Symbotic Inc

Q3 FY 2024 Financials Call

OFFICIAL TRANSCRIPT

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PRESENTATION

Operator

Good day and thank you for standing by. Welcome to the Symbotic Third Quarter Fiscal 2024 Financial Results.

(Operator Instructions) Please be advised that today's conference is being recorded.

I would now like to hand the conference over to your speakers today, Jeff Evanson, Vice President of Investor Relations.

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

Hello. Welcome to Symbotic's Third Quarter 2024 Financial Results Webcast. I am Jeff Evanson, Symbotic's VP of Investor Relations.

Some of the statements that we make today regarding our business operations and financial performance may be considered forward-looking. Such statements are based on current expectations and assumptions that are subject to a number of risks and uncertainties. Actual results could differ materially.

Please refer to our Forms 10-K and 10-Q including the risk factors. We undertake no obligation to update any forward-looking statements.

In addition, during this call we will present both GAAP and non-GAAP financial measures. A reconciliation of non-GAAP to GAAP measures is included in today's earnings press release, which is distributed and available to the public through our Investor Relations website, located at ir.symbotic.com.

On today's call we're 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 third quarter fiscal 2024 results and our outlook, followed by Q&A.

Rick, I will now turn the call over to you.

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

Thank you, Jeff. Good afternoon. And thank you for joining us to review our most recent results.

Our third quarter reflects record revenue growth, strong recurring revenue gross margin and careful management of operating expenses. However, our system gross margin reflects elongated construction schedules and implementation costs associated with last quarter's rapid pace of innovation. For example, during the quarter, we decided to retrofit all SymBots in the field with our new sensor array to enhance performance capabilities at the majority of our customer sites.

While we believe much of the cost growth is now behind us, we could continue to see some impacts in the coming quarters as we focus on scaling high-quality deployments for our customers.

As you recall two years ago, we embarked on a strategy to outsource much of the manufacturing and installation of our systems. This approach enabled us to scale at a rapid pace. Based on our key learnings over multiple deployments, we plan to reabsorb a portion of the construction management processing starting this quarter, which will reduce costs. We believe bringing some of these functions back in-house will help us put a sharper focus on the implementation process and reduce costs further. In the short term, our revenue growth may slow as we make these changes.

Our backlog demonstrates that demand continues to be very strong for our systems, but we will always prioritize execution on existing deployments ahead of chasing growth.

On the innovation front, we made important progress on a new minibot that will populate our second BreakPack installation and advance our non-ambient system development work. We also began deployment of the first Symbotic system for GreenBox. While this did not contribute a significant amount of revenue in the quarter, the GreenBox deployment is on schedule.

I'm confident that we are making the right choices to quickly return to higher system gross margin and faster growth. Thank you to all Symbotic employees, partners and investors for your efforts and support.

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

Carol Hibbard *Symbotic Inc. – Chief Financial Officer*
Thank you, Rick. Third quarter revenue grew to $492 million, up 58% compared to the same quarter last year. The strong revenue growth is driven by steady progress across our 39 systems in the process of deployment.

As planned, system starts reaccelerated in the third quarter. We started five new system deployments and completed three systems, bringing us up to 21 fully operational systems. We expect quarterly system starts to increase in the fourth quarter.

Our backlog of committed contracted orders of $22.8 billion remained consistent with last quarter, as finalized pricing on contracts already in the backlog was offset by the revenue recognized during the quarter.

As Rick mentioned, system gross margin fell below expectations due to schedule growth and higher labor costs during the quarter. We are focused on improving our planning, speed of implementation and project management to enhance performance of the business. We continue to improve our operating leverage with focus on prudent expense management.

During the quarter, we generated $50 million in cash from operating activities. In total, our cash and equivalents declined to $81 million sequentially to $870 million. This was driven in part by a first investment in GreenBox as they begin operations.

For the fourth quarter of fiscal 2024, we expect revenue of $455 million to $475 million and adjusted EBITDA between $28 million and $32 million, representing temporarily slowed revenue growth and system gross margin returning to historical levels during our fourth quarter.

Finally, we believe our first quarter of fiscal 2025 should reflect reaccelerating year-over-year revenue growth.

We now welcome your questions.

Operator, please begin the Q&A.

Operator
(Operator Instructions)

Andrew Kaplowitz – Citi; Analyst
Good afternoon, everyone.

Carol Hibbard *Symbotic Inc. – Chief Financial Officer*
Hi, Andy.

