Symbotic Inc

Q3 FY 2023 Financials Call

OFFICIAL TRANSCRIPT

EVENT DATE/TIME: JULY 31, 2023, 8:00 AM ET

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PRESENTATION

Operator
Welcome to Symbotic's Third Quarter 2023 Financial Results Conference Call and Webcast. (Operator Instructions).

I will now hand the conference over to your speaker host, Jeff Evanson, VP of Investor Relations.

Jeff Evanson *Symbotic Inc. - VP, IR and Corporate Development*
Good morning, everyone. Jeff here, and Livia, thank you for the introduction. Welcome to Symbotic's Third Quarter 2023 Financial Results webcast. Our press release and discussion today will include forward-looking statements based on assumptions that are subject to risks and uncertainties and could cause actual results to differ materially from those projected in the forward-looking statements, including as a result of the factors described in cautionary statements

and risk factors in Symbotic's financial release and regulatory filings with the SEC by which any forward-looking statements made during this call are qualified in their entirety.

In addition, during this call, we will discuss certain financial measures that are not recognized under U.S. generally accepted accounting principles, which the SEC refers to as non-GAAP measures. We believe these non-GAAP measures assist management in planning, forecasting and evaluating our business and financial performance, including allocating resources. Reconciliations of these non-GAAP measures to our most comparable reported GAAP measures are included in our financial press release, which is available in the Investor Relations section of our website and is on file with the SEC.

These non-GAAP measures may not be comparable to measures used by other issuers. Today, we will provide guidance for the fourth quarter, including revenue and adjusted EBITDA, we are not providing guidance for net loss today for profits, which is the most comparable GAAP financial measure to adjusted EBITDA. We are not able to provide reconciliations of adjusted EBITDA to GAAP financial measures because certain items required for such reconciliations are outside of the control and cannot be reasonably predicted, such as provision for stock-based compensation.

On today's call, we are joined by Rick Cohen, Symbotic's Founder, Chairman and Chief Executive Officer; and Tom Ernst, Symbotic's Chief Financial Officer. These executives will discuss our third quarter 2023 results and our outlook, followed by Q&A. And now with that, I'll turn it over to Rick for some opening remarks. Rick?

Rick Cohen *Symbotic Inc. – Chairman of the Board and Chief Executive Officer*
Thank you, Jeff. Good morning, everyone. Thank you for joining us to review our third quarter financial results. Since we spoke last quarter, we have demonstrated our ability to successfully do at least two important things at once. First, we achieved record quarterly results; and second, we launched the GreenBox joint venture. We were able to report strong third quarter results, in part because our outsourcing strategy related to deployments. We are pleased with these partnerships, and they are beginning to bear fruit, and our supplier ecosystem continues to ramp. Tom will talk more about the quarterly details. So instead, I want to emphasize how excited we are about our GreenBox joint venture with Softbank.

GreenBox is the realization of the vision I've had for many years to bring AI-enabled automation to companies of all sizes. We're excited about GreenBox because it adds more than $500 billion per year to our total addressable market by bringing automation to all customers. Warehouse costs for these customers are typically 2 to 3 times higher than they are for large customers. This means GreenBox can offer small- and medium-sized businesses a great value proposition while capturing more of the value of our technology, and we already have interest from potential customers.

We capture this value three ways: one to a large higher-margin system contract that is backed by SoftBank. Two, by securing 3 times the level of recurring revenue streams that we get today. And three, we get to own 35% of a highly profitable GreenBox business. We were fortunate to have SoftBank join us as a partner in GreenBox to help us with capital to help drive our "Go Big, Go Fast" strategy. In fact, if I -- in the early years of C&S, if I had, had more capital, I could have grown C&S to a much larger company than even it is today. So, I made the decision early on to adopt more capital through -- from GreenBox into the Symbotic network.

Symbotic also wanted higher pricing, more recurring revenue and a way to capture more of the value stream from our technology. SoftBank wanted a larger stake in Symbotic. As negotiations advanced, I decided we could get to consensus by agreeing to sell about 4% of my family's 78% ownership stake, down to about 74%, and that we sold at about $28. And I was happy to do so because I'm quite confident GreenBox will create much more value for Symbotic than what I gave up and I was able to do it with no dilution to shareholders.

The launch of the GreenBox joint venture was demand-led, so we know these services will be attractive to prospective customers. While we are anxious to bring GreenBox to market, like Symbotic, we intend to infuse the GreenBox culture with the same North Star of creating "braggingly happy customers." Therefore, a customer launch will not come before the business operations already sometime in 2024, which is when we anticipate securing the first GreenBox customers. We won't lose focus on our existing customers who helped us get to this point. We'll continue to take care of all our large customers and scale up for Walmart and all the rest of our customers. I would like to thank all these customers as well as our associates, shareholders, partners and suppliers who have made this quarter such a well-rounded success. Now Tom will discuss our financial performance and outlook. Tom?

