Symbotic Inc

Q1 FY 2024 Financials Call

OFFICIAL TRANSCRIPT

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PRESENTATION

Operator
Thank you for standing by. Welcome to Symbotic's first quarter Fiscal 2021 Financial Results Conference Call. (Operator Instructions)

Please be advised that today's conference is being recorded. At this time, I'd like to turn the call over to Jeff Evanson, Vice President of Investor Relations.

Jeff Evanson *Symbotic Inc. - VP, IR and Corporate Development*
Thanks, Val. Hello, everyone. I'm Jeff Evanson, Symbotic's VP of Investor Relations.

Our press release and discussion today will include forward-looking statements based on assumptions that are subject to risks and uncertainties that could cause actual results to differ materially from those projected in the forward-looking statements, including as the result of 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 their 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'll provide guidance for the first quarter, including revenue and adjusted EBITDA. We're not providing guidance for net loss today which is the most comparable GAAP financial measure to adjusted EBITDA.

We are not able to provide reconciliations to adjusted EBITDA to GAAP financial measures because certain items required for such reconciliations are outside our control, and/or cannot be reasonably predicted, such as the provision for stock-based compensation.

On today's call, we'll be joined by Rick Cohen, Symbotic's Founder, Chairman and Chief Executive Officer and Carol Hibbard, Symbotic's Chief Financial Officer.

These executives will discuss our first quarter fiscal '24 results, and our outlook followed by Q&A.

With that, I'll turn it over to Rick. Rick?

Rick Cohen *Symbotic Inc. – Chairman of the Board and Chief Executive Officer*
Thank you, Jeff. Good afternoon, everyone. Thank you for joining us to review our most recent results and discuss the year ahead. In our first quarter, we reported strong financial results and posted and equally impressive operational results.

Our team set a new deployment record, completing the full build, installation and commissioning process for an entire Symbotic system in only 20 months. While we can't currently deploy all systems this quickly, this reflects the deployment speed improvements we are making, and we are focused on further reductions in deployment time as we build capacity to support growing customer demand.

One such improvement is SymBot™. The mobile bot is now well established as our platform workhorse. SymBot has the newest NVIDIA chips with an enhanced version of our automation software that is powered by artificial intelligence.

While SymBot can perform more transactions per hour and has improved reliability over our previous generation bot, SymBot will also improve our ability to deploy systems more quickly and efficiently with even higher customer ROI. SymBot also helps to extend the capability of our system and sets the stage for our entry into new markets such as non-ambient food.

Turning to BreakPack, our development of BreakPack progressed faster than expected over this past quarter and has advanced beyond the prototype stage. While we are always refining all our products, BreakPack is now ready for general availability to our full range of potential customers.

Turning to our joint venture, GreenBox is receiving a lot of inbound interest. So, like Symbotic, GreenBox is being selective in choosing the right customers to work with. GreenBox will share more about their road map when they announce their first customer, but we expect to be recognizing our first revenue from GreenBox in fiscal 2024.

So, in summary, our story is unchanged. We will continue to innovate, execute and scale to deliver for our customers as we grow and drive increased profitability in a capital-efficient way.

Now Carol will discuss our financial results and outlook. Carol?

Carol Hibbard *Symbotic Inc. – Chief Financial Officer*
Thank you, Rick. I've enjoyed an exciting first 90 days here at Symbotic. During that time, we have enhanced the capability and scope of the entire Symbotic team to scale for the future. For example, we successfully implemented SAP software across the company, which helps with everything from scaling to Sarbanes-Oxley compliance.

Our first quarter revenue grew to $369 million, up nearly 80% compared to the same quarter last year and reflects an accelerated pace of growth from last quarter's 60% year-on-year growth. This was driven primarily by scale and the increasing number of systems we have in deployment.

During the first quarter, we initiated five new system deployments and completed three as we continue to add both new customers and additional projects for existing customers.

So, at the end of Q1, we had 15 fully operational systems and 37 systems in the process of deployment. This is an increase from 12 operational systems and 35 deployments in progress last quarter; and 8 operational systems and 22 deployments in progress in the first quarter of last year.

While we have temporarily stabilized the pace of system deployment starts. Our future revenue growth is really driven by our ability to scale deployments in progress. Continued reductions in system deployment time as demonstrated by the system we recently deployed in just 20 months leaves us well positioned to support customer demand.

It is important to note that as we scale, our customer base is becoming more diverse. The 37 deployments in progress are with six of our nine customers. We continue to standardize our system platform and identify opportunities to further streamline our deployment processes.

