# Symbotic Inc

# Q2 FY 2023 Financials Call

OFFICIAL TRANSCRIPT

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**PRESENTATION**

**Operator**

Thank you for standing by, and welcome to the Symbotic Second Quarter Fiscal 2023 Financial Results Conference Call. (Operator Instructions)

I will now turn the conference to your host, Mr. Jeff Evanson, Vice President, Investor Relations and Corporate Development. Please go ahead.

**Jeff Evanson** *Symbotic Inc.* - VP, Investor Relations and Corporate Development

Thank you, Valerie. Good afternoon, everyone. Welcome to Symbotic's Second Quarter Fiscal 2023 Results Webcast.

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 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 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 GAAP measures may not be comparable to measures used by other issuers.

Today, we'll provide guidance for our third quarter, including revenue and adjusted EBITDA. We're not providing guidance for a net loss today, which is the most comparable GAAP financial measure to adjusted EBITDA. We're not able to provide reconciliations of adjusted EBITDA to GAAP financial measures because certain items required for such reconciliations are outside of our control and/or cannot be reasonably predicted such as the 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 second quarter 2023 results and our outlook, followed by Q&A.

Now I'll turn the call over to Rick.

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

Thank you, Jeff. Hello, everyone. As I think about how to talk about and give perspective on our second quarter, it's interesting to look back two years to see the progress we've made since our second quarter of fiscal 2021.

Back then, we were building individual prototype systems, and in that quarter, posted $23 million of revenue. We had a vision back then to dramatically transform the supply chain. We knew we had lots of challenges to overcome, and we are successfully overcoming most of those challenges.

Now just two years later, we have nine systems in full operation at multiple customer sites. We are currently deploying 28 additional systems and reporting over a quarter billion of revenue in the quarter. So, in two years, we have grown from a company with a sub-$100 million revenue run rate to one with a $1 billion-plus revenue run rate.

In addition to our significant revenue growth, our quarterly results also reflect improving adjusted gross margin, improving operating margin and additional liquidity. Our teams are working diligently to be more efficient as they keep our many deployment projects running on budget and on schedule, and executing a new outsourcing strategy.

We are now aggressively diversifying training and scaling up a network of supplier and contractor partners. We feel good about the progress so far and see many ways we can improve. As I said on our call last quarter, we are committed to building a team of world-class talent to help us remain a leader in transforming the supply chain.

During the quarter, we added several key team members who are already making important contributions to operations. Scaling and execution are important in driving our near-term results, but we believe that constantly innovating can sustain those results over the long term.

Thank you, everyone, for your support and interest in what we are doing and for helping us as we realize our vision, transforming the supply chain. It's exciting to see our plan coming together, and we have a long way to go, but we're making great progress. Thank you.

Now, Tom will discuss our financial performance and outlook. Tom?

**Tom Ernst** *Symbotic Inc.* – Chief Financial Officer

Thank you, Rick. Second quarter revenue of $267 million grew 177% compared to a year ago, driven by incredibly strong deployment progress. We initiated seven new system deployments during the quarter and, as planned, advanced one system to full operation.

We now have 28 active system deployments in process with multiple customers, an increase from 22 systems last quarter, nine systems in the second quarter of last year. Our rapid revenue growth was driven by progress on deployments with particular strength from physical installation at our customer sites.

As Rick mentioned, we are gaining efficiency in our deployments by standardizing our systems, streamlining our deployment processes and realizing the benefits of outsourcing.

Our cash and equivalents, including marketable securities and restricted cash grew $17 million sequentially to $465 million due to favorable working capital performance. We believe we have more than enough -- more than adequate resources on hand to achieve our strong growth plans and remain very well capitalized to execute our strategy.

Recurring revenue continued to grow sequentially as deployments moved to production. We now have nine systems operating at customer sites. Over time, as system completions cascade, recurring revenue should grow to have a much higher gross margin than systems revenue as well as become an increasing share of our revenue mix to provide powerful operating leverage to our business.

Our second quarter adjusted gross margin increased 100 basis points sequentially. These results still reflect significant costs associated with lower margin innovation initiatives, the burden of elevated pass-through steel costs and costs associated with rapidly scaling our operations.

