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XMTR.OQ - Q4 2022 Xometry Inc Earnings Call

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PRESENTATION

Operator

Good day, and thank you for standing by. Welcome to the Xometry Fourth Quarter 2022 Earnings Call. (Operator Instructions) Today's conference is being recorded.

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

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

Good morning, and thank you for joining us on Xometry's Q4 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 fourth quarter and full year 2022 and discuss our guidance for the first quarter and full year 2023.

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, including in the Form 10-K for the year ended December 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

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see the reconciliation of these non-GAAP measures, please refer to our earnings press release distributed today in our investor presentation, both of which are available on the Investors section of our website at investors.xometry.com. A replay of today's call will also be posted on our website.

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

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

Thanks, Shawn. Good morning, everyone, and thank you for joining us for our Q4 2022 earnings call. While Q4 was a challenging quarter for Xometry, we continue to build global networks of buyers and suppliers and the technology tools that enable them to transact digitally. With our market-leading position in a total addressable market of $2 trillion, we expect to continue to grow rapidly for many years to come. We believe the continuing shift to digital is inevitable, and is the leading two-sided marketplace, our asset-light digital marketplace creates efficiencies and values for buyers and suppliers alike.

Our AI-powered algorithms generate instant prices and lead times and we efficiently connect buyers with the manufacturing technology and manufacturer, which can drastically reduce time to market and strengthen global supply chains. While there are no shortcuts, we are steadily and methodically executing on our vision of becoming the de facto digital rails for custom manufacturing.

In Q4, revenue increased 46% year-over-year to $98.2 million, driven by marketplace growth and expanding supplier services with the addition of Thomas. Q4 marketplace revenue was $79.1 million, 32% year-over-year growth. Gross profit increased 72% year-over-year, driven by 30% growth in marketplace gross profit and the addition of Thomas.

Active buyers increased 45% year-over-year to 40,664, driven by a record addition of 3,875 active buyers in Q4, a 17% increase over the prior record set in Q3. We also set a company record for the largest number of orders in a quarter, in part driven by record order count from existing accounts. The revenue generated by these existing accounts also continues to grow at a rapid clip, reflecting the stickiness of our marketplace.

In the Q4 earnings presentation, we updated the account cohort analysis that was in our 2021 S1 IPO filing to help quantify that growth. Active suppliers grew by 22% in 2022. Equally important, we increased our share of capacity with them as our spend per supplier grew 22% year-over-year.

Xometry's international revenue grew 89% year-over-year and 15% quarter-over-quarter driven almost entirely by the growth in our European business. Despite this growth in Q4, we fell short of expectations for the first time since becoming a public company. For only the second time in 5 years, Xometry's revenue decreased quarter-over-quarter. We also saw a notable sequential quarter-over-quarter decline in marketplace gross margins for the first time since Q1 of 2021. With the revenue and gross margin shortfalls, we were not able to absorb operating expense growth, resulting in a higher-than-expected adjusted EBITDA loss of $14.2 million in Q4.

We take this step back in profitability seriously. Accordingly, I'm going to provide a detailed explanation of what we learned in Q4 and the steps we've taken to mitigate any issues and ensure that Xometry continues to deliver strong durable growth even in a challenging macroeconomic environment. We've already seen progress in Q1, and we are confident in our 2023 outlook.

Here's what we learned in Q4 and the steps we have taken to improve our go-forward results based on this information. First, as we talked about on our Q3 call, our suppliers, influenced in part by macroeconomic factors, changed their behavior, taking jobs at lower prices further impacting pricing. In addition, our buyers traded off longer lead times for lower prices, further impacting average order value. In Q4, average order value in the U.S. marketplace declined approximately 8% quarter-over-quarter, negatively impacting revenue by $6 million to $7 million compared to expectations. Based on our pricing optimization efforts, we're starting to see average order value rebound in the middle of Q1.

Second, some of our largest customers grew less than expected late in Q4. We saw buyers delay their orders, and in some cases, reduce expected order quantities. Their slowdown limited overall order growth to 41% year-over-year in the quarter, a decrease from what we had experienced earlier in Q4. The impact of this lower order growth reduced marketplace revenue by $3 million to $4 million in Q4.