To that end, our network of outsourcing partners is executing well. We continue to see significant opportunities to gain efficiencies over time, and to build capacity as we continue to add partners to our outsourcing network.

Our backlog remains stable at $23.2 billion and now reflects the addition of Southern Glazers who became a customer in November.

Our recurring revenue streams grew 5% sequentially and 45% year-on-year. Adjusting for our 53-week year in 2023, recurring revenue streams reflect nearly a 12% sequential growth, but still below the 25% sequential increase in completed systems, because these systems were completed in the back half of the quarter. So, we expect accelerating recurring revenue growth as we head into our second quarter.

Gross margin increased sequentially by 90 basis points to 20%, driven primarily by improvement in system gross margin. While we do not expect gross margin to improve every quarter, we do expect it to improve each year well into our future.

Our first quarter non-GAAP system gross margin increased 110 basis points from last quarter. As a reminder, these results still reflect significant costs associated with lower margin innovation projects like BreakPack, the burden of pass-through costs that protect gross profit dollars but can weigh on our reported gross margin percentage and costs associated with rapidly scaling our operations.

Our recurring revenue streams again contributed to positive gross profit. This demonstrates the high leverage in our business model, showing that we can be profitable with such a small number of active sites with recurring revenue while also being invested for the much larger number of systems still in deployment. We continue to expect that as we scale over time, that recurring gross margins can trend to over 60%.

Operating leverage improved again sequentially as we achieved a 3.8% adjusted EBITDA rate compared to a 3.4% rate last quarter. This is driven by our rapid revenue growth and gross margin expansion, along with stable operating expenses.

Our cash and equivalents, including marketable securities and restricted cash grew $129 million sequentially, to $677 million. During the quarter, Walmart exercised its last remaining warrants at $10 per share, adding $159 million to our cash balance. Excluding the warrant proceeds, this total would have been $518 million, reflecting a $30 million use of cash in the quarter.

As the working capital benefits of 2023 temporarily reset, we expect cash to decline slightly again in the second quarter before we return to working capital expansion in the back half of 2024. For the second quarter of fiscal 2024, we expect revenue of $400 million to $420 million and adjusted EBITDA between $12 million and $15 million, which represents revenue growth of over 50% and improved adjusted EBITDA margin of over 700 basis points, both on a year-on-year basis.

We now welcome your questions.

Operator

(operator instructions)

Our first question comes from the line of Piyush Avasthy.

Piyush Avasthy Citigroup – Analyst

Good evening, guys. I think for the second quarter guidance, the implied EBITDA margin is modestly below from what you did in 1Q. Maybe some color on what is impacting margins in this quarter? And taking a step back, I know you don't give full year guidance, but when do you expect a more meaningful sequential improvement in margins?

Carol Hibbard *Symbotic Inc. – Chief Financial Officer*

Thanks for your question, Piyush. Our guide for the second quarter reflects our flexibility to accommodate increased spending, if needed, as we need to accelerate deployment schedules and ensure we have a high-quality deployment with as little disruption as possible. Ultimately, the customer satisfaction of that quality system rests on Symbotic; and so, as we continue to ramp, we're going to deploy resources as necessary to ensure we meet that schedule. So, that's what we're seeing for the second quarter.

In terms of the longer-term profitability, we continue to be on a trajectory to improve, and you're going to see that start to improve in the second half of the year and year-over-year, continued improvement in our profitability.

Piyush Avasthy Citigroup – Analyst
Got it. Helpful. And Rick, I think you talked about BreakPack being available as a stand-alone product now, maybe like talk about the target customers there? And how have the initial conversations been?

Rick Cohen *Symbotic Inc. – Chairman of the Board and Chief Executive Officer*
Yes. So, the target customers for a BreakPack operation like that would be -- typically, what you see in BreakPack is, customers that are in the drugstore business, which is obviously a big market.

The original BreakPack that we designed for Walmart was really -- if you think of it, there's 4,500 supercenters and there's 45 drug stores within a Walmart supercenter. So, these would be some of the customers that would logically look at a system like this, smaller store formats, smaller customers would be interested in BreakPack, and also people with a long tail of slow movers that might be interested in shipping eaches as opposed to cases.

So, we think it's a very big customer base. We're not actively selling that BreakPack right now, but we're -- we've finished the prototype. It's no longer a prototype. So, as we get more and more comfortable with it, we will begin to market it as an add-on product to our basic product.

Piyush Avasthy Citigroup – Analyst
Got it. Very helpful.

Operator
Our next question comes from the line of Ross Sparenblek of William Blair.