Adjusted system gross margin improved by 70 basis points sequentially after excluding $5.2 million of the $8.4 million in severance and restructuring charges that flowed through cost of goods sold.

This charge was related to discontinued manufacturing activities in Montreal where we were manufacturing robotic inbound and outbound cells and curtailed manufacturing capacity in Wilmington, Massachusetts, where we manufacture bots.

Our outsourcing success enables us to continue to drive strong deployment growth while also setting the stage for long-term cost savings and margin expansion.

In the second quarter, operating expenses, excluding stock-based compensation, increased sequentially as we continued to invest in innovation that can drive sustained growth and margin expansion.

Finally, operating leverage improved as we achieved a 4% adjusted EBITDA loss rate compared to 8% last quarter and 27% last year. This was driven by our revenue growth and expanding gross margin.

Turning to our outlook. For the third quarter of fiscal 2023, we expect revenue of between $245 million to $265 million and an adjusted EBITDA loss of between $11 million and $8 million. We are through the midpoint of our fiscal 2023 and are excited about the second half as we continue to transform the supply chain. We are scaling 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 and now welcome your questions.

Operator, will you please open the Q&A?

(Operator instructions)

**Andrew Kaplowitz** *Citigroup* - MD and U.S. Industrial Sector Head

Rick or Tom, can you give us more color into the transition outsourcing that you continue to see in terms of the restructuring charge you took? It looks like you expect to see maybe a slight improvement in losses and slightly lower revenue in Q3 than Q2. But are you experiencing in Q3 any of the impact of the restructuring? And when would you expect to see the full impact of the restructuring benefit, the streamlining of manufacturing, in your P&L and how much benefit could you see?

**Tom Ernst** *Symbotic Inc.* – Chief Financial Officer

Yes. So, as you saw, we took an $8 million restructuring charge. This included both inventories and property, plant and equipment as well as $3 million related to people-related severance. So that's a little bit over 100 full-time employees, along with a little bit over 100 contractors. That was executed and planned for at the end of the quarter.

However, we really begin seeing the benefit of those savings as we get into our fiscal third quarter. Again, those restructurings were associated with the discontinuing of cell manufacturing operations in Montreal and then the significant curtailment of bot manufacturing in Wilmington, Massachusetts. This falls on the heels, as Rick mentioned, with -- of our successful transition of the manufacture of all these goods to outsourced partners.

**Andrew Kaplowitz** *Citigroup* - MD and U.S. Industrial Sector Head

And then, I think last quarter, you talked about maybe being a little more predictable in your revenue ramp, but you'd just beat Q2 -- beat the street by $50 million, and now you're predicting $10 million lower in Q3 despite your deployments continue to rise. So, did you just somehow pull forward any revenue in Q2? Or should we begin after Q3 to see more of a steady sequential increase? And I also noticed you didn't give us a backlog number, if it's possible to give us that?

**Tom Ernst** *Symbotic Inc.* – Chief Financial Officer

Sure, Andy. So, our backlog was $12.0 billion, same number as last quarter. So, our contributions equaled the outflows in the period and that will match our remaining performance obligation that we expect to disclose when we file our 10-Q.

Andy, I do think that our -- as we're growing scale here and deploying more systems, the revenue is becoming -- that quarterly variability is becoming smoother. However, we are still growing really fast, and we're ramping new outsourcing partners. So, we clearly are still seeing some significant variability in terms of quarter-on-quarter growth.

Maybe to give a sense for how this translates out, we do expect to grow rapidly, and that's driven by the 28 systems in deployment. However, even as we look here into the second half, the strongest contribution in the second half is going to be driven from the nine systems that were started in the second half of 2022, for example. So minor timing differences in one or two or three of those nine systems can have meaningful differences in terms of the actual quarterly revenue growth that we post. So, as we have more systems in concurrent deployment, we continue to expect that those sort of quarterly variabilities in revenue will begin to diminish over time.

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

A couple of questions. First, Tom, can you maybe comment on, based on the successes you're having with outsourcing and [technical difficulty] just when you believe the company will be -- achieve EBITDA positivity on a sustainable basis? And then I have a follow-up.