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Our top 200 accounts represented approximately 50% of 2022 U.S. marketplace revenue. Historically, these accounts have grown significantly, yet Xometry still only has a small share of their wallet. In early 2023, we redirected salespeople and customer support against these accounts. Given the higher spend we have with these accounts, we are engaging in enterprise-level discussions around strengthening supply chains and driving production order efficiencies.

Third, in an environment of falling cost and slowing demand, we expanded our testing of buyer price elasticity to better understand the trade-offs between price and conversion. This resulted in a drag on marketplace gross margin in Q4. Using our learnings from Q4, we expect marketplace gross margin to largely rebound in Q1 of 2023. This will also enable Xometry to better manage future, unexpected significant shifts in costs.

Capitalizing on what we learned in Q4 and on the rapid growth of our active buyer base, in Q1 of 2023, we expect to resume the quarterly sequential growth in revenue and gross profit we have delivered over the years. Likewise, we expect a lower adjusted EBITDA loss quarter-over-quarter. For 2023 overall, we expect to remain in strong growth mode and deliver healthy marketplace revenue growth of approximately 30%, marketplace gross margin expansion, and improved operating leverage. Despite the headwinds of Q4, which carried into early Q1, we are committed to being adjusted EBITDA profitable in Q4 of 2023.

In addition to the changes I outlined earlier, here are our primary areas of focus in 2023. One, significantly expand the number of processes, materials, and finishes we can offer our customers so we become their one-stop destination. It is extremely difficult for any single manufacturer, even those that are vertically integrated, to have the exact capabilities to meet even a fraction of the customer needs. Thomasnet.com offers supplier capabilities across 70,000 categories.

This depth and breadth is critical since our market is not defined by commodity parts or SKUs, but instead is made up of thousands of different use cases. This is one of the reasons that custom manufacturing market is so fragmented. Our marketplace is unique in its ability to meet these needs. Customers are increasingly recognizing this capability as the production order volume grew significantly in 2022 from 2021. We are expanding our capabilities and improving the production buying experience in our platform in 2023.

Two, continue to grow aggressively in Europe, including the recent expansion to the U.K., which is the third largest manufacturing market in the region. Additionally, in early Q1, we made a small tuck-in acquisition in Turkey to further expand our alternative cost supplier network to serve the European market. In Q4, international revenue grew more than 100% year-over-year on an FX-neutral basis. Furthermore, we remain pleased with the ramp and buyer demand in China as we're seeing orders from across many verticals, including medical equipment, biotech, optical tech, and smart equipment industries. We expect China to contribute to revenue growth in 2023. Through xometry.eu, xometry.uk and xometry.asia, we've leveraged Xometry's core technology to provide localized marketplaces in 13 different languages with networks of suppliers across Europe and Asia, as well as North America.

Three, continue to invest in our Workcenter and industrial buying engine platforms, increasing our footprint with both buyers and suppliers and enabling us to scale cost effectively. For our suppliers, we made important progress in Workcenter, the SaaS-like operating system that is the digital foundation for manufacturers. In Q4, we successfully migrated all Xometry suppliers to Workcenter to utilize the job board and suite of job management tools. In response to supplier feedback, we improved the display and management of jobs and enhance the usability of the system on mobile devices. In 2023, we plan to expand the Workcenter job management tools and capabilities, including support for custom job workflows, job scheduling, and communication tools.

For buyers, we took significant steps towards improving the industrial buying engine. The industrial buying engine digitizes the cumbersome and time-consuming request for quote process, taking what was once off platform and integrating it into the heart of Thomasnet.com.

In Q4, the industrial buying engine continued to move on platform, buyers request for quotes. We saw an increased number of buyers building and submitting their industrial buying engine quote requests. We also saw suppliers beginning to use our on-platform messaging tools to interact with buyers during the quote process. While the revenue from the industrial buying engine transaction fees in Thomasnet.com is not yet a significant revenue stream, as we more tightly integrate it with our instant quoting engine, we can increase our buyers share of wallet.

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Four, modernize the advertising products and continue to expand self-service options on the Thomasnet.com platform, making it easier for suppliers to start their advertising journey. We are moving to a pay-for-performance advertising model on Thomasnet.com. Most search and listing engines that support advertising use a pay-per-click or other performance-based advertising model, which aligns the interest in buyers and suppliers. As we improve search, we expect to see a higher level of buyer engagement, improving the opportunity for search monetization. This will also help drive growth of our higher-margin supplier services as well as boost the use of the industrial buying engine.