Tom Ernst *Symbotic Inc. – Chief Financial Officer*

Thank you, Rick. We grew our third quarter revenue 78% compared to a year ago to $312 million. The strong growth was driven by solid execution on existing deployments and new deployment starts. We continue to see acceleration in the rapid pace of installation of deployments with the help of our partnership initiatives as well as to our ongoing efforts to standardize our platform and streamline our deployment processes. Our backlog at the end of the third quarter was about $12 billion.

The GreenBox joint venture we completed last week adds another approximately $11 billion to backlog, bringing our total backlog now to about $23 billion. Eleven billion dollars from GreenBox is backed by the capital of GreenBox's investors led by SoftBank. We initiated 6 new system deployments during the quarter and advanced one system to full operation. As of the end of the third quarter, we have 10 fully operational systems and 33 systems in the process of deployment with multiple customers, an increase from 28 systems last quarter and 13 systems in the third quarter of last year.

Our sales and deployment progress for platform purchases continues at a rapid pace. Each quarter, we add new deployments from multiple customers. For example, progress with Walmart continues to plan, and we recently started the deployment of the second of five warehouse facilities with UNFI. Recurring revenue continued to grow sequentially as deployments move to production. We now have 10 systems operating at customer sites. As system completions increase, our recurring revenue should continue to grow and have a much higher gross margin than systems revenue. This quarter, we posted strong improvement in recurring gross margin and in time, as recurring revenue becomes an increasing share of our revenue mix it can provide a powerful operating leverage to our business.

Our third quarter adjusted gross margin was consistent with last quarter. These results still reflect significant costs associated with lower margin innovation projects, the burden of elevated pass-through steel cost and the costs associated with rapidly scaling our operations. Operating leverage improved again sequentially as we achieved a 1% adjusted EBITDA loss rate compared to 4% last quarter and 12% last year of loss rates. This was driven by a rapid revenue growth and gross profit growth along with slower operating expense growth. Gross margin was consistent with last quarter, as we maintained our focus on rapidly scaling deployment capability.

Our cash and equivalents, including marketable securities and restricted cash, grew $48 million sequentially to $513 million. Turning to our outlook -- For the fourth quarter of fiscal 2023, we expect revenue of $290 million to $310 million and to report our first profitable quarter with adjusted EBITDA between $0 and $3 million positive. Finally, I'd like to address some topics related to our GreenBox joint venture announcement. As Rick mentioned, the way we have structured the GreenBox joint venture allows us to rapidly transform a very large segment of the supply chain in a very capital-efficient way to harvest significant returns for shareholders. Symbotic has a non-cancelable committed contract with GreenBox for the purchase of $7.5 billion in Symbotic Systems. This contract allows for a visible deployment schedule and is backed by the investment partnership of SoftBank and Symbotic.

We believe that GreenBox is a great opportunity for Symbotic shareholders and are very excited about its future. In all scenarios and at all times, after our initial $35 million funding, Symbotic's cash flow from GreenBox will be positive, net of any incremental capital needed to support GreenBox growth. This means that Symbotic shareholders are protected such that even in the remote scenario where no systems are ordered, a net cash payment is due to Symbotic for approximately $2 billion backed by SoftBank. We are confident and excited about the launch of this joint venture as we are responding to market demand signals.

In addition to the large, committed order for systems, sales and recurring revenues that follow it, we believe GreenBox can generate strong returns. Thus, we expect Symbotic's 35% interest in GreenBox subscription business will yield a strong cash flow stream to Symbotic.

In conclusion, we are continuing to scale our business and innovating rapidly to deliver for our customers. We look forward to speaking with you again next quarter to provide an update on our progress. We now welcome your questions.

Operator, can you please open the Q&A?

(Operator instructions)

Andrew Kaplowitz *Citigroup Inc*. - Managing Director

Tom, can you talk about your adjusted gross profit margin and what you'd expect moving forward as we go into FY '24? Obviously remain relatively steady, as you said, despite higher sales. So how do you look at gross margin from here? Why didn't it inflect a bit more as I think you said last quarter that steel would be a tailwind, at least in Q4. And I think last quarter, you mentioned innovation-related headwinds could diminish a bit.

Tom Ernst *Symbotic Inc. – Chief Financial Officer*

Yes. Thanks for the question, Andy. So, gross margin, we continue to expect that particularly when you're watching us track over time over an annual basis, we expect to see our gross margin expanding. On a given quarterly basis, there can be some variability to that expansion as we're seeing here in this Q4, where we're sequentially flat at 18.3%. Continues to be the same factors that we've been seeing, Andy, where we are -- we see that expansion coming as the impact of a handful of things abate over time. Particularly the redundant costs associated with just growing so fast. It's the rate of expansion of our business along with the rate of shift to our outsourcing partners where we have redundant costs. We continue to see those abating over time.

As you mentioned, steel continues to be a headwind when we look relative to the 10-year average. We do think that we've seen a modest benefit in this quarter and last quarter. We continue to expect to see a modest benefit relative to where we were three and four quarters ago.

