# Symbotic Inc

# Q4 FY 2023 Financials Call

OFFICIAL TRANSCRIPT

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**PRESENTATION**

**Operator**
Welcome to the Symbotic Fourth Quarter and Fiscal Year 2023 Financial Results.

(Operator Instructions).

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

**Jeff Evanson** *Symbotic Inc. - VP, IR and Corporate Development*
Hello. Welcome to Symbotic Fourth Quarter 2023 Financial Results Webcast. 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 also 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 of fiscal '24, including revenue and adjusted EBITDA. We do not provide guidance for net loss, 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 are joined by Rick Cohen, Symbotic's Founder, Chairman and Chief Executive Officer; Tom Ernst, Symbotic's Chief Financial Officer; as well as Carol Hibbard, our CFO Successor Designate. These executives will discuss our fourth quarter 2023 results and our outlook, followed by Q&A.

Rick, would you take it away, please?

**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 2023 results and to discuss the year ahead. But first, I'd like to highlight some of our most important achievements in the past year. Fiscal 2023 was a year of doubles.

By doubling our sites in deployment, our revenue nearly doubled and set us up for a strong revenue growth in 2024. Our gross profit grew even faster, more than doubling as gross margins increased significantly. And the number of stores served by the Symbotic system nearly doubled as our technology now serves over 3,000 customer stores.

Such growth presents a contrast to the annual revenue declines many vendors of supply chain technologies are reporting and is a testament to the strong and growing demand for the Symbotic System.

Today, Symbotic Systems are moving goods at a rated capacity of more than 400 million cases per year, and we are currently in the process of deploying additional capacity rated to move another 1.6 billion cases annually.

This compares with the annual total U.S. addressable market of over 500 billion cases moved per year. So clearly, we see significant opportunities for continued strong revenue growth for many years to come. We recently welcomed our newest customer, Southern Glazer's Wine and Spirits to the Symbotic family. Southern Glazer's is the world's largest distributor of beverage alcohol.

This announcement represents another win outside the food and packaged goods verticals and demonstrates the capability of the Symbotic System to efficiently manage goods with a range of SKU profiles, and with complex handling and loading challenges, all while operating in a regulated industry. Of course, with such high demand for our systems, our ability to scale operations is the primary governor on our revenue growth.

To that end, we have continued to invest heavily in extending and strengthening our network of outsourcing partners and manufacturing and installation, so we can maintain our focus on innovation and product development.

Concurrently, we have hardened our supply chain to position Symbotic for even faster deployments, continued revenue growth and steadily improving margins. We've continued to rapidly innovate and SymBot™, our ninth-generation automated bot is now in full production approaching 4,000 units -- in operation. These units are running in the field every day, and they make our supply chain even more agile, accurate and efficient.

With improved vehicle dynamics and navigation, as well as improved case handling, SymBot boosts the number of transactions per hour that a bot can handle over our previous generation bot. Furthermore, SymBot is engineered to take advantage of the average 6 terabytes of data per day generated by a typical system.

We expect our artificial intelligence and software enhancements to serve as an efficiency and reliability multiplier, and SymBot is purpose-built to realize these benefits over time. The first prototype of our each-handling technology, BreakPack is now delivering to stores every day, and we're pouring our learnings from this system into our next BreakPack prototype, while we continue to ramp and test.

We've done all of this while delivering increased profitability and cash flow. Our gross margins have improved substantially. Our recurring revenue streams are now profitable, and we achieved a positive adjusted EBITDA, all while posting our fourth consecutive quarter of increased cash on hand. All of this success has been the result of greater problem solving and the hard work of our team members. I'd like to thank the entire Symbotic team for making all this possible and we continue to pursue additional talent to enhance and build the Symbotic team.

Now turning to what we plan to achieve in 2024, our goal will be to do more of the same. That is, to scale, execute and innovate to deliver for our customers in the new year. We'll maintain our focus on delivering great systems for customers while scaling for rapid growth as we continue to accelerate our time to deploy systems. We'll continue to invest in innovation to increase the capability of the Symbotic solution, introduce new products and drive profitability through expanding margins for both systems and recurring revenue streams.

Turning to GreenBox. This will be an important year for our joint venture with SoftBank. GreenBox has been recruiting for its leadership team, and that is well underway. Inbound interest in GreenBox has exceeded expectations, and we continue to anticipate announcing the first GreenBox customer in 2024. Remember, GreenBox is just like any other customer for us because the sales to GreenBox is a sale, same as any other sale we make, but with the added benefit that we own 35% of GreenBox, which is what we believe will be profitable investment that generates strong cash flow for Symbotic shareholders.

Finally, we will continue to judiciously grow our team as we continue to focus on innovation and talent in the areas of software and hardware engineering and artificial and data intelligence.

Tom will talk more about the quarterly financial details. But before that, I would like to introduce Carol Hibbard, the newest member of our senior management team. Carol will take over the role of Chief Financial Officer from Tom next month as Tom begins retirement. Thank you, Tom.

We have been fortunate to have overlap between these two talented executives to ensure a smooth transition, and I would like to thank Tom for his hard work. So, Carol, would you mind sharing a few words now.

**Carol Hibbard** *Symbotic Inc. – Chief Financial Officer, Successor Designate*

Thank you, Rick. I'm excited to join Symbotic. What Rick and this team are building is truly amazing. I look forward to helping to take Symbotic to the next level as we bring greater value to our customers and make the supply chain more agile and efficient for everyone. I look forward to meeting many of you soon. Tom, over to you to take us through the financial results.

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

Thank you, Carol. Welcome to the Symbotic team. Before I begin, I would like to personally thank the entire team at Symbotic. It has been an absolute honor and pleasure to work with such a talented team and to be part of our amazing journey. I'm proud of the progress thus far and look forward to watching the journey to completely transform the supply chain.