Five, aggressively look to increase efficiencies and reduce expenses across our organization. In January, we reduced our workforce by 6% to better streamline operations and improve efficiency and leverage. Our efficiency measures will generate operating savings of roughly $8 million on a full year basis. Jim Rallo will provide more context to these changes on our Q1 and '23 guidance later in the call.

The underlying metrics of the marketplace continue to be strong, with record additions of active buyers and record order counts, including from existing accounts. Our international business had a record quarter. We made good progress with the rollout and adoption of Workcenter and building integrations to enable Thomas and Xometry users alike to access the breadth and depth of Thomasnet.com's 500,000 suppliers, the full value of which we're continuing to unlock.

I spend much of my time traveling and meeting with our customers. Whether it's a hypergrowth aerospace company in California or a Fortune 500 consumer product company in the Midwest, buyers struggle with the same problem, efficiently finding solutions that meet the breadth and depth of their manufacturing needs. This highly fragmented, inefficient opaque market provides worse outcomes for both buyers and suppliers. Our marketplace approach is the best solution to these problems and we won't stop until we fulfilled our promise.

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

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

Thanks, Randy, and good morning, everyone. As Randy mentioned, we delivered solid marketplace growth in Q4 year-over-year despite increasing macro headwinds and changing buyer behavior. In early 2023, we took actions to reinvigorate marketplace growth and improve operating efficiencies and leverage. We generated Q4 revenue of $98.2 million, up 46% year-over-year, driven by marketplace growth and the addition of Thomas in supplier services. The stronger U.S. dollar negatively impacted revenue by $1.1 million on a year-over-year basis.

Q4 marketplace revenue was $79.1 million and supplier services revenue was $19.1 million. Q4 marketplace growth of 32% was driven by a strong increase in the number of active buyers year-over-year, while revenue per buyer was impacted by lower pricing and softening order rates, as Randy previously mentioned. Q4 active buyers increased 45% year-over-year to 40,664. In Q4, the percentage of revenue from existing accounts was 96%, underscoring the efficiency and transparency of our business model that leads to increasing account stickiness and spend over time.

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 months spend of at least 50,000 on our platform reached 1,027 at the end of Q4, up 47% year-over-year. The strength of the U.S. dollar created a slight drag in this metric for Q4 by approximately 7 accounts. Supplier services revenue declined 2% quarter-over-quarter in Q4. The decline was primarily driven by seasonality in the Thomas business due to the timing of the publication of their trade magazine.

As expected, this impacted revenue by approximately $400,000 in Q4. Q4 gross profit was $36 million, an increase of 72% year-over-year. Gross profit margin was 36.7%. Q4 gross margin for marketplace was 27.1%, down 330 basis points quarter-over-quarter. The main driver was our pricing optimization testing, which Randy previously mentioned. We expect marketplace gross margin to improve quarter-over-quarter from Q4 to Q1. Q4 gross margin for supplier services was 76.3%, driven by the high gross margin of Thomas marketing and advertising services. Supplier services gross margin declined 220 basis points quarter-over-quarter due to the timing of the high-margin advertising revenue I previously mentioned and a higher mix of supplies, which carries a much lower gross margin.

Moving on to Q4 operating costs. Q4 total non-GAAP operating expenses increased 53% year-over-year to $50.3 million, driven by the addition of Thomas, continued investments in the business, and incremental public company costs associated with Sarbanes-Oxley. Within our operating

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expenses, sales and marketing is our largest variable component. In Q4, non-GAAP sales and marketing expenses were $22.3 million, excluding stock-based compensation, amortization, and restructuring charges as compared to $12.4 million in Q4 2021. This increase in non-GAAP sales and marketing expenses on a year-over-year basis was driven by the addition of Thomas sales and marketing costs, continued investment to expand our network of buyers and suppliers, and hiring of additional salespeople to support strong growth in our land and expand strategy.

On a quarter-over-quarter basis, sales and marketing increased $2.8 million, driven by continued investments in growing our network of active buyers. As Randy mentioned, we delivered record growth in new active buyers in Q4. Additionally, we invested $1 million to $1.5 million incrementally quarter-over-quarter to support further international expansion, including rapid growth in Europe, headcount to support the January launch in the U.K., and ramping Asian business. Our adjusted EBITDA loss for Q4 was $14.2 million or 14.5% of revenue compared to 17.7% of revenue in Q4 2021. Our Q4 adjusted EBITDA loss excludes a $1.5 million restructuring charge related to our workforce reduction.