Ross Sparenblek William Blair – Analyst
Maybe on the supplier network. I know, you guys noted that you're still adding suppliers. I thought we were kind of through that dual sourcing that would then begin to allow you to start alleviating some of the inventory challenges and bringing down those lead times. Can you just provide any update as we think of the timing around that?

Rick Cohen *Symbotic Inc. – Chairman of the Board and Chief Executive Officer*
Yes. I've spent a lot of time with suppliers. What we're seeing is better inventory, higher quality products coming from our suppliers, which means that we're actually pushing the suppliers to do a lot more testing in their factories as opposed to on sites. And as a result, you'll see the implementation time for our systems faster, which is why we mentioned the fastest that we've done yet. This was completed this past quarter. When we turned it on, it was above customer expectations for quality.

So, what we're seeing from suppliers now and what we're working at is the suppliers now understand how real we are. There's a lot of interest from suppliers. They're more price competitive, they're more willing to invest in quality.

So, I think we're behind -- we're past the struggles to find good suppliers. And now, we're working with more good suppliers to be higher quality and more competitive. So, I think it's -- I think we are in a good place with suppliers now.

Carol Hibbard *Symbotic Inc. – Chief Financial Officer*
Yes. So, Ross, I'll just add to that. If you think about 2023, it was really focused on getting those partners. So, there is probably a more substantial growth in terms of the number. Now we're tweaking because we do need to continue to scale. And as Rick indicated, we now are coming in with a lot greater scale and suppliers are more interested.

So, in 2024, as we focus on that, we're also focused with our suppliers on ensuring we're gaining those efficiencies, and we're going to start to see the benefit of that.

Ross Sparenblek William Blair – Analyst
Okay. Got it. Then maybe just thinking about new customer mix as we move through the year. Can you just maybe help us better understand what steel was? Then also, of the five additions, what would have been kind of customers outside of Walmart?

Carol Hibbard *Symbotic Inc. – Chief Financial Officer*
Yes. So, out of our new customers. So, as we indicated, we had five new systems in this quarter. One of those was Southern Glazers. So, we announced in November, we had the addition of Southern Glazers. So that's our new customer out of that mix of five, the other four were additional statements of work for existing customers. I think that was your first question on the new customer mix.

Ross, can you go? You had another part to that. Can you?

Ross Sparenblek William Blair – Analyst
Yes. Just understanding what the steel impact was. I know it's been pretty variable quarter-to-quarter here.

Carol Hibbard *Symbotic Inc. – Chief Financial Officer*
Yes. So, in our contracts, we have pass through clauses that help us see that fluctuation of steel. We actually saw the benefit for steel fluctuation early in the year. Now, we're looking at headwinds as we head into 2024 and seeing that fluctuate. But I will emphasize, our contract structure allows us to have some of those costs as pass through. But we continue to monitor that and ensure that we're getting out ahead of it.

Ross Sparenblek William Blair – Analyst
Got it. So maybe just real quick, if we think about the 90 basis points of sequential margin expansion, was steel maybe half of that?

Carol Hibbard *Symbotic Inc. – Chief Financial Officer*
No, steel would not have been that big of a contribute to that margin expansion.

Operator
Our next question comes from the line of Matt Summerville of D.A. Davidson.

Matt Summerville D.A. Davidson – Analyst
A couple of questions. I was wondering if you could maybe take a second, back to some of your prepared remarks just regarding SymBot. Can you maybe review with us some of the KPIs, if you will, around SymBot versus prior -- the next closest prior generation? Trying to get an understanding for -- you mentioned more transactions an hour. If you can kind of put some numbers around how SymBot is differentiated versus your legacy gen robots.

Rick Cohen *Symbotic Inc. – Chairman of the Board and Chief Executive Officer*
So, the first thing that we did with SymBot is it can actually -- and this may be one of the most important things, it can actually handle a tote, a tapered box and our original bot could not do that. So, that was one of the first things that forced us to relook at long-term flexibility of a SymBot. So that part didn't actually help us go faster, but it gave us a much bigger universe of products that we could handle. Most of our competitors might do trays or something else. So, we have a lot more flexibility on what size and shape of packages we can handle.

The second thing that SymBot did over what we call Bot X was that it has vision. And in order to put in vision, we needed graphic interfaces, and so we upgraded it to NVIDIA chips and their vision and graphic interface boards. So, that allows us to actually see boxes that in the past, we couldn't see.

Third thing is, we can pick and place packages 10 seconds faster than we could with the original bot, so those are some of the other things that we did.

Then the last thing is, that we can now actually on this bot, pick up -- on inbound, we always were able to bundle and deliver two or three cases at a time. Now for the first time on outbound, we can handle more than one box at a time.