Andrew Kaplowitz – Citi; Analyst
Rick or Carol, can you give a little more color into what happened with system gross margin and why it will rebound in Q4? Are you basically saying that in some cases outsourcing is not working for your deployments? And maybe what happened to convince you to take construction

management again in-house and what is the visibility into your Q4 expected margin improvement?

Carol Hibbard *Symbotic Inc. – Chief Financial Officer*
Yes. So, I'll start and then Rick can chime in in terms of some of the things we're putting in place to improve gross margin going forward.

So, on the outsourcing, as we talked about outsourcing, our primary reason why we chose outsourcing over a year ago was to go ahead and scale. And so, we did that across multiple areas of our supply chain so that we could also have redundancy. We're looking at bringing back in-house just one element, which is the EPC, so the Engineering Procurement Construction piece of that and we continue to own a piece of that.

So, we, actually, Symbotic continued to deploy at some of our sites and then we had multiple supply chain partners off doing that.

What we're finding is while that's not a significant item in terms of the overall cost of a system. It's a significant item in terms of that final mile of installation when you're extremely focused on making sure that everything comes together. We're finding that focus on schedule and focus on cost, that's a critical point for us. So that's one of the elements that we're going to bring back in-house so that we have more control over that overall integration.

In terms of the other things that really drove our gross margin performance in this quarter, Rick mentioned we've had delays in construction creating inefficiencies. And so, some of our more complex projects, we've had delays around, for example, permits. And when you talk about a delay in the construction phase, this is after we've already deployed resources to each of those sites, which is extremely inefficient, and our projects are taking longer.

I think last quarter I referred to some of the projects that we had in flow where we're not always going to see that 20-month deployment because I think I called them stragglers. And what we're seeing now is some of those complex systems where they're just taking longer. Longer system deployment creates higher cost. And then we did talk about the other contributor to gross margin is implementation of system improvements. There are several cases where we're going to go ahead and make that decision to go ahead and deploy and retrofit now which might drive costs.

So, in terms of some of the things we're focused on going forward, Rick, do you want to add any other color to that?

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

Yes. I think the most important thing is we're not, I mean our margin is down, but we're not a retail company. So, we're not discounting. We're getting the gross profits that we want, but the projects have been costing more than we anticipated. Keep in mind, we've done about 40 projects so far. We have hundreds ahead of us.

We've enhanced our supply chain team. We now have a lot of these people that we've been looking for, for the last year on board. We have a lot of talent. And so, we just simply think we can do it better than some of the partners that we needed to use because we didn't have the resources and we wanted to hit our sales targets.

For me, hitting our sales targets, pushing sales is something that is critical. For 50 years, I've been used to running a business on a 1.5% margin and a 6% gross profit. So, I have no concerns about getting these costs under control. What I want to make sure is that we keep our customers braggingly happy and that we continue to roll out our sales.

So, I think we made some choices. We could have fought with the customers over who paid some of these things, but we said, let's just keep the customer happy. Let's keep the sales rolling. Some of these things will absorb now and some of these things will not be expenses in the future. And I fully well expect our margin to come back, and our goal is to enhance the margin further. But just getting back to where everybody expected us to be would be a good place in the near term.

Andrew Kaplowitz Citi -- Analyst
Now that's fair, Rick. And should we think about it though as sort of like in quotes, one time in Q3 and that's why it comes back in Q4 because you're talking about normalized margins just in this current quarter, basically.

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

Yes. I think I'll let Carol speak, but things like delays because things weren't placed orders on time and you have 200 people standing around the site, that's just not acceptable and we don't expect that to happen in the future.

So, it's not like we'll go to zero immediately, but most of this stuff should go away from what we're seeing and the people that we've hired in the fourth quarter.

Carol Hibbard *Symbotic Inc. – Chief Financial Officer*
And our guide implies, Andy, that we're going to return to more gross margins similar to our historical. Now as Rick said, we've got future plans of improving that gross margin, which we've talked about. And so, while there might be some pressure on those gross margins still in the fourth quarter, we're not going to be at the levels that we were this quarter.

Andrew Kaplowitz Citi -- Analyst
Got it. And then Carol, how do we interpret the commentary that you're going to have accelerating deployments from the five you had in Q3 and then revenue will accelerate in Q1 '25 with the commentary that improving your deployment process may temporarily slow your revenue growth? Obviously those two are kind of competing. So how do we interpret that as you move forward?

Carol Hibbard *Symbotic Inc. – Chief Financial Officer*
Yes. So, I'll interpret that as we had three system starts last quarter, which was one of our lows and so, that's impacting the revenue in the fourth quarter.