Turning to segment reporting. In Q4, revenue from our U.S. and international operating segments was $88.1 million and $10.1 million, respectively. Segment loss from our U.S. and international operating segments for Q4 was $20.5 million and $3.9 million, respectively. We continued to invest in our international business which grew 89% year-over-year in Q4 and 105% year-over-year on an FX-neutral constant currency basis. At the end of the fourth quarter, cash and cash equivalents were $319.4 million.

Now moving on to guidance. We expect Q1 2023 revenue in the range of $100 million to $102 million, representing year-over-year growth of 20% to 22%. We expect marketplace revenue to grow in the mid- to high-20% range year-over-year. We expect marketplace gross margin to improve in Q1 quarter-over-quarter driven by our pricing optimization efforts. In Q1, we expect adjusted EBITDA loss to be in the range of $9 million to $11 million or 9% to 11% of revenue compared to a loss of $12.7 million or 15.2% in Q1 2022.

Q1 adjusted EBITDA loss will be lower quarter-over-quarter, driven by the growth in marketplace revenue and gross margin and the efforts to streamline operating expenses discussed earlier. In Q1, we expect stock-based compensation expense to be approximately $5 million to $6 million, which we will exclude from adjusted EBITDA. We expect 2023 revenue of $470 million to $480 million representing 23% to 26% growth year-over-year.

We expect marketplace growth in the 30% range year-over-year based on current marketplace trends. We expect to be profitable on an adjusted EBITDA basis in Q4 2023, which is a change from our prior expectations for the second half of 2023. We expect improved operating leverage through 2023, driven by strong buyer and order growth and further improvement in gross margins driving faster gross profit growth in marketplace. We expect significant leverage over fixed and semi-fixed costs, including public company costs. Additionally, our January reduction in workforce will reduce operating expenses by roughly $8 million on a full year basis.

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

QUESTIONS AND ANSWERS

Operator

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

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

Randy, maybe you could start just by talking about what you've learned since we spoke last regarding why suppliers are accepting jobs at such a faster rate? And how did that job acceptance -- how did the speed of the acceptance trend throughout the fourth quarter and into this year?

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

Brian, so the -- as we indicated, we did see pricing continue to fall through the quarter and buyers -- our suppliers were just more willing than ever to take prices at those lower rates. And that continued to drive down the AOV as the quarter progressed. And then you couple that with -- as we talk about slowing order growth from our largest accounts, and that just ended up being a double whammy for us.

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

Right. Right. And so have you seen those acceptance feeds change at all? I mean, it was kind of a sudden drop of 30%-something that you saw at the end of the third quarter. They're stepping faster now than they were before? Or is that level off?

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

Yes. So we're seeing now prices. I mean, there are a couple of dynamics at work. One is, as we indicated, we are also doing some price optimization testing in Q4. And so -- and that dragged into the beginning of Q1, so in January of Q1 because we want to make sure we got it right. So now as we're taking those learnings, we've been optimizing prices. And so even -- so let me just look at that just from the price perspective, that's -- you're seeing that we're very selectively raising prices and optimizing it, also trying to make sure that we're maintaining a very strong order growth that we've been seeing. At the same time, you are seeing stabilization from the suppliers at the prices, that they're willing to take things. And so even though in January, we saw a relatively low AOV, in February, that's been trending back up. And so overall, that trend is going higher.

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

Okay. And just one last question on this. I mean, you've been experimenting with the price, experimenting at lower levels, I guess. But now price is coming back up a little bit, are you still in the fermentation phase? Or do you feel like you have something figured out that you hadn't before? And where should we expect price to go in March and beyond, I guess it's going to continue to creep up?

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

Yes. I think we are -- we've consolidated the learnings that we've had. And look, we were aggressive in Q4 sort of in response to the trends we were selling. We thought we took that as an opportunity to really invest in the testing. But we've taken those, and now you're going to see the AOVs grow as a result of us ending that testing and taking those learnings and optimizing pricing. As we said, raising prices where we think we have the room to do that without impacting this healthy growth in orders that we've been experiencing.

Operator

And our next question will come from the line of Matt Hedberg from RBC Capital Markets.