However, the steel index actually has been going up over the recent few months and seems to be still at a relatively high elevated level to the 10-year average. So, we think that there is potentially a longer-term opportunity for that to abate over time. And then finally, our recurring revenue margins are expanding. We had a significant expansion of recurring gross margin is now at a 6% loss rate versus where we were a year ago in the 32% loss rate.

However, we see a lot more power as we continue to waterfall recurring revenues on and gain scale in that business, where we see long-term structural recurring gross margins on recurring side, north of 60% over the long term. So again, as we look on an annual basis, you should expect to see expansion.

Andrew Kaplowitz *Citigroup Inc*. - Managing Director

Very helpful. And then Tom, maybe just on the revenue side. It's -- revenues obviously stepped up nicely here over the last few quarters. We see your guide for Q4, you see sort of where the Street is for FY '24. I'm sure you don't want to give a ton of guidance, but does your backlog and maturation of your outsourcing strategy support the kind of growth the Street is projecting at this point for FY '24? Any sort of initial thoughts would be appreciated.

Tom Ernst *Symbotic Inc. – Chief Financial Officer*

Yes. Thanks, Andy. So, we're looking forward to fast growth in 2024. And I think you're right, we're providing guidance -- specific guidance for revenue on a quarterly basis, but our growth next year is going to be underpinned by the ramping sites and deployment we have. So, we do anticipate seeing healthy growth as we look into next year. And we expect that -- we expect that a little commentary on our Q4 and your question as well. Our Q3 really did exceed our expectations significantly. We saw some timing benefits just in speed of our deployments picking up, that perhaps also creates a little bit of a sequential compare to Q4, in terms of why we see a flattish type of sequential growth in Q4.

Andrew Kaplowitz *Citigroup Inc*. - Managing Director

Tom, just a quick follow-up there, like six systems initiated, you would continue to see that continue to rise from here, right? Because it's been a little bit stable over the last few quarters.

Tom Ernst *Symbotic Inc. – Chief Financial Officer*

You can see some lumpiness here as well, Andy. So, it has been kind of consistent. I think over the long run, you'll see growth there, but it won't be surprising when we have -- if we have quarters where we're actually down sequentially. Timing on those system deployment starts does depend on customers' readiness as well. So, there will be some quarterly variability but as we move forward, we should expect to see growth every quarter though.

Matt Summerville *D.A. Davidson & Co* - Analyst

Just a couple of quick questions. Back to the gross margin kind of topic, Tom, can you maybe parse out some of the headwinds and tailwinds from a quantification standpoint. Whether or not you've seen any tangible benefit from the restructuring actions taken last quarter and what lies ahead in that regard as we think about how to kind of model this?

Tom Ernst *Symbotic Inc. – Chief Financial Officer*

Yes. Thanks for the question, Matt. We did see some benefits in the quarter. We continue to see though that our outsourcing initiatives leaves a lot of opportunity for us to continue to see expansion over time. So, we're only seeing the earliest of those benefits. We're continuing to invest significantly in our major innovation initiatives as well. So that continues to be something that we think has a significant payoff over time. Rick's mentioned these on multiple occasions, but our major platform release of our autonomous bot, SymBot™, along with our BreakPack project, our two major innovation projects that we're investing in. In the near term, that cost us on the gross margin line that are going to have big payoffs. And then finally, just the rate of speed at which we're growing, kind of that redundant cost, I think, you take those in kind of that order, and that's the magnitude of expansion opportunity we see as we look forward over the coming couple of years to expand.

Matt Summerville *D.A. Davidson & Co* - Analyst

Got it. And I was wondering if you guys can maybe talk a little bit qualitatively with the GreenBox JV formally announced, what has inbound early potential customer feedback been? And then, Tom, I wanted to make sure I understood. Can you just go over that -- the situation that would drive that $2 billion inbound payment to Symbotic with respect to GreenBox. I want to make sure I heard you correctly.

Tom Ernst *Symbotic Inc. – Chief Financial Officer*

Sure, Matt. So, we have received from numerous channels interest in GreenBox. First, this has been demand-led. And as Rick mentioned in his prepared remarks, his vision for the company has been to be able to provide warehousing-as-a-service, as a huge opportunity to just provide much higher quality at lower cost services to end customers. And so, this vision hasn't been new and the interactions we've had with customers for quite some time has expressed interest in this business model. And since the announcement, although it's only a week old, we've received inbound expressions of interest in hearing what it's about. I'll remind you of what we said last week and what Rick said today as well that, that our first goal here is to get this business up and running and then stand up the go-to-market and management, and then we'll bring on new customers sometime in 2024. So, we'll keep you updated on that. So, we -- and the progress.