**Tom Ernst** *Symbotic Inc.* – Chief Financial Officer

Yes. So, we are certainly encouraged with the successes we're having with our outsourcing partners and continue to work that program. As I think Rick highlighted and I emphasized as well, we do believe that we'll begin to see benefits and leverage in the near to mid-term. And we continue to believe that over the long term, that while certainly, it will help us achieve our primary goal in outsourcing, which was the ability to scale this business to a much greater scale that we think it will result in a higher long-term profitability as well.

So, we're not giving guidance, I think that consensus expectations in the street -- many analysts are looking for profitability in Q4 -- so, we're not looking forward to the full year. But what I can say is that we do believe that our operating leverage is quite high, that as we're able to scale revenue, we believe that we'll continue to benefit from expanding gross margins, and we'll continue to see OpEx growth be moderate. And in particular, in the near term, we think operating expense growth can be curtailed significantly through the benefits of the outsourcing restructuring plan we just put in place at the end of this last quarter.

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

And then maybe as a follow-up, can you talk a little bit about maybe some of the progress you're making with BreakPack and SymBot and when you think those solutions will kind of be ready for game time, if you will?

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

We're making -- so we're really pleased with the progress we've made on the SymBot. That was a big technology change for us. And though we are not realizing all the value that will come -- and it's going to come over time. There's some software that we're still releasing and some A.I. sourcing and predictive maintenance, all good things. So, they'll be coming in the next year.

But we're really pleased with two things. One, we have a great new product; two, we successfully managed to prototype it and then move it to outsourcing partners. So that will continue to improve. So that was a big deal in the last 6 months, and nobody should underestimate successfully outsourcing without blowing up your supply chain. So that's all I'll say about that. We're very happy with how it's gone.

On the BreakPack, we're -- I'm probably there one day a week, sometimes two days a week. That's going to be a great product for us. It's still rough. It's our first prototype. But we would expect in the next -- certainly in the next 6 months that we should see very good results out of that.

**Tom Ernst** *Symbotic Inc.* – Chief Financial Officer

I'll just add to that, Matt, that we're still actively field-testing SymBot today, too. So, we haven't announced the final general release of that product, but we have many of those units out actually running in live production environments today at multiple sites and multiple customers.

**Mark Delaney** *Goldman Sachs* - Analyst

The first one is on the bridge from the fiscal first quarter to the most recently completed fiscal second quarter. Revenue was up roughly $60 million sequentially. I think EBITDA improved about $5 million. Tom, I know you called out a number of pass-throughs that were impacting that such as steel. Could you elaborate a little bit more on how much that was impacting both revenue and EBITDA sequentially and any other key puts and takes?

**Tom Ernst** *Symbotic Inc.* – Chief Financial Officer

Yes. So, you're right, we did see gross margin, in particular, improve by about 100 basis points sequentially. So let me address it maybe in two points as far as the gross margin, then I'll talk about OpEx.

There's a few factors that benefited the expansion in gross margin. First, recurring revenue margins are improving and recurring revenue is increasing as new deployments are waterfalling in. Steel, while it's still significantly above the 10-year average, was actually a modest sequential benefit. So that actually was a part of the 100-basis point expansion as well.

And finally, while we're still experiencing several hundred basis points of impact from rapid growth and innovation projects in our gross margin that are a headwind we've talked about consistently, quarter-on-quarter, those are dimension as well. So, all three of those factors were directionally moving in the right way.

OpEx increased by about $7 million, which is -- which goes counter to the overall EBITDA contribution margin. And as we think about OpEx, a couple of factors there. First, the restructuring plans we put in place really didn't have a material financial impact in the fiscal second quarter. Those will begin benefiting us in earnest in 3Q. Also, if you recall, when we talked about the second quarter, we had a lot less project and other variable work in the quarter. We had some more of that -- just project and variable type of activity in the fiscal second quarter.

We're also continuing the long-term plan to upgrade, transform our talent overall. And so, we are seeing a little bit higher average cost per employee. In particular, as we look at the transformation of our workforce, we've had a material shift towards technical talent and that was particularly strong in the second quarter. So those are the things that we think will materially benefit over the long run.

And while we're not disclosing headcount numbers in detail, net, we actually saw an over 20 headcount increase in our engineering force despite the total company in terms of our full-time employees being down 20 head counts, for example.

