplace and supplier services versus our prior target of 37% to 39% due to stronger-than-expected marketplace gross margin.

We expect our adjusted EBITDA loss to be in the range of \$32 million to \$36 million, reflecting strong revenue and gross profit growth, the anniversary of our public company costs from our June 2021 IPO and continued operating leverage. We expect to be profitable on an adjusted EBITDA basis for 2023.

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

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## QUESTIONS AND ANSWERS

### Operator

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

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### Blake Keating

This is Blake Keating on for Brian. If I can just ask about the Thomas integration. What have you guys seen so far that's gone better or is more challenging than you expected initially?

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

So we've seen some very good early signs from both the Thomas buyers or users and the Thomas suppliers. The buyers are -- we're increasingly converting them to purchasing from the Xometry instant quoting. So we've seen some good early adoption, and we expect that to continue as we put Xometry everywhere integrated into the Thomasnet site. So good start, early trends, and we expect that to accelerate as we do that integration.

Likewise, we've seen a nice conversion of Thomas buyers to become Xometry suppliers. I mean, Xometry -- Thomas suppliers to take work from Xometry. So we see nice adoption of that as well. We've also seen with the self-service model that we've added to Thomasnet, an increase in subscriptions. And a lot of user adoption of the analytics and other enhancements we've made to Thomasnet. So overall, we're seeing great response from both Thomas buyers and from their suppliers.

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### Blake Keating

Got it. And then on core gross margin, what was driving it? It appears -- if I have it correct -- was flat quarter-over-quarter from fourth quarter to first quarter. What was holding that flat? What were the puts and pace there?

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

Yes. And I think remember, in Q4, our gross margin there was for all of Xometry. So that included our financial service products, which are 90%-plus. But what's great when you see the year-over-year growth and as we sort of mentioned in the call, we've raised our guidance overall for the year as we're seeing with the increased data that we're getting and the increase in the number of active sellers or suppliers that are taking work from Xometry, we're seeing some better-than-expected increase in gross margins, and that's driving why we raised the bottom half of our gross margin for the year. So we're seeing some of that secretion. Great growth year-over-year, and we expect to see continued growth in that throughout the year.

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**Operator**

Our next question will come from the line of Karl Keirstead from UBS.

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**Seth Gilbert**

This is Seth on for Karl. Maybe just a follow-up on the previous question. With the seller services revenue in the quarter, the core Xometry seller services revenue, was that about like \$2 million? Just trying to get an apples-to-apples comparison of the core revenue from this quarter compared to last quarter.

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

Yes. Seth, it's Shawn Milne. Yes, that's probably the way to think about it, as you recall, when we acquired Thomas, we told you that our seller services, the Xometry seller services was roughly \$8 million on an annual basis. So that's good math to start with.

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**Seth Gilbert**

Got it. Okay. Maybe one more for me. Maybe if you could just talk about any seasonality in the take rate you expect going forward in the year?

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

We don't really expect any seasonality. We haven't seen that historically, and we don't expect that moving forward.

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**Seth Gilbert**

Got it. And maybe just to rephrase, we still expect the core gross profit margin to increase sequentially throughout the year. Is that still the right way to think about it?

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

We do. We do. So again, we're going to be reporting out marketplace versus supplier services, and we said marketplace is, historically, almost all of the Xometry business, excluding the financial services, those 90% gross margin businesses in suppliers and supplies. So we expect that that will continue to grow throughout the year.

**Operator**

Our next question will come from the line of Scott Graham from Capital Markets.

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**Scott Graham** - *Loop Capital Markets LLC, Research Division - MD*

Nice quarter. I wanted to just maybe get under a couple of numbers here on the active buyers that was up 44% year-over-year. A little bit of a drop-down from the growth in the fourth quarter, but kind of what -- I think we should expect it wasn't going to stay at that rate. But would you say that based on the trends in the business, feedback from sales and customers and otherwise, is something in the 40% range going to sustain for this year? Or at some point, maybe does that drop a little bit lower? Could you maybe give us your views on that?

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

Scott, it's Shawn. I'll take it. Thanks for the question. The thing that what you're seeing here with active buyers, we had a really strong net active buyer quarter in Q1. So if you look at the net, it was actually over 2,500. It was a nice uptick from the fourth quarter. So we feel really good about that funnel, if you will. The other thing that you're seeing is very strong growth in the U.S. and consistent. What's happening on a year-over-year basis, your anniversary like hyperbolic growth and customer acquisition in Europe. So that's really what's influencing the year-over-year growth. We expect good, strong active buyer growth to continue through the year.