On the $2 billion question. So, as we think about GreenBox, we have structured this business such that in all scenarios including the base growth scenarios, along with the more aggressive growth scenarios as we think about the execution of the business; We structured it not only such that we have control and visibility over that scheduling to make it efficient for our planning purposes and to incorporate the rest of our customers' capacity slots around GreenBox. But to also be cash flow positive at every interaction we have with GreenBox. So that means that the payments that are due to us precede the payments that go out the door, including any capital requirements that are necessary in the faster growth scenarios of GreenBox where we're actually funding capital in support of our 35% ownership position.

And as we thought about every scenario that's possible, we thought about the extreme downside case that what if GreenBox for whatever reason had to cancel. In that case, we have a sizable payment that's due to us for all of the profit that would be would have been received on that entire $7.5 billion order, plus our first recurring annual commitment. And so that nets to us over $2 billion. Just wanted to highlight the level of capital investment that our partners, and we are taking on here and belief in the business.

Michael Latimore *Northland Capital Markets* - Analyst

I guess -- as you think about the fourth quarter, should we think about cash flow exceeding EBITDA again here? That's been a trend the last couple of quarters.

Tom Ernst *Symbotic Inc. – Chief Financial Officer*

Yes. Thanks for the question, Mike. We continue to be -- expect to be cash flow positive for the year, and we can have cash flow variability. So, I tend not to guide on the cash flow line. But generally, you should expect that our trend will be that the dynamic you're describing where our working capital is a net production above and beyond our EBITDA will be the case. Cash flow can be a little bit lumpier than our revenue can because our revenue recognition is percentage of completion and a little bit more atomically spread where sometimes the cash flow as customers can be just a couple or three invoices per system purchase, so they can concentrate a little bit.

Michael Latimore *Northland Capital Markets* - Analyst

Got it. And then, Tom, in the past, you've given some general color on number of deployments that are hitting kind of their biggest rev rec phase. How would you characterize that dynamic in the fourth quarter?

Tom Ernst *Symbotic Inc. – Chief Financial Officer*

Mike, the dynamic continues as to what we've seen in the past, and that is that, while we are percent complete on a rev rec basis, those systems that have gotten about a year into the deployment schedule where the most extensive part of the physical installation phase is occurring is where the strongest revenue generation is. So, I think as you think about what we've disclosed in the past about a number of systems and deployment, those systems that were in deployment in -- say by the end of Q2 and started in Q3, those nine to 13 are the ones that are generating the strongest revenue contribution here in our fiscal fourth quarter.

Nicole DeBlase *Deutsche Bank* - Director & Lead Analyst

Just on the backlog now being $23 million. I guess, are you guys a little bit less focused on going after sales to new customers, similar to what you announced with UNFI earlier this year? Or is that still a focus for management?

Tom Ernst *Symbotic Inc. – Chief Financial Officer*

So, our first focus has always been, in Rick’s words, braggingly happy customers. So, it's making sure that everything we're deploying in that, what was $11 billion or $12 billion and is now 23 results in really happy customers. In addition to that, we do intend to bring in on new customers by the ones or twos per year here in the near term. And so, we've already brought on two new customers this year and launched GreenBox. So, it's a pretty big year for us. I think we're a little bit above that one or two. But I think as you look forward, you should expect to see us first and foremost, focus on execute the backlog and then where it makes sense to have that right incremental customer or two.

Nicole DeBlase *Deutsche Bank* - Director & Lead Analyst

Okay. Got it. And then SG&A ticked down a bit Q-on-Q in this quarter, I guess, like is this level of SG&A sustainable or anything to highlight there?

Tom Ernst *Symbotic Inc. – Chief Financial Officer*

Well, we do continue to see project and other variable activity at a pretty significant run rate basis in our fiscal Q3, as we saw in fiscal Q2, a slight downtick there. But I think as you look forward, we actually see some of that abate a little bit more. This is partially being offset by -we have expanded our hiring a little bit. Our head count is up about 100 heads to about 1,300 people quarter-on-quarter. And I think as you think about that moving forward, our expectation would be that you should expect moderate OpEx expansion looking forward, kind of consistent with what we've thought as we framed out the near-term future over this year but that's moderate head count expansion against strong revenue growth. So, we continue to see some strong operating leverage.

Greg Palm *Craig-Hallum Capital Group* - Analyst

Congrats on the continued progress. I guess just looking back in the quarter in terms of the upside, I think you mentioned speed of deployment. So, what exactly is outperforming? I mean are you deploying more systems than -- may be what you initially thought? Are you deploying faster, meaning you're able to capture or recognize more revenue within the quarter? Just a little bit more thoughts on the progress would be helpful.

Tom Ernst *Symbotic Inc. – Chief Financial Officer*

What we're seeing, Greg, is that with each new system as it goes through phases, we're able to shave off some marginal time here or there. And the new systems we're starting, we're putting a slightly faster target time on. This is consistent with what our goals were, not what we needed to do to keep the business plan, but also still leaves a huge opportunity where we're still expecting the systems we started today are a little bit under 2 years from that launch of deployment until we get that deployment completed and the customer begins to ramp of the full production use. Our goals over the long term are still to materially cut that time through both technology and process and partners, where over the long run, we look to move to take that to six months if we can.