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

Randy, I'm wondering if there's any more clarity on maybe why suppliers are accepting orders at a lower rate? And just to be clear, are you sure there is not a competitive reason maybe causing some of these buyers' and sellers' decisions?

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

Well, look, I think there's -- clearly, there's an unusual macro environment. And so if buyers -- if our suppliers are willing to take prices at lower prices, then that means couple of things. One is that they probably have less work themselves. They have more open capacity. But also second, that we

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are -- we talked about this last quarter, we are working hard to make it easier and easier for them to work with us. So I think it's sort of a combination of those.

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

Got it. And then maybe just to double click on Thomasnet. Are there -- what are the specific things that you're focused on in 2023 to drive faster conversion of buyers and sellers?

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

Yes. So a couple of different things. IBE is operational, and we're working very hard. We've been growing very nicely at the top of funnel there. We're trying to make it easier and easier for buyers to find what they're looking for, optimize their searching, and then make it easier for them to transact. On the flip side, we're also just trying to streamline the communication that the supplier has with that buyer. So taking a step back, before we bought Thomas, all this is happening off platform. We're moving it on platform, both for the buyers' side and the suppliers' side. So as we get more top of funnel, more activity there, as we make it easier for buyers to find what they're looking for, that will improve our ability to transact, and likewise, as we get the suppliers more engaged, that will also improve it. So we're working both sides of the equation.

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

And Matt, I would just say, and we talked to -- it's Shawn. We talked a little bit about this on the call, but you should expect to see from us this year more advertising solutions, new self-serve advertising solutions on Thomas for suppliers. As you know that -- historically, that's all had to go through salespeople. So the more we can offer self-serve, that's going to be helpful to the business. And as Randy called out, we're going to lay the groundwork for pay-for-performance search, which will be really a step function change for Thomas as well long term.

Operator

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

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

Maybe just one quick follow-up to what we've been talking about so far, and then I'll get into a deeper question. But in terms of where we are in the macro cycle, what sort of visibility do you think you have in terms of whether you've absorbed the most -- the biggest wave of what would be excess capacity on the partner side of the equation where they've been willing to accept jobs at lower prices? And therefore, more of that's behind you than ahead of you as opposed to the sense you have a visibility of whether the macro environment could get worse over the next 3 to 6 months? That would be number one, and maybe I'll come back with a second one after that.

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

Yes. I mean, Eric, I think we've seen the -- we've seen the prices -- the costs bottom out. So I think as we've indicated, as you move from January to February, we are seeing -- we're increasing prices, partly because we're really seeing that floor from the suppliers, we should reach that floor from the suppliers. Likewise, we made an investment in Q4 to really test the price elasticity of our customer base, and we're also taking some of those learnings and we've been raising prices selectively.

So I think between the combination of the prices -- of the cost bottoming out from the suppliers, plus the learnings that we've gotten from our elasticity tests where AOVs are improving. I think that, Eric, for the year, when you look at our guidance for the year, we've tried to be conservative when we look at the AOVs just not to get ahead of ourselves.

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

Totally understood. And maybe the second one, more for Jim. In terms of the way you're framing the efficiencies you're pulling into the business now versus the potential exit velocity of '23, how should we be thinking about incremental margins and mix of sort of fixed versus variable costs? Or what's implied in maybe the way you're thinking about Q4 of '23? So we better understand how the business is set up from an incremental margin standpoint beyond 2023.

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

Yes. Yes, good question, Eric. So there are couple of things. One, we had some significant costs this quarter around finalizing Sarbanes-Oxley. That obviously is a onetime hit for us. We need to continue to maintain that. But the initial integration of that was obviously a lot of work for our team and we obviously use some consultants to get there as well. In addition, I think we took a very quick move to institute a risk, which is going to save us $8 million over next year.

And then again, we are seeing good changes in the gross profit margin already. And so we would expect to continue to grow that gross profit margin throughout the year. I think when you look at those factors put together, we feel pretty confident about getting, like I said, to that profitability on an adjusted EBITDA basis in Q4.

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

Yes. And maybe, Eric, just to add a little commentary there. So when you look at things like our G&A, in particular, our prior development line items, you will expect to gain real leverage, and we had been going -- Q4, obviously, was sort of an anomaly for us where we went in the wrong direction, but we expect it to gain real leverage on the line items in particular. And its marketing will continue to grow, but we're monitoring that as well.