So, I won't give you a lot of numbers because some of the stuff is still proprietary. But you get a sense this bot is -- I would say the upgrade for this bot would be from a motorcycle to an SUV.

Matt Summerville D.A. Davidson – Analyst
Super helpful there. Then as my follow-up, you kind of -- talking about BreakPack generally available, not really actively selling it yet. I'll ask same question along the lines of GreenBox. Do you expect the BreakPack to start to contribute to revenue in fiscal '24? Then, when do you see Symbotic starting to attack the non-ambient market per one of your other prepared remarks?

Rick Cohen *Symbotic Inc. – Chairman of the Board and Chief Executive Officer*
Yes. So, it -- BreakPack may have impact in 2024 right at the end of the year. So, in the last quarter if it does, because of just the cycle of selling. And -- so that would be one.

Ambient, we're actually piloting some perishable testing in a perishable warehouse as we speak. So, I think that could be I would say it -- probably not this year, but I would say 12 months from now, just from the cycle. But we will be able to offer perishables and then after that would be frozen. But the first go around would be stuff like dairy, produce and meat, which is around 32 degrees. Then after that, we would develop a system for minus 20.

Carol Hibbard *Symbotic Inc. – Chief Financial Officer*
Then, Matt, I'll just add to that. BreakPack, our proof of concept, is already contributing to revenue this year and has been over the past year. So, our prototype that we have in flow is already a revenue contributor. Now in terms of what we're able to add to that as we continue to offer it, you'll see that grow as we expand that at the end of 24.

Matt Summerville D.A. Davidson – Analyst
Yes. Understood. I was aware of that. But thanks for clarifying. I should have stated a little differently.

Operator
Our next question comes from the line of Mark Delaney of Goldman Sachs.

Mark Delaney Goldman Sachs – Analyst
If I heard correctly, Carol, you mentioned stabilizing temporarily the number of system starts. If I heard that correctly, I'm hoping to better understand the thought process and how you're thinking about managing the company operationally, especially with the company adding more outsourcing and manufacturing partners. I would have thought there had been some potential to increase the number of starts the company was doing.

Carol Hibbard *Symbotic Inc. – Chief Financial Officer*
Yes. You'll see that -- thanks for the question, Mark. You'll see that by stabilizing, so last quarter, we introduced four new systems into the quarter. This quarter, you're seeing five. By stabilizing, we're indicated don't expect that to continue to grow to six to seven to eight every single quarter, but we will see improved number of systems as we grow over the next couple of years.

When you think about what we already have in our backlog, the other comment related to that stabilizing is you're going to start seeing us delivering on our systems with the backlog that we currently have. And so, we're going to continue to ramp the number of systems that we turn operational every quarter. Then the number that we continue to add from either new customers expect a new customer, one to two every year, as we've indicated in the past, there's really no change to that.

Then as we expand into GreenBox into '24 and '25, I think that's when you'll really start seeing the additional ramp.

Mark Delaney Goldman Sachs – Analyst
Understood. That's very helpful context. Then, in the first question about the EBITDA guidance. You mentioned the guidance assuming the ability and flexibility to deploy resources to support customers. Just want to better understand what you meant by that. And is there something with some of the more recent projects that's been more difficult, or are you more alluding to, you're supporting some newer customers and just wanting to make sure you have the capability to support them in the event that is necessary? Thank you.

Carol Hibbard *Symbotic Inc. – Chief Financial Officer*
Yes. Thanks for the follow up. So, in terms of our guide, when we talk about wanting the ability to deploy on schedule, as we are now in the stage where we have 37 different projects in deployment. So, that's up from 22 a year ago. So, we are scaling right now.

What we want to make sure we do is that we adhere to schedule and that we're able to deliver that high quality. So, if that means providing a few additional resources or taking a week or two longer to go ahead and deliver, that's what you're going to see in some of what I'll call the lumpiness in the next quarter around both revenue and in our margin.

Mark Delaney Goldman Sachs – Analyst
Okay.

Carol Hibbard *Symbotic Inc. – Chief Financial Officer*
We don't want to do anything short sighted to save a few points on margin that will help us in the long term.

Mark Delaney Goldman Sachs – Analyst
Understood.

Operator
Our next question comes from the line of Nicole DeBlase of Deutsche Bank.

Nicole DeBlase Deutsche Bank – Analyst
Yes. Maybe just starting with R&D. It's been on a bit of a declining path for the past few quarters. I guess why is that? Then what is the outlook for R&D expense over the next several quarters?