Greg Palm *Craig-Hallum Capital Group* - Analyst

Got it. Okay. That makes sense. And then just a little bit more on gross margin. So, if we look at it based on segment at least sequentially you did see a bump in systems margin, but you saw a pretty significantly higher loss on software maintenance, support and operation services. So, I'm just kind of curious how you sort of view that looking forward in terms of the gross profit loss by segment.

Tom Ernst *Symbotic Inc. – Chief Financial Officer*

I think if you -- Greg, if you look at it on a non-GAAP basis, you'll see more consistent. You'll see actually expansion in the recurring line and more static -- a little bit more static in the system line. So, you're seeing a little bit of an effect of accounting treatment on stock-based comp that's created a difference to the GAAP results.

Greg Palm *Craig-Hallum Capital Group* - Analyst

Do you know off the top of your head, stock-based comp by segment in terms of the mix or proportion?

Tom Ernst *Symbotic Inc. – Chief Financial Officer*

I think we have that in the reconciliation table in the release.

Greg Palm *Craig-Hallum Capital Group* - Analyst

I can follow up with you off-line, too.

Tom Ernst *Symbotic Inc. – Chief Financial Officer*

Yes, we'll follow-up with you, but it is in the table in the release though.

Chris Snyder *UBS Investment Bank* - Analyst

Maybe starting with the GreenBox JV, can you just talk a little bit about the plan for managing these facilities? Is this something that SoftBank will be doing? And I ask because it does seem that these -- the commercial burden for managing these multi-tenant facilities could be pretty high.

Rick Cohen *Symbotic Inc. – Chairman of the Board and Chief Executive Officer*

Yes. So, this is Rick. So, Symbotic will run the systems as we do with many of our customers. The commercial relationship is being developed between SoftBank, Symbotic and quite frankly, there are 3PL operators today that would like to partner with us on some of the customer acquisition. So, it's a -- so -- so think of it this way; the Symbotic will sell assist in the GreenBox and GreenBox will be just another traditional customer for Symbotic. Then there's a management team that GreenBox will have to develop which is -- we have inquiries now. And so, we're developing that management team as we speak, and it could be a combination of some of our partners who for instance, a port operator could be a partner who has customers but would hire Symbotic to be the operator of the system. So, there's a couple of relationships here. There's the commercial relationship which we're going to have to scale and build the sales force. But outside of that, we're not going to -- we think we're not going to be in the construction business. We think we'll go into probably existing businesses or have real estate partners who have already built buildings.

So, it's not as complex on the outside as it might seem. And SoftBank and Symbotic have been working on this for well over a year, talking to various different customers. But yes, we will have to develop a sales force and a commercial focus, and that will be on GreenBox. And the reason we set up the structure the way we did is, we did not want to burden Symbotic with that overhead. We want to keep Symbotic as a pure play and then GreenBox will be a commercial sales force-driven 3PL kind of operator finding the right partners, and they will simply buy the systems from Symbotic. Symbotic will run the systems, but Symbotic will not be involved in getting the commercial customers.

Chris Snyder *UBS Investment Bank* - Analyst

Really, really helpful. Another kind of steady question that we're guiding on the deal. Is that -- on the conference call last week, you said that Symbotic will not need to contribute any more capital outside of the original $35 (million). But GreenBox will be taking on more capital, presumably from SoftBank. Will that come through GreenBox in the form of debt to SoftBank? Will it be incremental equity out there you're getting us, whether are they going to get as they continue to put more capital in to grow GreenBox?

Tom Ernst *Symbotic Inc. – Chief Financial Officer*

Yes. Thanks for that, Chris. So, we do anticipate that GreenBox will require capital, and that's because we anticipate a very strong growth profile for the business. So -- now that capital is going to come in the form of -- it will be netted against cash flow that is due to Symbotic for the purchase of the system. So, we will be funding -- we anticipate we will be funding capital, but as I mentioned, it will come out of the cash flow we get. SoftBank will be putting capital in directly to support the growth. Now over time, we anticipate that we will be able to bring on debt capacity as well. So, we anticipate that in the growth is ahead of GreenBox being cash flow positive on its own right, with its own subscription customers, that debt capacity can begin to supplant some of the capital calls that are necessary to support the growth.

Chris Snyder *UBS Investment Bank* - Analyst

I appreciate that. If I could just squeeze one last one in, it's another kind of common question. I think right now, there's 33 systems under deployment. GreenBox will start ordering next year. Where do you think, I guess, the capacity for units under deployment could be, say, 12 or 18 months from now? Just trying to get a sense for kind of how that GreenBox growth can layer in.