We ramped that up to five this quarter, and you should expect to see that five continue to grow incrementally quarter over quarter as we finish out our backlog.

Andrew Kaplowitz Citi -- Analyst
All right. Thank you.

Carol Hibbard *Symbotic Inc. – Chief Financial Officer*
Thanks, Andy.

Damian Karas UBS -- Analyst
Hi. Good evening, everyone.

Carol Hibbard *Symbotic Inc. – Chief Financial Officer*
Hi, Damian.

Damian Karas UBS -- Analyst
I think in your commentary on GreenBox, you noted that everything's kind of on-track there. I was wondering if maybe you could just kind of peel back the onion a little bit and give us some additional color on what you're seeing for GreenBox JV.

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

Yes. So, we have our first install in a site in California. So, we're ramping that up. That's our first install. We have several sites where we're now talking to landlords about leasing space and we're spending a lot of time interviewing, building out the management team.

So, we're pretty excited about where we are in terms of rolling it out and building out the sales force. But right now, what we're doing is focusing on a couple of critical sites that are in the right geographies, sizing the system, specing the systems, finding the real estate and then building the management team to operate the site. And then we have started having numerous discussions with potential customers to be anchor customers for GreenBox.

So, it's going at a good pace. I mean I'm sure everybody wants it to go faster, but we're pretty happy with the pace. We're thoughtful. I think we're excited about the potential for the business.

Damian Karas UBS -- Analyst
Great. Glad to hear. And Carol, you had made a comment that you're kind of executing some prudent expense management. I was wondering if you might be able to elaborate on that. Was that kind of tied to the insourcing that you also spoke to or kind of what all did you mean by this prudent expense controls?

Carol Hibbard *Symbotic Inc. – Chief Financial Officer*
Yes. It's not tied to the insourcing. The commentary there is if you look at our miss on gross profit this quarter, it is entirely a story around system gross margin. So, when you look at our SG&A and R&D we continue to manage those expenses as we grow.

So, we did not see any one-time impact in the quarter associated with adjusted EBITDA like we might have seen in other quarters around restructure. We did not have any of that this quarter. We're managing our expenses appropriately as we grow.

Damian Karas UBS -- Analyst
Understood. Thank you.

Carol Hibbard *Symbotic Inc. – Chief Financial Officer*
Thanks, Damian.

Matt Summerville D.A. Davidson -- Analyst
Thanks. A couple of questions.

As I think about kind of the commentary coming out of the last quarter, the messaging from the Analyst Day, I guess, was this something that developed really late in the quarter that you felt kind of blindsided by? Because I guess I thought some of the challenges and growing pains, if you want to call it that, growing pains associated with increasing your concurrent deployment capability. I guess, I was under the impression that this quarter was going to sort of be a proof point that a lot of that stuff was in the rear-view.

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

Yes. I mean I think with construction costs and delays, a lot of it shows up right at the end. And so, we did not anticipate this and we're not happy about it. That's why we're taking over some of the management ourselves. We're acting very quickly. I mean this is not acceptable.

But yes, a lot of this stuff came at the end, and we just had to deal with it right at the end of the Q. I don't know… not at the end, but certainly after Investor Day -- well after Investor Day.

Carol Hibbard *Symbotic Inc. – Chief Financial Officer*
And then the other thing I'll add, Matt, is one of the things we're putting in place is as we scale, one of the things we're finding is that a focus on overall program management and schedule integration across all of our projects and flow is a critical skillset that we need to put more resources against. And I think when you talk about was it a surprise? Not a surprise, but it's those final elements associated with putting the install together. As Rick said, you get to the final completion of implementation.

We need a better view around all of our program management to predict when those delays might be impacting, which is one of the reasons why that EPC role is so critical, because they're the ones receiving equipment on-site. They're the ones who will have the first visibility in terms of a potential delay and that's why we want to bring that back in-house. That is a critical element for us that we perhaps weren't getting the visibility we need.

Matt Summerville D.A. Davidson -- Analyst
So as my follow-up; one, do you have that role, an individual in that role that is the head of what you just described so there is organizational accountability as we speak on what's going on? And fit to my point, has anything that's happened here impacted the performance of the systems in the eyes of the customer?

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

No. That's what we really protected against. I think the analogy that comes to mind is our offense is working great. We had five minutes left in the fourth quarter and the defense blew a couple plays. And so, I think that's the way we look at it.

We have been hiring people in the supply chain, in the EPC space over the last six months and they finally got in place. And they're actually the ones that are saying we should do this ourselves.