Carol Hibbard *Symbotic Inc. – Chief Financial Officer*
Thanks, Nicole. So, on R&D, I think what you're seeing from when you compare fourth quarter to first quarter is that additional week that we talked about. So, in the fourth quarter last year, we had a 14-week quarter versus a 13-week quarter. So, we had an extra week contributing to R&D. So that's a little bit of the fluctuation from fourth quarter to first quarter.

I would expect our R&D to continue to ramp modestly throughout the course of the year. But what we do want to make sure we do is we're looking at multiple innovation projects. So, we want to maintain the ability to ramp our R&D if those innovation projects come to light, and we want to expand that at the back half of the year. So, I'd expect moderate growth.

But we are looking at projects that not only drive innovation, but we're also looking at projects that drive improved efficiency that would help improve our cost structure, as well as the operational efficiency on the end customer for the systems that we deploy.

Nicole DeBlase Deutsche Bank – Analyst
Got it. Okay. That's really helpful. Then when you spoke about getting to one deployment in the 20-month zone, I guess what would be the long-term goal of the length of deployment, once you feel good about the whole process.

Carol Hibbard *Symbotic Inc. – Chief Financial Officer*
So, I'll start, and then Rick can chime in, in terms of long-term vision. As we've talked about in the past, we expect that 20-month cycle over the long term to get down to 12 months or lower. So, we've talked about the things that we need to put in place to be able to go do that. So, that's from a long-term perspective.

I think one of the other things to think through is what really enabled that 20 months, that might be one of the questions so that we can make sure we're looking at, how do you enable that going down to 18 months and then to 16 months.

So, a couple of things enabled us hitting that achievement this quarter. One was we now have continuous learning over multiple deployments. So, our outsourcing partners, they've now got multiple deployments under their belt and they're improving on each one.

We've also got increased collaboration from our entire deployment team. So, our deployment team includes Symbotic resources, our suppliers, as well as our customer. We've really seen an increase in that collaboration over the past quarter.

Then, the last one is the quality and standardization of what I'll call the build. So, our build instructions, our test procedures, we're standardizing that more and more from deployment to deployment, and that's really enabling the improvement from our partners.

Operator
Our next question comes from the line of Chris Snyder of UBS.

Christopher Snyder UBS – Analyst
I wanted to follow up on the communication earlier around accelerating or picking up growth investment to drive or to help facilitate the accelerated growth. When we look at OpEx over the last four quarters, OpEx has generally been sideways and the number of projects in process and their revenue has gone up 40%. So, I guess is there something that's happening now that's causing the OpEx needing to pick up into Q2? Because we've seen so much growth already without that. So, kind of, I guess the question is, why now?

Carol Hibbard *Symbotic Inc. – Chief Financial Officer*
Yes. We continue to modulate our OpEx because we're getting better on that spend. But I think you're going to see the improvement on that is where we'll continue to grow OpEx, but it's not going to grow nearly at the same level of our revenue because we're also getting improvements on our spending as we do that.

Christopher Snyder UBS – Analyst
Okay. Fair enough. Then I wanted to talk about or follow up on about the non-ambient food opportunity. Specifically, if we think about the existing customers that the company has, is there any way to frame the size of the opportunity from non-ambient food with those existing customers?

Then also when you see the Walmart backlog, does that include any revenue for systems related to non-ambient food?

Rick Cohen *Symbotic Inc. – Chairman of the Board and Chief Executive Officer*
The Walmart backlog does not include any systems that are non-ambient. So, obviously, -- and none of our other customers, whether it's C&S or UNFI, also, there's no -- we weren't selling non-ambient.

But in the future, we'll be able to -- and we think that's a big market. It's a slightly different market because this is a market where when we're focused on ambient, we're really focusing on one, we can obviously build pallets. But building in a perishable warehouse, the space is just so expensive. We're actually working on increasing the density of our system, which may help us across a number of areas. But it's -- I can't give you a number for the market, but it's a big market.

Operator
Our next question comes from the line of Jim Ricchiuti of Needham & Company.

James Ricchiuti Needham & Company – Analyst
Rick, a question just on BreakPack. You alluded to the drugstore business. How important is it to you to get a use case outside of your large customer for BreakPack in a market like that?

Rick Cohen *Symbotic Inc. – Chairman of the Board and Chief Executive Officer*
It would be great. I mean we're -- that's one of the things that I spend a lot of time on is figuring out who are the best use cases, who are the logical customers for what we're doing.

One of the things that we find -- and we've been pretty busy, so we haven't been doing a tremendous amount of marketing because we're very focused on delivering for the customers we have in place. But one of the things that we do when we bring a new customer to the market to see a site is many times their response is, 'I didn't even know this was possible.'