Tom Ernst *Symbotic Inc. – Chief Financial Officer*

So, Chris, we've been building our supplier network and our outsourcing partners and our operations to provide the scale to really open up the business model. I don't think we want to set a target on the time frame, but our goal is to really just to ensure that we build that whole supplier network to more than support the $23 billion we have in backlog, along with -- along with, as I mentioned, we want to create additional capacity for us for our existing customers and for those potentially one to two new customers per year we're bringing on. So, we do believe that the outsourcing progress that we've made to date gives us the visibility to do that already today. And what we're looking to do is harden and deepen that supply chain so that we can create more capacity beyond that.

Rob Mason *Robert W. Baird & Co.* - Analyst

This is maybe just a follow-on to the last question. Just I am curious how far out you can secure your partner resources for the deployment of these systems and also thinking about what steps you're taking to insulate, I guess, a stronger pool on industry resources if you look out two or three years, the warehouse automation market is stronger than it is today, which there's been some step back by some of the larger players in the industry, if they were to come back, how do you insulate against pull on those resources?

Rick Cohen *Symbotic Inc. – Chairman of the Board and Chief Executive Officer*

Yes. So, this is Rick. So, I spent a lot of time on this over the last six months and there's two things that we're doing. So, we continue to find new partners that want to build systems for us. We're also continuing to find new suppliers that may have, as you said, seeing their backlog greatly cut down. And so, we're developing a different kind of relationship with these suppliers. So, we're developing -- this is what I did in my past life with C&S. These are real partnerships. So, these are going to be long-term partnerships and quite frankly, we're going to be a very large customer to a lot of suppliers, but we are not single sourcing anything, and we're finding suppliers around the world. So, I think we're feeling pretty good about the ability to keep our supply chains running.

One of the things that is -- I think the whole community has seen, is that the supplier community has seen is how predictable. I mean, we really -- there are very few times where these kinds of suppliers actually have visibility to a five- or six-year backlog. And so that's what we have. So, we're very excited about the suppliers, the question you were asking before, and as the suppliers build higher and higher quality into their products, the installation times go down faster, and then we can buy more systems and install more systems. So -- we're very, very aware of what happened in the last couple of years about supply chains breaking, and we're very, very focused on making sure that doesn't happen to us.

Rob Mason *Robert W. Baird & Co.* - Analyst

Very good. And just a follow-up with respect to GreenBox. It sounds like they'll pursue or secure some customers early on before you launch your systems into them. But as you think about this going forward, would you expect that they would deploy systems on spec? Or would they need to have customers under contract before they would place an order with you.

Rick Cohen *Symbotic Inc. – Chairman of the Board and Chief Executive Officer*
I think they're going to do both. I mean, one of the reasons that in my prior -- one of the reasons that we did this deal with GreenBox is -- I spent -- I went to Japan a couple of times, I spent a lot of time with Masa. Vikas, who's on our Board from SoftBank has been a great champion of this idea. But we -- I believe that if we create a network and so some of these sites will be speculative, and that's a risk that SoftBank was willing to take. The returns should be great. And so, it's worth I, but it's not a risk that I think Symbotic should have taken as a public company that started out as a warehouse automation company. So that's why we partnered with them. But I think there will be facilities that we will build and wait for it to come. And then I think there will be other facilities that we will build as we are talking right now where customers are saying, we have a demand for this. We didn't know that you could -- what GreenBox does that is so special is very, very hard for 3PL operators to put multi-tenants in a single facility, and we're hearing that over and over from 3PL operators.

And the reason is because they have mispicks, they have errors and it's very hard to keep the inventory under control. Symbotic, and this is what we're seeing over the last six months. I mean if a customer orders a million cases, we ship a million cases, we might have one error, but we might not and we don't even know why we would have that. So, we're nearly perfect inventory accuracy, perfect shipping accuracy, and that enables a whole new industry and a whole new way of creating these 3PL operations. So, we're really, really excited about and SoftBank is really excited about. And even some of the 3PL partners and operators who are talking to us about, could they buy our systems, they're excited. So, we think this is -- this is a new market that I don't think people fully understand, and it's a very, very big market it.

Joe Giordano *TD Cowen* - Analyst
Just a lot of the operational questions have been asked. Maybe I can kind of go through a couple of things that have been coming to us from clients over the last couple of days since GreenBox, because there definitely seems to be some confusion about kind of how this works. Rick, a company that comes out of the SPAC and not does a JV that in a way, it's kind of self-funding its own revenue to some extent. I think that's driving some confusion. Can you maybe talk to us about like, if Symbotic didn't go this route, if you were not going to do GreenBox, but you still want to accomplish what GreenBox is doing -- If you wanted to do this all organically? What would you have had to do at Symbotic organically to stand up this organization? What would that have meant in terms of capital in terms of management bandwidth, if you were to do it yourself instead of through this mechanism?