Our partners that we picked on supply chains, they got the work done, but then they came in with extra bills at the end and it's a part of the business we have to manage and we have to make sure we play defense, but it's not what drives the business.

We just got to shore it up. And so -- that's my answer. And yes, it does come when you finish a project and you're saying, okay. We're ready to gear it up. And they're saying, no, no, no, these parts aren't here. And you have people -- hundreds of people standing around the site for weeks, that's the problem.

So, the systems are running well and they just took longer to bring online than we thought. And we're not going to tolerate that.

Matt Summerville D.A. Davidson -- Analyst
Got it. Thank you, guys.

Carol Hibbard *Symbotic Inc. – Chief Financial Officer*
Yes. Thanks, Matt.

Ross Sparenblek William Blair – Analyst
Hi. Good evening, guys. Hi, just sticking on the insourcing can you maybe help frame how this has impacted if it has your ability to reduce commissioning hours? I know you provided some impressive walk at your Investor Day in May on bringing those down. And then maybe just try to get a sense also on as you bring those commissioning hours down, what does that provide on closing the gap on your longer-term gross margin targets?

Carol Hibbard *Symbotic Inc. – Chief Financial Officer*
I'd say the commissioning is done by a different group of people than the EPC. And so that walk that you heard Walt talk quite a bit about at our Investor Day that remains on track. And so, the commissioning think about that as the final mile. We're talking about the directing of resources throughout that installation process. And that's where we've seen some of the cost growth and schedule impact around that portion of the build.

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

Yes. The actual building of the bots which was a big problem for us before, we're actually very happy with our partners on building bots. And we have a very competitive situation. Some of the part suppliers to some of the bots maybe could do a little better, but the actual assembly of the bots is critical.

It's the actual big setting up the structure, the construction part of the business that is really going to be, we've got to be boringly good at that. And so, in this process I think we've learned that yes there's a couple things we should be doing differently. There's timing on the sites, but the most critical thing would be building the bots and building the robotic palletizing cells. And those we've been pretty happy with. It's just when it all comes together there's too many people standing around at the end.

Ross Sparenblek William Blair – Analyst
All right. Got it. And maybe on something a little bit more optimistic, Rick, could you just provide any updates on where you guys are with the European Salesforce expansion and any commentary you're willing to provide on what those early customer conversations have looked like in the region?

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

Yes. So, we've had a lot of conversations in Europe. I've been to Europe a bunch of times. We've hired some Europeans to actually do sales work. We've hired a couple of consulting firms. All the big suspects especially in the food space in Europe are now we're engaged with conversations on.

We've also had some conversations with some of the port operators whether it's GreenBox or Symbotic Systems that we've been helpful with. And we continue to recruit and look at hiring more sales folks.

But we've hired a couple of very good salespeople from some of our competitors that we're delighted with.

Ross Sparenblek William Blair – Analyst
I mean just really quick on the follow on there. Maybe I underappreciated the dual nature of the supply chain. Are you going to need the engineering exposure in Europe as well? So, there's going to be another layer of hiring once these orders do start to come in on delivering the deployments?

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

No. Our systems are pretty much cookie cutters. That's design. And so, and we continue within our expense package. We're actually increasing the amount of money and the amount of people we have in R&D, but what we're doing is actually figuring out how to install these things simpler and easier so that there's just less people doing basically construction work.

Ross Sparenblek William Blair – Analyst
All right. That's perfect. I'll leave it there. Thanks, guys.

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

Thanks.

Greg Palm Craig-Hallum -- Analyst
Yes. Thanks.

I guess I'm still a little bit confused just in terms of the revenue and profit bridge in the quarter. You completed three systems. You started five. You actually outperformed revenue by a pretty wide margin relative to the guide. And so, I'm trying to tie the statements about deployment delays and construction implementation delays to the fact that actually revenue outperformed quite a bit which obviously implies that you were able to recognize the revenue. So, can you maybe just dig into that a little bit more?

Carol Hibbard *Symbotic Inc. – Chief Financial Officer*
Yes. So, if you start with current revenue, that strong revenue is based on the progress of the 39 systems in deployment, many of which we had a higher SOW signature. If you think about 2Q of 23, 3Q of '23 we had signed five and six SOWs back in that timeframe. Right now, we are heavy into the implementation.

So, the bulk of our revenue is coming from projects that we signed about a year ago. And so, that's driving the strong revenue performance. There are a couple things driving our 4Q guide lower. The first one is we had fewer systems starts last quarter.