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**Scott Graham** - *Loop Capital Markets LLC, Research Division - MD*

Okay. Good. Could you also maybe tell me a little bit more about within active buyers, have you been able to sort of parse out sort of new buyers on the same site manufacturing or otherwise facility versus inroads into new facilities? Do you know what that looks like?

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

I'm not sure I follow that question. Shawn?

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

Yes, what you're asking is the growth really from new logos or within existing accounts from buyers?

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**Scott Graham** - *Loop Capital Markets LLC, Research Division - MD*

That's correct. Yes.

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

Yes. It's really a combination. We continue to add new logos. And as Randy talked about on the call, we continue to work to be an enterprise solution. We continue to roll out new CAD integrations and get deeper within these accounts. So it's really a mix and seeing strong growth in both sides of that.

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**Scott Graham** - *Loop Capital Markets LLC, Research Division - MD*

Okay. Great. Can you also maybe -- third question and last one, I promise -- maybe talk about the inflation environment. It looks like from your gross margin, I know a lot of that was Thomas, but gross margin looked better than I think we were thinking -- perhaps maybe you were thinking



at this point, I'm not sure. But how is your -- clearly, your marketplace is handling the pricing versus inflation well. Maybe just give us a little more color on that. How are you doing sort of like real-time feeds from whether it's materials or whether it's from your suppliers, how is that working? How is that algorithm working where you've been able to actually increase the gross margin in a period like this?

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

Yes. And thank you for the question. This is Randy again. So just to remind everyone, the pricing in the Xometry marketplace is powered by machine learning, artificial intelligence, and it reprices weekly, ensuring that our pricing incorporates any changes that might have occurred in raw materials, labor, et cetera. And so then our platform or marketplace provides better efficiency and pricing for buyers as our AI matches buyers with the right sellers taking into account these many different inputs such as lead times, capacity, utilization specific equipment. So all of this is incorporated as we reprice and we're giving those prices to buyers and sellers at the same time. So we don't have any lag between the 2 of them. And so irrespective of that -- of the macro inflation environment, we're keeping very steady our ability to get our take rate.

And as we get more and more data and as we get more and more active sellers, that's why you're seeing that take rate increase over time. But because we're pricing every week, we were not impacted by inflation at any given point.

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**Operator**

And our next question will come from the line of Eric Sheridan from Goldman Sachs.

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

Maybe 2, if I can. In the prepared remarks, you talked about introducing sort of a self-serve advertising subscription option within Thomasnet. I'm curious, number one, what you think that might do for the platform as you introduce more and more services layers and especially the self-serve nature? And I'm not sure you'll answer the second piece. But in terms of instant quote or elements of rising subscriptions, is there a sense we can get of where you think conversion or adoption of such measures could go in the marketplace over time as a driver of volume momentum in general? Thanks so much.

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

Yes. So Eric, this is Randy. So let me just go to that question. So, so far we've seen some really nice early stages of adoption of the self-service model. And as you probably remember, for Thomas, every sale of a subscription had to be done by a salesperson. That drove Thomas' higher sales and marketing cost of 35%. With the self-service model, obviously, that drives down dramatically. And that's why you're going to see increasing leverage from Xometry overall in our sales and marketing as we reduce that through the self-service.

We also are introducing different pricing points. So we expect that Thomas had 5,000 premium suppliers or people who are purchasing this. We expect that number to grow substantially with the self-service model. And then as we introduce later in this quarter, factory for this operating system that we're giving to the almost 500,000 suppliers listed on Thomasnet that will also enable and have embedded in it the self-service. So we expect that number to ramp up significantly. And we think that will also fuel adoption of our financial service products, which will also be embedded on that.

So I think you're going to see a large increase in the number of paying suppliers in the Thomasnet marketplace. And that will also have a knock-on effect as they become suppliers to Xometry and take work from the Xometry engine, which will lead to a higher gross margins for Xometry too on the marketplace side of the business.

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

Great. And maybe just a follow-up on the advertising piece. That was new to me. Just thoughts around that and what that might do for the marketplace longer term?

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

Yes. It's driving by bringing in this -- and there have been no self-service before. It's a lower price point, so it's more affordable for the bottom end of the market. So we're just getting more engagement from the suppliers. And as they get more engaged, that gives us the ability to jump up the attachment rate of these other products that we're beginning to offer. So we want to get them in the door, we want them to start paying as they introduce software and other services. They're just much more active and the self-service model is the right way to do that and it creates a lot of operating leverage for us as well.

**Operator**

Thank you. And I'm not showing any further questions in the queue. And with that, this concludes today's conference call. Thank you for participating. You may now disconnect. Everyone, have a great day.

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