Rick Cohen *Symbotic Inc. – Chairman of the Board and Chief Executive Officer*
Yes. So great question. So obviously, I thought long and hard about doing it ourselves, but what I realized was with the backlog that Symbotic has, the start-up costs for GreenBox or for outsourcing and building these spec buildings would have all fell into Symbotic. We've been very, very confusing to our investors. So, what we did is we separated it out and the pricing that Symbotic has to GreenBox, because we understand what a big value creation is, we're getting a very large percentage of the profits both through software and through margins to Symbotic, while still offering great returns to SoftBank. So, if I -- the lesson that I learned is, at C&S, which I still own 100% of, and it's a large business, but I never took outside capital because I liked owning 100%. And if I'd taken an outside capital earlier, we would have done a couple of massive

acquisitions, which we didn't get done because we wanted the capital just at the right time and not give up any shares.

And so, I think that really hurts Symbotic, it hurt C&S in the long run, so one of the things I thought about with GreenBox is to create -- we're going to create a whole new infrastructure market. We need to get the capital early, but we also need to keep Symbotic as a pure play. And so, what we get is we get very healthy software license fees out of GreenBox, very healthy margins, higher than we get today. And then because it's really -- we created this business with the help of SoftBank, but a lot of it was something -- why SoftBank invested in Symbotic early on.

We talked about this with them when we did our -- we first looked for a partner for the SPAC. So, our 35% of the profit of GreenBox will come back to Symbotic as a distribution. So, when you add those three profit streams, it's not as good as if I did it myself, but I think in the long term, it's going to be a lot more profitable in the early years than if I had waited to do this. And I think it would have taken five or six years to do it. And I think there would have been a lot of confusion at Symbotic. So that's why I chose to do it now this way. And so, I hope I answered your question.

Joe Giordano *TD Cowen* - Analyst

Yes. That's great color. Appreciate it. And then maybe just last one. Because I think there was also some confusion that the shelf registration happened at the same time and maybe there was -- like the initial response suggested that maybe people were worried about a liquidity event. Can you talk about what that registration did and what the actual near-term capital needs of legacy Symbotic are at this time? I mean given your cash position; it doesn't seem like the primary share issuance is really necessary.

Tom Ernst *Symbotic Inc. – Chief Financial Officer*

Yes. Thanks for that question, Joe. We did file a shelf, as you saw in S3 registration. This was our first opportunity to do that. So, you have to anniversary your public listing per year. And then the subsequent month is when you can file that. So, we felt like it was good governance to have that shelf in place. Should we want that streamlined process to any future either debt or equity capital raise. And you're right, as we look at our business, we are cash flow positive and have been for three quarters or and anticipate that for this year with expanding margins looking forward. And then that's the business before GreenBox. Add GreenBox on top, and we expect that actually will be margin enhancing on a cash flow basis. So, we don't really see a core general operational need for the business at this point -- so, as we look forward to our cash generation.

Mark Delaney *Goldman Sachs* - Analyst

First, I was hoping you could please provide an update on how BreakPack development is progressing and how feedback has been on that capability.

Rick Cohen *Symbotic Inc. – Chairman of the Board and Chief Executive Officer*

Yes, sure. So, the BreakPack is progressing quite well. There's been a lot of issues starting up a whole new -- basically, it's a whole new business. It's all new product line for us. But I'm spending a lot of time now there. The whole team is spending a lot of time done. It's on track. It's going to be a great product. We're already starting to work with Walmart on the learnings that we have from the first system and what the second system would look like, which will be better, faster and cheaper. So, I would say we're very happy with BreakPack and we think it's going to be a very good product for us to roll out to the whole marketplace.

Tom Ernst *Symbotic Inc. – Chief Financial Officer*

And I'll add to that, Mark, that we continue to expect that we'll likely do one more proof of concept before making it generally available but just add that I agree with Rick, that the feedback we get from our prospects and our existing customers is intense interest in this product.

Mark Delaney *Goldman Sachs* - Analyst

That's all helpful color. I appreciate that. And my second question was on the systems gross margin. I believe the company has articulated the potential for that to eventually reach the high 20s, if not even 30% over time. So, could you comment in more detail on what the key factors would be to get to that sort of gross margin relative to the current level? And then any rough sizing of how much the various factors could add to margins?

Tom Ernst *Symbotic Inc. – Chief Financial Officer*

Yes. Thanks for the question, Mark. So, we do continue to see that as we think about the backlog here pre GreenBox that we have a structural gross margin that over time over the coming years that we can begin to approach that high 20s to closer to 30% type of structural gross margin on a systems basis. I'll emphasize as well that as you layer on recurring revenues, which have a higher structural gross margin over the long run that we think we can on that pre-existing backlog, take our blended gross margins that higher than that. As we're bringing on new business, our new business is coming in at margins that are higher than that. So that's providing continued support for longer-term gross margins. The factors really are unchanged as to where some of that margin power comes from.