So, we had three starts and so that start of those systems we're starting to see the ramp up of revenue would occur in fourth quarter. And so, the lower system starts is the first driver of why 4Q is down. The second is when we talk about construction delays and how that impacted our performance this quarter. Those construction delays that started on systems over the last quarter, that's going to delay revenue recognition for implementation milestones in the next quarter. And that's another significant driver in terms of why revenue is down. And then the last one is Rick talked to is the technology we're improving. That slowed some things down.

So that's also going to slow milestones that we would have received revenue recognition on next quarter. And that's going to shift out the quarter. So those are the big drivers why you see the dip down. That outlook is temporary.

So, as we look and plan for … the beauty of having the backlog that we've got and being able to look at what we have in deployment we can - we're getting better at predicting our revenue as long as we remain on schedule.

Greg Palm Craig-Hallum -- Analyst
Okay. So maybe a little bit of a lag. So, I guess that makes sense. And did I hear it right? Was there a cost associated as well with upgrading or retrofitting some of the bots that were in the field already? Was that an impact as well that was unforeseen or was that expected?

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

That was unforeseen. Some of the cables that enable the vision enhancement on the bots, which is one of the ways that we use vision to connect to our boards and use AI a lot, a number of those cables came in late. So, we shipped the bots to the customer so they could still do 90% of what they were supposed to do. And then we made the decision to retrofit the cables in the field which was expensive.

Greg Palm Craig-Hallum -- Analyst
Got it. Okay.

Carol Hibbard *Symbotic Inc. – Chief Financial Officer*
So, those changes are now in line at our bot producer, but we made the conscious decision to go ahead and retrofit all it on what's already in the field.

Greg Palm Craig-Hallum -- Analyst
Yes. Okay. And then just lastly if I think back a few quarters to your fiscal Q1, you slowed deployments, I guess it was for differing but similar reasons, but that ended up really being, at least at that point, a one quarter issue. So, what is your visibility you're talking about reacceleration in fiscal Q1? Do you have pretty strong visibility that suggests I mean what else unforeseen could happen between now and then that would maybe impact that timing?

Carol Hibbard *Symbotic Inc. – Chief Financial Officer*
So, in terms of the visibility in new system starts we get with our customers and try and map out from around our backlog. We try and do a six-month and a 12-month outlook. And we stay lockstep with our customers because we've talked before about why we may be ready to be full steam ahead and start deployment at a particular site. It's a joint decision with our customer. And so, we look out 12 months and map that out.

What can cause issues with that? Our construction delays in one phase may delay start of another phase of that project. And so, when you talk about those unforeseen things that's the piece that we've got to remain on schedule so that you can continue the deployment in that phased approach.

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

So, we have pretty good visibility. Once the permits are issued, it just flows. And most of the things that we're talking about I think in the first quarter we're pretty confident of.

Greg Palm Craig-Hallum -- Analyst
Okay, perfect. I will leave it there. Thanks.

Carol Hibbard *Symbotic Inc. – Chief Financial Officer*
Okay. Thanks.

Jim Ricchiuti Needham -- Analyst
Hi. Thank you. So, when you talk about the revenue growth accelerating in fiscal Q1, should we anticipate a pickup in margins? I mean you're already suggesting there's going to be a recovery, some recovery back to historical levels in Q4 margins. I'm just wondering, though, as we start seeing an acceleration in revenue, do we then potentially have some cost issues that could impact margins in the near term beyond Q4?

Carol Hibbard *Symbotic Inc. – Chief Financial Officer*
So, in terms of revenue acceleration, you're going to see 4Q will be our lowest year over year revenue growth. So, when we refer to getting back to 1Q, 4Q is going to be our lowest point when you look at that.

In terms of gross margin impact, the accelerations we're talking about are not accelerating schedule where we're dumping resources to expend to complete ahead of schedule. I'm not sure if that was the nature of your question, but you should expect to see gross margin incrementally get better as we deploy systems.

So, the other thing impacting our gross margins is we have lower margin projects in flow right now. The longer they take to deploy, the longer those lower margin projects stay with us. So, we've got to get that deployed so that we can start moving into a higher concentration of our higher margin business.

Jim Ricchiuti Needham -- Analyst
And just a follow-up question on what you're doing in-house with EPC. As you begin to accelerate, I mean you're talking about a significant acceleration in deployments over the mid to longer term, and I'm wondering if that's going to require a scale-up in EPC resources as well. Maybe not immediately, but it sounds like as you start doing more of this in-house and as the deployment really starts to ramp, you're going to require more resources in-house. Am I thinking about it?