So I think we're going to gain substantial efficiencies as the year goes on. And as Jim also indicated and we've said, you're going to see gross profit margins largely in marketplace, largely rebound here in Q1 and with that positive trend, kind of resuming what you saw from us in prior quarters going on that just -- that also adds incremental dollars for every dollar of revenue -- incremental profit for every dollar of revenue as we leverage those expenses -- those OpEx line items.

Operator

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

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

Maybe 2 for Randy. Randy, these macro issues as you're describing them around suppliers willing to take lower prices and slowing order growth from buyers. I'm just curious whether this is a little bit more unique to an online marketplace model like yours or company specific versus macro in the sense that as we see results across the manufacturing sector, we would expect to, everybody in the line, hear evidence of the same trends that you're describing. So the crux of the question is how marketplace or Xometry-specific these pressure points are?

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

Well, look, I think one thing to be clear about, we mentioned in the call, but I just want to double down on that is we are gaining market share. So not only we have a record number of active buyers in Q4, but we continue to see very strong growth trends in adding active buyers and we see really strong growth in adding order counts. So we're gaining market share here. I think it has been an odd macro environment. So I don't think

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that's specific -- in terms from a cost perspective, I don't think that's specific to us. I think that's more an overall environment that you're seeing. So I wouldn't ascribe it to anything particular to us. Shawn, I don't know if you want to...

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

Yes. No. I mean, Karl, I mean, we've seen others in the space actually, see their revenues decline year-over-year. And I'm sure you watch the macro environment as much as we do, and there certainly was some lower manufacturing output in the fourth quarter, too.

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

Got it. Okay. Just wanted to test that. And then secondly, Randy, if you could just describe in perhaps a little bit more detail these price optimization efforts that you're making? Because it does seem like the recovery that you're anticipating in 2023 is not really from the macro improving. I think you made a comment that these headwinds are likely to carry into Q1, but rather it's the tuning or optimization of the marketplace algorithm that should enable things to recover.

I know that you started doing that after 3Q and it obviously didn't lead to a significant improvement in the fourth quarter. So what I really want to pass on is what's different this time around, your tuning efforts that we can feel comfortable with that marketplace gross margin going up in Q1?

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

Yes. Look, and I just want to make it clear. And I think for -- and Karl, you said -- you're right. For 2023, we have taken a conservative view on our AOV and make sure that we take into account -- we don't -- we're not buying into a macro improvement by sort of taking account kind of where -- being conservative on that element. I think also, just on that point, we continue to grow market share and we're seeing a robust order of growth. I think in terms of our ability to control it, we wanted to make sure the test ran through, but we do have the ability to raise as the cost from the suppliers sort of have bottomed out.

And so that's sort of -- I think going down lower as we raise our prices through our selective -- through our price optimization that just enabled us to get a healthier margin, and without sacrificing that increase in order count or order growth from our customers. And that's what we were testing. We got pretty aggressive in that testing to see what is that price elasticity. I mean, we have a very good sense about how we can continue to gain that share of customer wallet without costing us dollars and our ability to add more cost and more price or charge them more. So I think we feel very good about the results of that optimization, and you will see the results of that here in Q1.

Operator

Our next question will come from the line of Ron Josey from Citi.

Ronald Victor Josey - *Citigroup Inc., Research Division - MD*

I have two. Maybe, Randy, can you talk a little bit just about annual active buyers and cohorts? I mean, we saw some pretty strong growth here in annual active buyers and additions in the quarter. I'm wondering if you expect a ramp in new buyer activity slow at some point relative to prior quarters? Or do you think, the cohorts -- or do you think this cohort what we've seen on that slide in the presentation can continue in terms of overall growth? And I have a quick follow-up.

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

I think we are continuing to see very healthy additions of active buyers. So that's been growing steadily throughout 2022. We obviously hit a record in Q4 of this past year in terms of the quarter-over-quarter adds of active buyers, and we expect a healthy trend to continue in '23. We also added -- for folks who haven't seen it, if you look at the earnings deck that now we've attached on our site, you can see we actually added a slide that show the revenue contributions from our cohorts. And I think you can see from that, that we're seeing really strong growing contribution from those cohorts, and we expect that trend to continue.