The biggest things are that we're investing a lot in innovation projects such as BreakPack, you asked about -- and SymBot -- those are lower margin revenues as they flow through our income statement and the COGS line. Just the nature of we're delivering that as a product. So, the significant portion of the innovation costs actually flow through our COGS along with the second biggest factor is just how fast we're moving and moving with outsourcing partners. So, we continue to have significant redundant costs -- startup and shutdown costs effectively, start costs with the outsource partners shutdown costs internally. Those are going to continue in the near term, but we anticipate that as quarters roll out those redundant costs abate over time and help provide us lift and expansion.

Derek Soderberg *Cantor Fitzgerald & Co* - Analyst

I wanted to clarify some earlier remarks around the outsourcing model. Just looking at the backlog, very sizable for you guys to fulfill over the next five or six years or so. Can the existing outsourcing model supply that backlog today? Do you need to continue to build that out? How much more work do you have left getting that outsourcing partner list to the point where you can fulfill that backlog? Or do you feel like you can deliver on that with your list of outsourcing partners today?

Tom Ernst *Symbotic Inc. – Chief Financial Officer*

It can, Derek. Short answer is it can. We have stress tested this network as we have it today. Now we're continuing to work to get that network efficient and hardened and expanded even further. But as we enter the GreenBox contract, we're confident that our outsourcing partners and our plan as we have it now is more than adequate.

Derek Soderberg *Cantor Fitzgerald & Co* - Analyst
Got it. That's great. And then as my follow-up and maybe this one is for Rick. Just on GreenBox, I'm curious who wins with this business model. Is this better for smaller firms or large firms, does this in any way change your priority selling to sort of the other big-box retailers sort of laid out in your growth strategy. Can you talk about sort of the size of the firms, anything on that? That would be great.

Rick Cohen *Symbotic Inc. – Chairman of the Board and Chief Executive Officer*
Sure. So first of all, we're continuing to sell the big-box guys, the wholesalers -- UNFI just announced that they're -- our second system with them. And we have a lot of those type of customers still in the pipeline, which will get announced when we sign deals with them. But there's a lot of that in the pipeline. So, one of the things that -- so in Green, so one of the things I wanted to do is I really didn't know, quite frankly, a little bit surprised how big this market is considering that I thought I was just going to do automation for C&S 10 years ago and find out how much in demand this product is.

So, we still have in the Big Box, and we continue to talk to existing customers about even more projects. So that's one thing. The GreenBox, let me give you an example of -- so GreenBox could be as small as Mama Brown's spaghetti sauce that makes something that you might buy on online, or you might buy at a Whole Foods a small supplier and they're warehousing products before they're shipping somewhere. So that could be somebody that takes 50,000 case positions in a building that holds a million. So that would be a small customer. It could be a lot of small customers.

On the other hand, one of the things that we've talked to SoftBank about, which is one of the reasons why we're excited them as a partner. So, the sovereign wealth funds, all of them whether it's Singapore or UAE or the Saudis, they're all very large owners of ports. And the way the ports work is that they basically build warehouses for people and then they have operators. So, if you automated all the ports in the world, that would probably be the world's largest customer. So, they're both big customers and small customers. So, who would go into the ports, everybody that's unloading containers has got to store that stuff somewhere. And so, you could have big customers that today only do that themselves. And now we could offer somebody like some of the big shoe companies instead of having six warehouses where they put their shoes, they might want to have 20 warehouses that are much more efficient freight wise. They can't do that today because they have these massive warehouses with massive warehouse management systems. And so, we could say, you could store or 200,000 boxes instead of 2 million boxes in our facility and spread around the country.

So, the concept that we're talking about, the way I describe it, is it's a combination of Iron Mountain, which created a whole business for secure storage. And of course, that's not a great business anymore because of everything going online. But when it started, -- it created a business that nobody really understood because everybody stored their records themselves. So, they were small customers and big customers. You have that extreme -- and then the other thing that I focus on is all these storage sheds that are being built around the country. They never stop building them every time they build in an apartment building, they build these more storage and nobody had any idea how big that business was 20 years ago. If they had, they would have built them all out. So, we're offering both small customers and large customers a whole different supply chain flexibility that they never had before.

Operator
I'm showing no further questions in the queue at this time. I'll turn the call back over to Jeff Evanson for any closing remarks.

Jeff Evanson *Symbotic Inc. - VP, IR and Corporate Development*
All right. Thank you, everyone, for joining our call today. We appreciate all your interest in Symbotic, and we look forward to seeing many of you at investor conferences on facility tours or when we talk again next quarter. Thanks again. Goodbye.

ABOUT SYMBOTIC

Symbotic is an automation technology leader reimagining the supply chain with its end-to-end, A.I.-powered robotic and software platform. Symbotic reinvents the warehouse as a strategic asset for the world's largest retail, wholesale, and food & beverage companies. Applying next-generation technology, high-density storage, and machine learning to solve today's complex distribution challenges, Symbotic enables companies to move goods with unmatched speed, agility, accuracy and efficiency. As the backbone of commerce, Symbotic transforms the flow of goods and the economics of the supply chain for its customers. For more information, visit www.symbotic.com.