So that's why we're very, very focused on delivering on time, delivering with a braggingly happy customer expectation, and we're going to focus on that for the rest of this year. And as we get better, then we'll have braggingly happy customers. Then the stuff that we're doing, that people said, I've never seen this before, gives us instant credibility and I think makes it very easy for us to expand our market.

James Ricchiuti Needham & Company – Analyst
Okay. The follow up question, is just going back to that 20-month deployment that you achieved. As you bring on more partners, outsourcing partners, it sounds as though there could be some fits and starts and that we're going to see this move around. It's not going to be or tell me if we're going to see consistent progress on this front. It just seems like as you bring on new partners, it's going to bounce around a bit.

Rick Cohen *Symbotic Inc. – Chairman of the Board and Chief Executive Officer*
No. We don't think that's going to happen. We are now -- when we started the outsourcing process, I think our team was smart enough to say, if there's a better way to do this, then show us. What we've been doing for the last year now is we're asking people to build-to-print is what is the expression they use so you don't change our design. If you want to talk about an improvement that may happen a year from now, but we're really working very hard to standardize our design, which speeds up the implementation, which simplifies the programming, the programmable logic, they call PLC code that goes into our machines.

So, the ability to replicate what we do at the very highest level is what we're focused on. So, no, I don't think you will see. I mean I think we had a lot of learning last year, and I think we talked about that openly. I don't think you're going to see that again in the future.

Operator
Our next question comes from the line of Ken Newman of KeyBanc Capital Market.

Kenneth Newman KeyBanc Capital Market – Analyst
Carol, curious if you could just dig down into the comment about the increased spending to service the higher growth in the second quarter. I mean when you think about that, is the biggest bottleneck there to service those deployments? Is that just in-house engineers? Is it the third-party supplier base? Just any color there to kind of help us bucket that headwind.

Carol Hibbard *Symbotic Inc. – Chief Financial Officer*
Yes. It's a mix. Thanks, Ken. It's a mix of -- I wouldn't say it's mostly engineering because our engineering folks are focused on the R&D part of the business and less of that goes into our COGS. But it's the operators, and it's the folks we're putting on site for that final stage of commissioning and deployment to ensure we're hitting the reliability. That includes some of our outsourced partners you referred to it as suppliers. So, that would be their spend as well.

Kenneth Newman KeyBanc Capital Market – Analyst
Okay. Then, of course, I just wanted to get a little bit more color. I think you'd mentioned working capital expansion in the second half. Obviously, we saw a big ramp in accounts receivable and maybe prepaid expenses this quarter. I'm guessing that's from Southern Glazier. But just any color on what drives the working cap expansion to the second half and just how confident you are about op cash or free cash getting better into the back half of this year?

Carol Hibbard *Symbotic Inc. – Chief Financial Officer*
Yes. So as most of you know, over the course of our deployment, our cash inflows tend to be very front-loaded. So, that's driven our favorable cash flow as we've ramped. But then in any particular

quarter, depending on the maturity of that particular deployment, we might see a higher cash outflow.

So, as we're ramping to having 37 different deployments in flow now as we're heading into this quarter, we're going to see higher cash outflow in the second quarter similar to the first quarter.

What we're expecting for the year, excluding the warrant exercise, I'd expect our cash to be flat.

Operator
Our next question comes from the line of Joe Giordano of TD Cowen.

Joseph Giordano TD Cowen – Analyst
Can you hear me? My phone seems to break up a second there.

Carol Hibbard *Symbotic Inc. – Chief Financial Officer*
Yes. We can hear you, Joe.

Joseph Giordano TD Cowen – Analyst
Okay. Great. So, I preface this by saying it's a high-class problem, and you guys delivered revenue at the high end, basically, of what you said you would. But to be fair, it's the first time you haven't pretty easily gone considerably ahead of the high end. Now I just want to like -- it's a little bit of a tough question, Carol. I know you just -- you haven't been there for those prior quarters, but is it -- was there a need to be more conservative with guiding back then because you had fewer projects under -- that were in deployment and was more variable by nature, and now you have more kind of precision around a guide because you have more projects to limit the inherent volatility there?

Carol Hibbard *Symbotic Inc. – Chief Financial Officer*
Yes. You're exactly right, Joe. So, as we scale and we have more and more systems in progress, the variance on a single project, we're not going to see that have as much contribution to an individual quarter's revenue.

So, when before we had fewer projects, if you had one project either complete a month early or complete a month late or even a week here and there, it was really driving the variation in the revenue.