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

And Ron, it's Shawn. I just want to add to on that cohort slide just to be clear. You were asking about the active buyer growth, which was a record this quarter. And as Randy said, we expect that to be healthy going forward. The cohort slide is based on an account basis. And just keep in mind the whole land and expand strategy here, we've tried to bring in an account, we add buyers in an account and that's how it really drives that growth.

Ronald Victor Josey - *Citigroup Inc., Research Division - MD*

Got it. That's actually a good segue into the second question I had here. Randy and Shawn and Jim, just -- you talked about slowing order growth from Xometry's largest accounts, but also realigning the sales force to focus on those top 200 accounts. So if you could help us understand just the plan to, you call it, expand in those top 200 accounts, that would be helpful and where are you in that process of realignment?

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

Yes. So our top 200 accounts represent almost 50% of our U.S. marketplace revenue. So as we sort of indicated in the call, one of the things, unfortunately, that we experienced unexpectedly in Q4 was a slowdown from that group. And so really, as we saw that trend, we made sure that we realigned our sales force and our support to focus on going deeper into those customers.

And we've provided a bunch of case studies to land and expand. So we're trying to go deeper and deeper into them for a number of reasons. First of all, these are large companies that have tremendous spend on custom manufacturing. So even though we've grown rapidly with them since they joined us, there's -- we're still a very small portion of their overall spend in custom manufacturing. So this is very fertile ground for us to grow into.

And as we've gotten bigger with them, we're also getting the opportunity to do more and more with them, to get bigger orders, larger orders. So it's an investment that makes a lot of sense, particularly as we do more production, more end-use parts, this is very fertile ground for us. So focusing our technical resources on that as well to go deeper makes a lot of sense. Likewise, as we expand the menu of the things that we can offer, so as we more tightly integrate all the capabilities that the suppliers of Thomas offer, that enables us more and more to be that one-stop shop or one-stop place for those accounts to go.

And again, those accounts have such being spend. As we brought in what we can offer them, more and more they can default more of that spend to us. So it's sort of a multi-pronged strategy. I think we have a lot of active buyers, so making sure we're focused on those that provide the greatest opportunity for profitable growth. Q4 was a reminder of that, and we're doubling down that here in Q1 throughout this year and that's where -- in terms of just where we put our head count, that's where we want to put it.

Operator

Our next question will come from the line of Cory Carpenter from JPMorgan.

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Danny Pfeiffer - *JPMorgan - Analyst*

This is Danny Pfeiffer on for Cory Carpenter. I just have 2 quick ones on international. So for international expansion, is the key driver of growth there really more geared towards expanding the amount of countries you're operating in? Or is it really kind of geared toward expanding the depth in each market with new offerings? And then another one on international. Could you talk about what was attractive about the marketplace in Turkey you acquired? And maybe we should expect to see more of these bolt-on acquisitions in the future?

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

Yes. So I think when you look at Europe, it's actually both the things you mentioned. So we are adding sales folks in different countries. We're also expanding our capabilities in Europe. When you look at the recent tuck-in acquisition we did with Tridi, what that did was give us really a low-cost network in Europe. So think about similar cost model to what you have in like China or Asia network. And the beauty of that is we can ship in 24 hours from Turkey to really anywhere in Europe. So you're lowering your lead times and still giving our European customers an economy option, if you would. So both -- again, growth in -- both growth in the sales force and continued growth in different countries in Europe is what's driving that.

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

Yes. So if we're going deeper in the markets. There's huge markets that we're in, in Europe already when you look at the German-speaking countries, when you look at France and Italy and Spain, but we're also adding new markets as we talked about, we are now having a physical presence in the U.K. We're transacting in pounds, that's the third largest market in Europe. So it's still early days there, but lots of room to grow. And then just settle down on what Jim said about Turkey, a lot of European manufacturing is done there. It's very familiar ground with Europe. So it just offers us a great opportunity. And there's growth opportunity in Turkey itself. But -- so sort of -- we get 2 different things for that.

Operator

Our next question will come from the line of Greg Palm from Craig-Hallum.

Gregory William Palm - *Craig-Hallum Capital Group LLC, Research Division - Senior Research Analyst*

I know you've been testing this price elasticity in Q4. I know we focused a lot on the behavior on behalf of your suppliers. But I'm curious if what you were doing changed the behavior at all in terms of your buyers, whether -- maybe they decided to order less parts per order. Any change in kind of lead times, I think you alluded to something like that to reduce cost or maybe a little bit more color on buyer behavior?