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

Yes. I think in perspective, so let me just step back a second. So, we basically doubled the sales of this company in two years. And so, I mean it's not, I mean it's like we hope we wouldn't hit a speed bump, but I think this is, I mean it's pretty minor. This is actually our highest EBITDA quarter ever. So, it's pretty minor. I don't have any below-the-line adjustments, but yes, we're going to continue to scale up on some resources. We're also going to scale down on other resources. We'll do a good job controlling our expenses, and now what we need to do is control the construction costs at the site.

So. this was a good learning quarter for us. It was a little bit painful. If the gross had been good based on the sales, we would have been delighting the people we're talking to today. So, we took our hits, we cleaned it up, and we're done.

Jim Ricchiuti Needham -- Analyst
Okay. Thank you.

Nicole DeBlase Deutsche Bank -- Analyst
Yes. Thanks. Good evening, guys. Hi. Just maybe kind of putting all of this together, thinking about, the ramp to 2025, talking about, your view that revenue should kind of get back on track and reaccelerate in the first quarter, margins following that, and then ability to kind of hold costs constant. Does that mean that it's fair to assume that EBITDA margins in 2025 move above this mid-single-digit level that you're expecting for the fourth quarter of this year?

Carol Hibbard *Symbotic Inc. – Chief Financial Officer*
You're definitely going to see a return to EBITDA higher than where we are this quarter. We should be above mid-single digits, and then on a trajectory to continue to improve that gross margin and EBITDA margin going forward.

Nicole DeBlase Deutsche Bank -- Analyst
Okay. Got it. Thank you. That's very helpful. And then just on steel costs, they've been coming down for some time. Do you think that's reflected in your gross margins yet, or is that an additional help as we move into future quarters?

Carol Hibbard *Symbotic Inc. – Chief Financial Officer*
I'd say it's reflected. So, what we've gotten a lot better at is locking in our steel pricing at the same time we go ahead and sign an individual contract or an individual project with our customers. When there's a lag is when we either get the benefit of steel pricing or we get the impact of steel pricing.

So, what we've gotten better at is locking in a commitment, and our supply chain team is focused on, with that stronger visibility in terms of what's in our backlog, we've been able to lock in commitments with our steel partners further out.

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

A lot of these projects we're doing now we locked in prices almost 18 months ago when steel was higher. So, I can't predict what steel is going to do, but we expect it to come down lower, and that would be reflected in the future. But sites that we're doing now we actually locked in steel 18 months ago. So, we're not buying on the spot market, or if we are buying on the spot market, it's for delivery at a price 18 months from now.

Nicole DeBlase Deutsche Bank -- Analyst
Got it. Thank you, guys. I'll pass it on.

Mark Delaney Goldman Sachs -- Analyst
Yes, good afternoon. Thanks for taking my question. Last quarter, the company said it expects to begin the installation of its second BreakPack solution with a customer this summer. I think you

mentioned today progress with the minibot, but can you comment on when you expect to deploy the second BreakPack and how a BreakPack more broadly is going?

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

Yes. So, the answer is it's going well. We're meeting our customers' expectations. The second system will start construction in our next fiscal year, and I think it gets rolled out in 2025 or thereabouts.

But we've redesigned the minibot. We've taken it in-house. We've put a lot of new technology in the bot. The customer is really excited. I actually think it's going to be a growth opportunity for us.

Mark Delaney Goldman Sachs -- Analyst
Thanks for that, Rick. My other question was hoping to better understand the top line, and can you please remind us of what percent of revenue recognition comes from procurement, installation, and commissioning of the system? Thanks.

Carol Hibbard *Symbotic Inc. – Chief Financial Officer*
So, our revenue curve, because I think this is where you're going, Mark, is a much more significant part of our revenue is coming from system deployment near about 12 months into the install.

So, I think your question, though, is what percent of that overall revenue is driven by the EPC in terms of if we're bringing that back in-house, how much of the revenue is it driving? That is not a significant contributor to cost and so, the focus there for each individual system is a very small percentage of what that overall cost curve is, but it's such a critical element, which is why we're bringing it back.

Mark Delaney Goldman Sachs -- Analyst
Thank you. I'll pass it along.

Robert Mason Baird -- Analyst
Yes. Good afternoon. Rick, I was going to see if you could update us on, maybe it's early, but if you could update us on progress on the non-ambient effort that you have ongoing and how you see that timeline. Just referencing that one of your large customers in the quarter made some commentary around their implementation of, I guess, a vendor they've been working with on that effort at least since 2018, but maybe how you see your opportunity unfolding in the non-ambient space with either new or existing customers?