**Mark Delaney** *Goldman Sachs* - Analyst

The second one is on the backlog. Thank you for giving the update on where it stands in total. Could you comment any more on the composition of it in terms of what kind of gross margin you might think is embedded in the backlog relative to where you're running? And when you think about the backlog, how much is coming from hardware relative to subscription elements and software?

**Tom Ernst** *Symbotic Inc.* – Chief Financial Officer

Sure. And as you know, Mark, our backlog disclosure we tied to our accounting remaining performance obligation disclosure. So therefore, our backlog only includes contractual commitments, which means it's heavily populated by systems revenue as some of our recurring revenue sources will have annual or only partial 10-, 15-year type of contributions.

And first -- the first part of your question, Mark?

**Mark Delaney** *Goldman Sachs* - Analyst

The -- Anything you can share on the gross margin embedded in the backlog relative to where the company is currently running, if you're able to comment there?

**Tom Ernst** *Symbotic Inc.* – Chief Financial Officer

Yes. So overall, gross margin is 18.3%. We continue to expect the structural gross margins implicit in that backlog are much closer to 30%. And the difference between that 18% and the high 20s percent is really the three factors that I talked about in -- relative to your first question. In particular, the biggest of which is the financial impact in our COGS of our rapid growth and our shift to outsourcing, along with our innovation projects that are heavily weighted in upfront revenues in that backlog.

That close to 30% structural gross margin is structural for the systems revenue only. As we think about structural gross margins for the recurring component of that backlog, we see them well north of 50% into the 60% range. So, you blend those two together to get something that's in the mid to high 40 -- high 30s.

**Nicole DeBlase** *Deutsche Bank* - Director & Lead Analyst

Maybe just starting on the restructuring. So, with the continued focus on outsourcing, should we expect more of these restructuring charges to come? Or do you think this was more of a one-off? And any color at all on quantifying the benefit that we should see from what you spent in the quarter over the next several quarters?

**Tom Ernst** *Symbotic Inc.* – Chief Financial Officer

Yes. So, as I said in my prepared remarks, we -- the restructuring includes the complete discontinuation of manufacturing of our cells in Montreal and a significant curtailment in Wilmington. So, while we don't have any others to talk about today, that's a significant portion of the manufacturing activity we had to date. Obviously, we're continuing to advance our outsourcing initiatives across the range of things that we do. So, there may be more in the future, but we'll talk about those as it's time to talk about them.

**Nicole DeBlase** *Deutsche Bank* - Director & Lead Analyst

And then just shifting to the steel dynamics. So, steel inflation has continued to tick a bit higher year-to-date. Is the expectation that this quarter is kind of the maximum benefit that you should see from steel? You talked about it being a sequential good guy. Like does it then turn into a sequential bad guy in the second half of the year?

**Tom Ernst** *Symbotic Inc.* – Chief Financial Officer

Yes. And you're right, if you pulled the steel chart, it's shown quite a bit of volatility. So no, based on what we've seen to date, our steel purchases tend to be dollar weighted in the 10 to 12 months prior to actual installation where the revenue is concentrated, the installation phase. So, we would actually expect the max benefit quarter to be our fiscal Q4 before you begin to see some of the uptick that we've seen recently create some headwinds.

So it is hard to predict where these things are going to go because of the nature, which is one of the fortunate things that our business model allows us to pass these costs on to -- largely passing costs on to our customers, and we'd be making our profit dollars very predictably even though it does have a gross margin impact in terms of what we report on a percentage basis.

**Jim Ricchiuti** *Needham & Co.* – Analyst

A question on gross margins. If -- you cited several factors that could be more about a tailwind to gross margins. But I'm also trying to understand where exactly you are in the ramp-up of your outsourcing partners. If you're making enough progress in the early days of this, that we're going to continue to see that -- the benefit in the next one to two quarters? Or is there still additional costs that you're incurring as you ramp these outsourcing partners?

**Tom Ernst** *Symbotic Inc.* – Chief Financial Officer

Yes. We do see more tailwinds as we look forward. Now we are still -- we still do have a lot of work to do with our outsourcing partners. So, while we have significant outsourcing happening across our entire value chain, we're still working on acquiring more partners across each of those, so manufacturing and installation and commissioning.

We also expect that our work with these partners in terms of collaboration and communication that's going to benefit our mutual operations together over time. And so, this is something that we think will provide opportunity to improve our efficiency over a multi-quarter time frame rather than just a multi-week time frame.