And as I indicated just in the opening remarks as well, we've deployed SAP and some of the controls we're putting in place should help us standardize and drive our ability to tighten up that prediction range.

Joseph Giordano TD Cowen – Analyst
Okay. That's kind of what I figured. Your commentary suggested that you put in five into production this quarter. It sounds like it will be, give or take, that level for a bit here. I know like if you models have that ramping pretty large at some point. We could debate exactly when that starts. But I just want to make sure I understand like what is -- is there anything that's specifically not allowing that amount to be significantly higher right now? Or is it just subject to like the scheduling of your large customers? Like if your customers wanted that to be 15 next year, is that like theoretically possible right now?

Carol Hibbard *Symbotic Inc. – Chief Financial Officer*
So, I'd say you're spot on our ramping of additional customers. We've indicated one to two a year, and that is metered by our ability to want to provide excellent customer service and satisfaction to

the backlog that we have. So, we don't want to continue to take on more and more statements of work and additional customers and not have the ability to deliver on the $23 billion backlog that we have.

Joseph Giordano TD Cowen – Analyst
Okay. Then one for Rick, if I can. Rick, going through the SymBot characteristics there. I'm just curious like when you now have the ability to handle multiple boxes at one time on the outbound, like does this ultimately allow you to accomplish the system with fewer bots. And is that kind of going to be somewhat required as you move into non-ambient where, like, as you said, the facilities are smaller, and you probably need to get like more bang for your buck from a square footage standpoint. And does that -- that whole dynamic lead to like any sort of difference in margins that you think you'd be able to get? Or is it better or worse equal versus what you've been doing on -- at scale?

Rick Cohen *Symbotic Inc. – Chairman of the Board and Chief Executive Officer*
Yes. So, I can honestly say everything we're doing is trying to increase our margins. We're not doing anything constantly to decrease them. But seriously the journey that we're on with the SymBot, we expect that we will be able to run systems with less bots because they will be more capable, faster, be able to do more work. That's the journey that we're on, and that will only increase margin.

The other thing that that will do is it would allow us to do a smaller system because we could sell -- we could use less bots because they're more capable. So that would allow us to, on the low end, hit a new price point, which is one of the things that I'm very focused on. I love having these big customers and I love having these big sales. But if we could sell a smaller system with a lower price point and still increase our margins, that's an even bigger market than we're talking about right now.

Operator
Our next question comes from the line of Greg Palm of Craig-Hallum.

Greg Palm Craig-Hallum – Analyst
I think I heard my name, but something cut out. In terms of GreenBox, I was hoping to dig into a little bit more on the deployment schedule. Rick, I think you said deployments or maybe initial rev rec in fiscal '24. So, I'd like you to confirm that, if possible. But how do you think about the ramp-up of deployments specific to Green Box? And just in terms of aggressiveness, is it dependent on customer announcements or sign-ons or how you're thinking about that over the coming years?

Rick Cohen *Symbotic Inc. – Chairman of the Board and Chief Executive Officer*
I think we -- well, the answer, they're in parts.

So, we've been talking to some large customers and large suppliers about the opportunity. So, I think what will happen is that GreenBox will start off slowly and then go very fast.

So, there's a proving out concept where if we build a GreenBox site and we have multiple vendors in that site, and they test it, then logically, they're going to say okay I want 10 of these sites around the country because I need to cover a national network.

So, I think what we're doing is doing all of them work, putting in the foundation for GreenBox. And I think we'll -- we expect to have some good news on GreenBox in 2024, but we're also doing a lot of diligence to make sure that we set the foundation correctly.

Greg Palm Craig-Hallum – Analyst
Okay. And just to be clear, you expect deployments or rev rec to start in this fiscal '24. Is that right?

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

Greg Palm Craig-Hallum – Analyst
Okay. And just from a follow-up question on the pace of deployments in general, obviously a lot of progress over the last year or so -- since the outsourcing strategy ramp-up. But kind of as we sit here today is there any constraints to not maintaining that current pace, but accelerating it further, whether it's bringing on additional partners, whether it's continuing to kind of reduce that timeline per deployment. Just trying to get a sense if anything has changed internally where you're not trying to further accelerate deployments from current levels. I just want to make sure we're all kind of clear on what's changing, if anything, here?

Rick Cohen *Symbotic Inc. – Chairman of the Board and Chief Executive Officer*
So, I'll take this one. So, the deployments we're doing now in this quarter were actually started a year ago. What we know a year later, which is now from where we were a year ago, we can go faster. We can go a lot faster.

Operator
Our next question comes from the line of Derek Soderberg of Cantor Fitzgerald.