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

Yes. Great question. So we did see buyers trade-offs lead time for price. We did see some reduction in quantity. So those things that you're talking about are absolutely spot on. And that also obviously impacted the average order values that we saw as we exited Q4 and in the beginning of Q1. Again, we said -- we've seen that trend change in February. We've also -- we're reaping the benefits of our price optimization. So we expect that AOV to start rebounding. It has rebounded in February and we expect it to have a good trend. That said, we're trying to be conservative for this year and to not get ahead of our skis on it, but it certainly hasn't improved from where it went in late Q4 and the beginning of Q1.

Gregory William Palm - *Craig-Hallum Capital Group LLC, Research Division - Senior Research Analyst*

And then in terms of pinpointing that improvement, I'll sort of tie that back to my initial question, how much of that is driven by the suppliers versus the buyers? Maybe they're adding more parts to the order, maybe they're -- maybe do an expedited or standards in lieu of economy, but can you just dig into a little bit in terms of the specifics around the improvements?

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

Yes. I mean, we are seeing buyers. We're seeing less buyers -- there is more urgency from the buyers as we're sort of getting further into this quarter. So they are trading off less on the lead time than they have been doing as we saw at the end of Q4 and beginning of this year. So there is some change in the buyer behavior. And then part of it also due to some of our price optimization.

Gregory William Palm - *Craig-Hallum Capital Group LLC, Research Division - Senior Research Analyst*

Okay. Makes sense. And then -- yes. Okay, got it. And then just in terms of margins, I just wanted to dig into the commentary a little bit on Q1 specifically. So I think you said that they're going to rebound or normalize, I forget the exact words, but would you expect them to rebound to levels that you saw in Q2 or Q3 last year? And then just last quarter, you talked about accelerating that time line to achieve your long-term targets. Are you still comfortable with that in 2024? Or do these recent results change your thinking there?

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

Absolutely, we're so comfortable with that. And I think the rebound in Q1, I think we're seeing that to be very -- it's -- we use the term largely rebound. And when we talk about largely rebound, we're going back to Q3. So we're seeing a very -- we're back to what we think is a very healthy gross profit margin on the marketplace side.

Operator

Our next question comes from the line of Robert (sic) [Scott] Graham from Loop Capital.

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

On the price optimization, what you did there, was that just sort of like just a sweeping price change across all or most categories? Or was it maybe more surgical in categories and with groups of users?

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

I'd say, we did wide testing. I think you've hit it spot on and we do -- we have different -- we're running different tests and different technologies and for customers at different points in their journey with Xometry. So whether or not they're just a brand-new customer moving to the second order versus the customer who's been here longer, and again, versus if you're looking at folks with additive manufacturing versus machining, molding, et cetera. So we ran a bunch of different tests. So -- and we thought, look, it was a very interesting period and we thought with the time when we're grabbing market share, we wanted to really test this. And we thought this was smart move to fund it and reach the benefits of it as we move forward.

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

So just to make sure I understand your question -- your answer, Randy, does that suggest that there's potentially some more wood to chop here that -- maybe there's more price optimization by category or otherwise to come that you haven't addressed?

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

I don't -- I think we're always going to be testing price elasticity all the time. We're always going to be running tests on that, but we don't expect that to have a material impact on gross margins that you saw in Q4 of last year. That was -- we really funded a big number for that. We do not expect that to happen in Q1 and beyond this year.

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

Got it. My follow-up question is simply -- the existing account sales of 96 -- have been hovering around 95%, 96% for some time. I'm wondering -- and I know that that speaks to the stickiness of the model, but I'm wondering what the active buyers growth just continuing to be quite strong. The assumption here is that some of those active buyers are new accounts, right? So when does existing account percent, when does that number start to go down? And perhaps maybe should it have gone down by now?

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

Yes, Scott, it's Shawn. I mean, just remember that a new buyer would spend less, right, than someone who's been -- an account that's been spending over time, right? So it's that kind of dynamic. But if you actually look at sort of revenue per buyer in Q4, I mean, that's part of what we saw a very strong active buyer growth in Q4. But again, we saw some of our existing customers order less. So that was the bigger impact in terms of revenue per buyer.

Operator

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

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