And then there's just some near-term benefits that, now that we have the confidence and the capacity up and running with these partners, we're able to do things like discontinue our own operations that provides some immediate benefits. So, I'd say it's a mix, Jim, but we clearly have a significant road map of opportunity over many quarters.

**Jim Ricchiuti** *Needham & Co.* – Analyst

And I don't know if you want to comment on this, but what I'm thinking -- also trying to understand is the rate at which you're scaling. How many system deployments would you anticipate advancing in the current quarter?

**Tom Ernst** *Symbotic Inc.* – Chief Financial Officer

Is the question, how many do we anticipate initiating in this current quarter?

**Jim Ricchiuti** *Needham & Co.* – Analyst

Initiating. I'm sorry, yes. That's right.

**Tom Ernst** *Symbotic Inc.* – Chief Financial Officer

Yes. So, we initiated seven system deployments in the last quarter we just reported, in our fiscal second quarter. We don't tend to guide for the one quarter forward. I do think that there can be quarter-on-quarter variability in those numbers. So, as we think about multiple quarters over time, we look to grow that number. But Jim, you should assume that there will be some ups and downs in terms of quarters. And we feel like the seven we did this quarter and the six we did last quarter is an exceptionally strong quarter relative to our growth plans.

**Mike Latimore** *Northland Capital Markets* - Analyst

Just in terms of supply availability, is that improving? Is there further improvements that could occur? Can you just give some tone around that?

**Tom Ernst** *Symbotic Inc.* – Chief Financial Officer

Yes. We do continue to believe that the supply chain environment is improving. It is still not a normal supply chain environment. So, we are still clearly battling things that would have been atypical pre-COVID in terms of canceled orders and things like that.

In addition to perhaps supply chain environment getting better, we are a much more formidable buyer. So, we're getting the attention of suppliers, we're getting attention of partners. And so those we think as well are continuing to improve our ability to execute.

**Mike Latimore** *Northland Capital Markets* - Analyst

And then in terms of the future plans on outsourcing, is the main focus here adding more partners to current sort of functional categories? Or are there other functions you're looking that you will eventually outsource?

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

No, it's -- we've pretty much picked the partners though. So, we have partners that will help us install sites, partners that will help us build the SymBots, partners that will help us build the cells. So, we've pretty well executed our strategy on outsourcing and the partners will get better, they'll continue to help us innovate. But we're done -- we're pretty much -- these last two quarters were big quarters for us in getting this job done.

**Tom Ernst** *Symbotic Inc.* – Chief Financial Officer

So, we've got the functions covered, Mike, and now our goal is to deepen the bench and broaden the bench of partners.

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

I wanted to follow up on the outsourced commentary now that you're several more months into that. Can you just comment on how that's translating the speed cost as you've shifted more of that to partners? And I guess I'm asking relative to maybe what your earlier or prior expectations was?

**Tom Ernst** *Symbotic Inc.* – Chief Financial Officer

Greg, it has enabled us to continue to execute to our plan. So, we are seeing our targeted deployments set with a little bit faster time frame than we were executing to the systems that we're just completing, for example. And as we've engaged with these partners and talk about the kind of structural improvements, both in terms of processes and collaboration but also in terms of technology, we are further encouraged that the opportunity to compress deployment time frame is real, tangible and something that we're going to work on together over the coming multiple quarters to years.

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

And then just following up on an earlier question about EBITDA profitability, Tom, you commented on, I guess, consensus estimates for Q4. And I guess my question is, were you effectively blessing those? Or what was the rationale for commenting on those directly?

**Tom Ernst** *Symbotic Inc.* – Chief Financial Officer

Yes. No, we're not providing full-year guidance, but I just wanted to set context for it. So, what we will say is as the revenue is able to scale, we believe that we're in a strong position to have high operating leverage.

**Joe Giordano** *TD Cowen* - Analyst

Rick, just given your comments about BreakPack and you're making good progress there, planning over the next 6 months, how should we think about like R&D levels post 2023? Like could we see a step down in spend now that you've kind of gone through SymBot and you're going through BreakPack to a large extent now? Like how should we think about the required levels to keep the organization on the cutting edge?