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

Yes. So, we have a couple of friendly C&S sites that we're able to experiment with in perishables in Massachusetts. And so, we're continuing to work on that. We're learning a lot. We don't see any showstoppers. The perishable system for bots, we're pretty well designed for.

It's just we're so busy right now selling the ambient systems, but we're continuing to spend a lot of money on R&D here. Everybody should know that, that we haven't cut back any of that, and that's reflected in our numbers.

But the perishable is, that development, it continues to go well. A lot of what we do in ambient is relevant for perishables. So, we don't have any deployments, but we do have some potential customers that are very interested in deployments. So, we think that's going to be a business.

Robert Mason Baird -- Analyst
Very good. And Carol, just real quick, you made the commentary around funding for GreenBox. How does that tie into a couple of the larger outlays that were on the cash flow statement in the quarter, either around strategic investments or the distributions for Symbotic Holdings? Is that related?

Carol Hibbard *Symbotic Inc. – Chief Financial Officer*
Yes. The Symbotic Holdings is not related to GreenBox, but I'll touch on the two things that impacted our cash for the quarter.

So, you see an $81 million reduction quarter over quarter in terms of cash balance. And so, there were two unusual events this quarter. The first one being this is our first quarter with our GreenBox investment.

And so, if you may recall from our overall GreenBox LLC agreement, each partner would contribute to the initial capital call associated with that investment. And so, that initial capital call that is not related to the systems happened this quarter. And so, that was one element of what you saw from the cash burn. The second element you referenced, which was in our press release in the financials, distribution to SYM Holding LLC, the non-controlling interest. This has to relate to our SYM LLC. We make a distribution to the members in the year that we believe we will become profitable for tax purposes. And so, associated with that distribution, you saw a $48 million cash impact. That run rate will not continue at that rate. We actually had an April and a June payment that both hit in the quarter. So, we had double the impact in one particular quarter. You're not going to see that run rate going forward.

Robert Mason Baird -- Analyst
Thank you. That's helpful.

Ken Newman KeyBanc Capital Markets -- Analyst
Hi. Guys. Thanks for taking the question here. You know I appreciate all the color so far, all the moving pieces for, you know system gross margins into this quarter. But I'm just curious, Carol, could you just quantify exactly how large those impacts were in the quarter? You know that way we get a better sense of just what EBITDA margin would have been had these costs not kind of crept up on you leading to the quarter. And then just helping us bridge how much of that is expected to roll off in your 4Q guide.

Carol Hibbard *Symbotic Inc. – Chief Financial Officer*
And so, what you're seeing is that the entire impact, if you think about, we were at 15.6% gross margin. We had, you know that full impact from what we would have been predicting at about 20%, which is what we're trying to get back to in terms of fourth quarter. That full impact comes from the three elements we talked about. And I'm not going to split out between the three, but it's overall cost growth, construction delays, and the going ahead and rolling forward the innovation that we had talked about last quarter. So those were the impacts driving that gross margin.

Ken Newman KeyBanc Capital Markets -- Analyst
Okay. And is it fair to think, I mean it sounds like you're not expecting the full impact or that to roll off here into the fourth quarter. But as I think about just the timing here, is there a sense that, you get back to 20% plus gross margins beginning in the first quarter of '25, or is that still too hard of a hurdle?

Carol Hibbard *Symbotic Inc. – Chief Financial Officer*
No. That's what we're predicting. So, our guide reflects getting back to 20% in the fourth quarter. And I'll just do a quick go back on the three categories of what impacted our overall margin. To summarize that, the vast majority of that is labor related.

We talked about inefficiencies. We talked about schedule. The bulk of that is people costs. People being ready for work, then the work and the equipment didn't show up. So, our guide for 4Q, our expectation is we'll be back to 20%. Was that where we wanted to be? No.

So, we're lower than what we would have planned at the beginning of the year, and that's why we're saying there's still some impact heading into the fourth quarter, but our guide reflects that.

Ken Newman KeyBanc Capital Markets -- Analyst
Got it. And then just real quickly for my follow-up here, just looking at this free cash statement, I mean it looks like CapEx did step up kind of decently sequentially here this quarter. Just any thoughts on where free cash flow or CapEx expectations into year end, and is it fair to think that you'd still expect to be free cash flow positive in the fourth quarter?

Carol Hibbard *Symbotic Inc. – Chief Financial Officer*
Yes. We still expect to be free cash flow positive going into 4Q. What you're seeing on CapEx is a couple things. So, we're going ahead and investing in additional equipment as we're ramping up R&D, and then we also talked last quarter about our move from some equipment out of deferred cost into PP&E, and that's what you're seeing. So, I think the run rate for this quarter is indicative of what you'll see going forward.