Derek Soderberg Cantor Fitzgerald – Analyst
Just sort of piggybacking off the last question, just around turning on the live systems with deployment timelines where they're at, it sounds like around 20 months or so. I think 1.5 years ago, you were at 13 systems in progress, a year ago, 22. I guess I'm wondering if you think you can bring maybe those 13 systems to live operation this year, maybe less. Can you share what expectations you have on the number of systems you think you can turn on this year?

Carol Hibbard *Symbotic Inc. – Chief Financial Officer*
Yes. So, we typically don't guide on the number of systems we've got in deployment. But as was pointed out, we had gone quarter-over-quarter for four quarters in a row where we were deploying one system a quarter. We accelerated that to two last quarter, and now you saw that accelerate to we deployed three this quarter. I would expect to see continue to improve that throughout -- continued improvement on that throughout the year. And as you said that 20-month deployment. But what we also pointed out is that 20-month deployment, that's for what I'll call an average system. So, there will be variability, not every system we'll deploy in 20 months depending on the size of the system. We have some systems that we're implementing, which will be significantly larger, and those will take additional time to go ahead and deploy. But overall, the average, we're looking to continue to reduce that time of deployment, and that does enable clearly the ramp of how many we deploy in a given quarter.

Derek Soderberg Cantor Fitzgerald – Analyst
Then as my follow-up, just trying to work out some of the math on the recurring revenue. I'm wondering how we should think about the recurring fee from a percentage standpoint. And is that

moving higher as new systems are turning online? And should we really think about recurring revenue to more or less grow at a similar rate as these live systems come online?

Carol Hibbard *Symbotic Inc. – Chief Financial Officer*
Yes. So, the recurring revenue stream, and I'll start with software. So, you saw our second profitable quarter, 430 bps up from where we were. So, in terms of profitability, we're seeing progressive improvement to the software margin.

From a recurring revenue perspective, when you look fourth quarter to first quarter, you're not seeing as big of a ramp. Those three systems that we brought on live, hit live in the last month of the quarter. So, you're really going to see a much steeper ramp on that recurring revenue. It was a -- we had -- we went from 12 systems in deployment to 15 in deployment, but those last three happened in December. So, we didn't see the real benefit. So, I think you're going to continue to see that revenue grow.

But in terms of your question on the attach rate, we still have, I'd say a third of the 15 systems that we've got deployed are really early proof-of-concept systems where our attach rates were significantly lower. So, you're seeing the impact of that. New customers that we're signing on, we're looking to improve that recurring attach rate, as we have talked about in the past.

Operator
Our next question comes from the line of Rob Mason of Baird.

Robert Mason Baird – Analyst
Just to circle back to GreenBox a moment. There were some costs, it looked like in the quarter, small costs just related to the JV formation. I'm just curious how you expect those in the call on cash to trend through this year.

If, Rick, you could speak to any major milestones as we work towards their first customer announcements, I guess maybe just structurally internally at GreenBox major milestones that still need to happen just in the formation of that entity.

Carol Hibbard *Symbotic Inc. – Chief Financial Officer*
Yes. So, Rob, I'll take the first part of that question, that additional small amount of joint venture fees that is trailing costs associated with all the work we did last year. So, you should not expect to see that continue. That was a one-off trailing expense from last quarter.

So, your second part in terms of GreenBox, as we've indicated, we expect our first customer this year. And we've got a lot of inbound as Rick addressed. And we're on the trajectory we had planned for GreenBox. I don't know if that answered the second part of your question, Rob or not.

Robert Mason Baird – Analyst
I mean can you -- is the management in place? Or again I'm just trying to think is that entity comes to be, what are the other milestones that we're looking forward to there?

Rick Cohen *Symbotic Inc. – Chairman of the Board and Chief Executive Officer*
Yes. So, the management is -- we're recruiting, we're interviewing management to put that in place. But there's also -- from the outside, they may have different skills than we have, whether it's at SoftBank or Symbotic, but right now, we have between the SoftBank talent team and what we're doing at Symbotic we can actually sell systems into GreenBox, but we expect to expand the management team over the next period of time fairly quickly to build a bigger sales force at GreenBox. So, that's the process that we're on.

Operator
Thank you. I'd like to turn the call back over to Jeff Evanson for any closing remarks.

Jeff Evanson *Symbotic Inc. - VP, IR and Corporate Development*
Thank you, Val. Thank you, everyone, for joining our call tonight. We appreciate your interest in Symbotic. We look forward to seeing many of you at investor conferences, our warehouse tours or when we talk next quarter. Have a great night.

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.