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

Yes. I don't think you'll see a reduction in R&D. I think we'll look to pull money out by just being more efficient with the organization. But we're going to continue to fund R&D simply because we have a lot of great products that we haven't talked about that are in the works that are going to help us a lot. And so, this is just a great innovative lab here and we continue to recruit really great talent. So, the answer to your question is no, I don't think you should expect R&D to drop.

**Tom Ernst** *Symbotic Inc.* – Chief Financial Officer

I'll add to that, Joe. You're right that BreakPack, along with SymBot, are very significant projects in our innovation budget. So, as we complete those projects, we have a big war chest to do some of the other things that we haven't talked about yet that Rick mentioned, looking forward.

**Joe Giordano** *TD Cowen* - Analyst

And then like how should I think about ancillary things? Like when you're -- okay, so the final output of SymBot, you have a pallet and then you talked about how to get that pallet onto a truck. Is it forklift drivers? Is it automated forklift? Like when do you -- how do you evaluate like what stuff we should provide and what stuff we should have a preferred partner like if it was an autonomous forklift or something like that? Like not just that application, but just in general, how do you go about evaluating what stuff should be Symbotic and what stuff should be partners of SymBot?

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

Yes. So, the way to evaluate it is, we're trying to encourage people to be good partners to Symbotic because we want to control all the software that we can within a warehouse. So, if we can find a partner that has AGV or AMR, and we can interface our software with their software and load the truck, the customer wins, we create more value. That's a good thing. The things that we're really innovating on that we had to -- that's kind of -- the culture of the company from SymBot from day one is a lot of the stuff that we innovated in Symbotic -- I mean I looked for partners. I couldn't find anybody, so I had to do it myself.

And so, I think the real value add is there's a lot of things that we are working on that nobody makes a product that would meet our standards. And so those are the things that we'll continue to innovate on. And obviously, I'm not going to tell you what they are, but there are some really interesting products that would allow us to create some really interesting systems.

**Joe Giordano** *TD Cowen* - Analyst

And then last for me, to clean up. Are there any lockups left at this point? The stock has been over $12 for the required time now. I'm just curious if any -- if there are any lockups remaining inclusive of like you guys on the senior team?

**Tom Ernst** *Symbotic Inc.* – Chief Financial Officer

There are. So, some of the affiliated shares are still locked, but everything is unlocked, save for Board members, Rick and family trusts and myself, and where our lockup is in effect until one year post the public listing.

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

I wanted to ask a question just to clarify on the backlog. You noted that it was flat quarter-to-quarter. And clearly, you booked $267 million in revenue. So, is -- I'm just curious what the offset was? Was there a new customer in there? Or did you add additional systems out of -- from existing customers? What would account for it holding flat?

**Tom Ernst** *Symbotic Inc.* – Chief Financial Officer

Yes. So, no new customers booked in the quarter. What we're seeing is a higher variable consideration than what we contemplated when we entered the period.

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

And that variable consideration relates to -- is that productivity or...?

**Tom Ernst** *Symbotic Inc.* – Chief Financial Officer

It relates to the business that's now under deployment and execution. So, the variable component is higher than what it was when we -- before we had that component added to the started deployments.

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

And just as a follow-up, you've brought on a lot of partners, as you've outlined here over the last two quarters. Has any of your partners -- have you observed them basically start to finish on projects or deployments to be able to assess the timeline that they're working on -- working from initial start? I guess, could you just speak about their ability to commission and get projects over the finish line, how you feel about that in the time frame?

**Tom Ernst** *Symbotic Inc.* – Chief Financial Officer

Yes. And this highlights something. So, while we did -- we made comments about one year ago that we wanted to put our foot on the gas and our outsourcing initiatives, and we did so. And since then, are now have fully outsourced across our value chain, most of what we do. That wasn't the start of our outsourcing initiatives. So, we've had some significant components outsourced from the start such as our lift systems, for example. So, our experience in those first waves have gone from start to finish with a high degree of success and teamwork with those partners. So, this latest wave, we have completed an extensive part, I'd say, of the outsourcing life cycle with them, but we do have a long-demonstrated track record of being successful with outsourcing from start to finish and then for one year or two to follow that.