Ken Newman KeyBanc Capital Markets -- Analyst
Thank you.

Derek Soderberg Cantor Fitzgerald -- Analyst
Yes. Hi, everyone. Thanks for taking the questions. I wanted to ask about GreenBox. Is there any way you can quantify the interest level you're getting for GreenBox today? Is that pipeline growing? And then how would you characterize the size of the firms you're getting interest from today? Is it more mom-and-pop shops, mid-size, or large regionals? And then I've got a follow-up.

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

Mostly what we're getting interest at this point is medium and large regionals. And what we want to do is develop a sales force to go after the mom-and-pop shops, which is where we think there's more margin, but we need anchor tenants. So, we've had a number of incomings as people are still trying to understand what we're doing, how this all works, but medium and large regionals.

Derek Soderberg Cantor Fitzgerald -- Analyst
And Rick, what do you think they're waiting for to hop on board with that first anchor customer? What are they looking for when that solution comes live? What are you hearing from them in terms of feedback? I guess just what are they watching from that first customer? Thanks.

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

I think they were waiting for the first Symbotic site and GreenBox site to become available, so we'll be able to tour people through that. But I think they're just waiting for us to announce the locations, which we plan to do shortly, of the next couple sites.

Joe Giordano TD Cowen – Analyst
Hi. Guys. I wanted to start back on the EPC thing. So, I just want to make sure I get this right. You're dealing with companies that do this as like the core competency, I guess. So, what gives you the comfort that bringing this in-house to do something that's not, I guess, your core of what you do, that you'd be able to do it that much better? And would you be hiring the same people that you're working with, poaching people from those EPCs? I just want to make sure I understand that whole dynamic and what gives you the confidence that improves significantly in-house?

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

Yes. So actually, what we did, Joe, fair question, is a lot of the people that we had hired when we were doing this ourselves were then hired by some of the general contractors who probably are better at defense work than our kind of work. And so, some of these contractors that we will then go back and take over will actually reduce the price. And we're finding that we're spending a lot of time managing the contractors. And what we've done, so that's one thing. The other thing we've done is we've actually been able to hire people that have done this from some of the large automation firms that do this in-house. And so, that's given us real comfort that we don't need, in some cases, the middleman. And in some cases, we're just better off to hire people ourselves. So, I guess the answer is simply we've been disappointed at the performance for some of the suppliers that we've hired. And we know we can do it better ourselves.

Joe Giordano TD Cowen – Analyst
Are you ultimately using these same construction firms? You're just taking a part of the function away? Do you plan on keeping the same kind of mix of partners, though?

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

Yes. So, for instance, there's a company that installs all our rack, which is one of the largest contracts that we order in terms of labor. And so, we turn those over to the general contractor. And the general contractor used them and did a worse job managing them than we did. So, we'll just take them back. We'll also, and on the electrical side, we've learned a lot about electrical. And so, that's been another part. But yes.

Joe Giordano TD Cowen – Analyst
So, it's them not managing the subs, subbing it out well. And that's the capability that you think you can bring more expertise to?

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

When we took this over, and I think we told the group that we thought these people were going to manage all the subs better, we're going to bring in new subs, it just hasn't happened.

Joe Giordano TD Cowen – Analyst
Okay. And then my follow-up here, and I think this was brought up, but I just want to clarify it. I know that you're frustrated by this. I'm sure investors are going to be somewhat frustrated by this. But if I'm talking to your customers, am I getting kind of different reactions? Do they see this on their side? Are you bumping up against timelines that you need to hustle to get to now? What's the difference between the conversation we're having right now and the ones that you're having with your customers on site?

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

Yes. So, what we've done, and this is one of the reasons why we spend more money, is we've tried to, as much as we can, isolate our customers. We think this is a short-term problem. And so, we, certainly the customers are leaning in to pay some of it. Some of it we're paying. And we're working with the customers to make sure it goes away. And also, I think we're educating our customers. They have to have some of these sites ready ahead of time, clean ahead of time. And some of them have been lagging with their contractors getting power to the building and that stuff. So, we're all learning together. But I'm confident this is a very short-term problem.

Joe Giordano TD Cowen – Analyst
Thanks guys.

Operator
Thank you. I'm showing no further questions in the queue now. 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 everyone for joining our call tonight. We appreciate your interest in Symbotic. And we look forward to seeing many of you during the quarter at the various investor conferences we will be attending. Good night.

Operator
Thank you for your participation in today's conference. This does conclude the program. You may now disconnect.

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.