**Derek Soderberg** *Cantor Fitzgerald* – Analyst

Sort of related to the question just asked. Just as regarded -- just looking at the system deployments initiated this quarter, is the expectation that those deployments today will sort of reach live production faster than maybe those initiated 6 to 12 months ago? Just curious if you can update us on your progress shrinking those deployment time lines and if you can quantify any of that progress, that would be great?

**Tom Ernst** *Symbotic Inc.* – Chief Financial Officer

Yes. Just to give you a sense, Derek, so as the supply chain environment got tighter, looking backwards, we actually extended the time frame a bit. So, we got an earlier start on procurement. Since that time frame, we've been able to pull in a couple of months. Part of that is related to partners, and part of that is just the efficiencies that we're able to gain and get in the systems out in the field. So short answer to your question is yes, that the systems we're initiating in this period, we're targeting a shorter deployment than the ones we initiated, say, 6 or 12 months ago.

**Derek Soderberg** *Cantor Fitzgerald* – Analyst

And then I was wondering if you could talk a bit about your ability to add another large customer this year. A lot of progress on concurrent deployment. It sounds like you're happy with the outsourcing partners. Do you think you guys have the ability to add sort of another, say, multibillion-dollar customer this year? And are those -- some agreements -- are you actually actively pursuing those agreements right now?

**Tom Ernst** *Symbotic Inc.* – Chief Financial Officer

Yes. So as you know, we added UNFI as a customer and discussed that last period. Our business plan continues to be here in the near term to add new customers by the ones or two per year. So, we are continuing to evaluate. We didn't add one in this quarter, we're reporting now, but we are continuing to look at that and do expect that here in the near term, one to two customers per year.

**Chris Snyder** *UBS Investment Bank* – Analyst

When we see the implied improvement in fiscal Q3 margins, is this primarily driven by better gross margin? And with that, how far do you think the business is from hitting that 30% target gross margin level for systems? Because it seems like price cost pressure is going away over the next couple of quarters. But I'm not sure if a higher level of scale is needed to get to that number?

**Tom Ernst** *Symbotic Inc.* – Chief Financial Officer

Yes. So, we think that we'll continue to see gross margin expansion as we look forward over quarters. And that is consistent to improving gross margin is implicit in our outlook, but we also do expect that we'll see some efficiencies in our OpEx primarily from the benefit of the restructuring program that I discussed in my prepared remarks. So that's the real fundamental basis we're seeing the bit of operating leverage on slightly lower revenues implicit in our guide.

Thinking about structural gross margins, we think that that's an effort that will take us several quarters to a couple of years to really get the benefit. Here in the near term what we're focused in on is driving strong long-term profitability. And so, we think that we can drive the greatest present value of our business by achieving scale and getting -- and then penetrating the market. And while we're doing that, we're focused on smart execution and ramping profitability over the course. So, we want that balanced approach of maximizing long-term profitability and scale while being -- executing with expanding margins.

**Chris Snyder** *UBS Investment Bank* – Analyst

And then for a follow up, maybe something a little bit higher level. You guys have quite the blue chip customer base. So, with that, I was just wondering, is there any color or commentary you could provide around the level of existing automation within these customer facilities? Just given that they're big customers, I would imagine there's some level of automation in there. So just trying to get a sense for kind of the rate of change on the upgrade?

**Tom Ernst** *Symbotic Inc.* – Chief Financial Officer

Yes, Rick can comment too. At a high level for these large customers, every distribution center we go into is fully mechanized with conveyance-based automation. So generally, we go in and we're replacing a highly functioning world-class conveyance system.

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

Most -- I mean, most of the systems we're replacing are 20 years old. And so, most of the customers we have look at everything in the world. And so, they have had some type of automation. What, of course, is exciting for us is that we believe we're the next generation of that automation. And these systems have a long life once installed. So, the focus has really been making sure these customers are just braggingly happy with what we're selling and then we think we can sell a lot more.

**Jeff Evanson** *Symbotic Inc.* - VP, IR and Corporate Development

Thank you, Valerie, and thank you, everyone, for joining our call this afternoon. We appreciate your interest in Symbotic and we look forward to seeing you at our Investor Day on May 18th in Tampa or when we're out visiting with investors. Thank you. Have a good day.

**Operator**

Thank you. Ladies and gentlemen, this does conclude today's conference. Thank you all for participating.

**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.