Turning to our quarterly results. Our fourth quarter revenue grew to $392 million, up 60% compared to a very strong fourth quarter a year ago. The revenue growth this quarter was driven primarily by faster execution on deployments. The pace of new system starts and the acceleration of system installations saw a marked improvement. We initiated four new system deployments during the quarter and advanced two systems to full operation.

As of the end of the fourth quarter, we had 12 fully operational systems and 35 systems in the process of deployment. This represents an increase from 10 operational systems and 33 deployments in progress last quarter and seven operational systems and 17 deployments in products in the fourth quarter of last year.

While system deployment starts were down slightly from last quarter, a more important way to think about deployment starts and our revenue growth is that with 35 systems in progress at quarter end of this represents an over 100% increase from the 17 systems in progress a year ago and leaves us very well positioned strong revenue growth in the quarters ahead.

Time to deploy a system is also important in driving revenue growth. And we continue to shrink the time of deployments with the help of our partnership initiatives as well as through our ongoing efforts to standardize our platform and streamline our deployment processes.

As Rick mentioned, our network of outsourcing partners is executing well. We continue to see significant opportunity to gain efficiencies over time and to add depth as we continue to add more partners to our outsourcing network. Our outsourcing partners are ramping so well that during the fourth quarter, we chose to end autonomous ‘bot manufacturing operations in our Wilmington, Massachusetts location and established a $14 million restructuring reserve, primarily associated with the dissolution of materials and inventory.

Our backlog at the end of the fourth quarter was $23.3 billion, which includes the addition of the GreenBox joint venture we announced in August. Remember, the addition of over $11 billion of backlog from GreenBox is backed by the capital of GreenBox’s investors led by SoftBank and is a non-cancelable commitment. Once these contracted GreenBox installations are complete, we expect that this agreement alone will contribute over $500 million of high margin recurring revenue per year to our overall revenue growth.

Our sales and deployment progress for platform purchases continues at a rapid pace. Each quarter, we add new deployments from multiple customers. For example, progress of Walmart continues to plan, and we recently started deployment of the second of five warehouse facilities with UNFI. It is important to note that as we scale our customer base is becoming more diverse. The 35 deployments in progress are with six different customers.

In total, all eight of our customers are generating revenue for us, and this is before considering the recently announced agreement with Southern Glazer's, which started in our fiscal first quarter of 2024. We reached important milestone this quarter with our recurring revenue streams now reaching positive gross margin.

This shows the high leverage in our business model 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%. Our adjusted gross margin increased by 80 basis points to 19.1%, up from 18.3% last quarter, driven primarily by recurring revenue streams turning to profitability, along with a slight improvement in system gross margin.

Our fourth quarter system adjusted gross margin increased 20 basis points sequentially from last quarter. These results still reflect significant costs associated with lower margin innovation projects, the burden of pass-through costs to protect gross profit dollars, but that can weigh on a reported gross margin percentage, and costs associated with rapidly scaling our operations.

Operating leverage improved again sequentially as we achieved a 3.4% adjusted EBITDA rate compared to a 1% loss rate last quarter. This was driven by our rapid revenue and gross profit growth along with slower operating expense growth.

Our cash and equivalents, including marketable securities and restricted cash grew $35 million sequentially so we ended the year with $548 million on hand. These balances increased almost $200 million over the past year, driven by the positive working capital benefit of our customer and vendor invoicing terms. We also had some timing benefits in 2023 that provide a tough comparison in the first quarter of 2024. Otherwise, we anticipate seeing a working capital expansion again for 2024.

In conclusion, we're continuing to scale our business and innovating rapidly to deliver for our customers. We look forward to speaking with you again next quarter to provide an update on our progress. I'd like to personally thank you for your interest in Symbotic as I hand the reins over to Carol. Carol will now provide our guidance for the first quarter.

**Carol Hibbard** *Symbotic Inc. – Chief Financial Officer, Successor Designate*

Thanks, Tom. For the first quarter of fiscal year 2024, we expect revenue of $350 to $370 million and adjusted EBITDA between $11 million and $14 million, which represents revenue growth of 70% to 79% and adjusted EBITDA margin increasing over 11 percentage points, both on a year-on-year basis. We now welcome your questions.

Operator, will you please open the Q&A.

(Operator instructions)

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

I wanted to talk about some of the newer generation technology, SymBot. Rick, I think you mentioned the number of transactions, those bots and on a per hour basis are higher than 8 -10. I was wondering if you could give a little more numerical color behind that. Then I'd be curious if you're able to disclose where you're trying to take the next generation of BreakPack, where you're trying to do more of the deep innovation in those systems? And then I have a quick follow-up.

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

Sure. Thanks for the question. So, the SymBot, which is what we transitioned to this past year, has NVIDIA chips, it has Xavier chips in it, and we now have on these 'bots eight cameras, and we're in the process of being able to use the additional processing power to actually identify packages, eventually to actually identify bots, which today, the bots are relatively blind. They're centrally controlled. But over time, they're going to be able to see each other, and therefore, they're actually going to be able to go faster, which will essentially be collision avoidance.

So that's a major project for us. The other thing that's happening is because of the vision, and in this term, you call it A.I., but the ability to recognize packages where maybe flap is popped open, or a box is crushed and still be able to pick that box means that the bots actually don't get stuck anymore. And therefore, they're continually running and therefore, their transaction rates are going up. I won't talk right now about how much we expect those rates to go up.

But over time, over the next year, we expect them to go up pretty significantly. And in addition, one of the things that we're working on is to be able to actually remote control the bot. So today, the bots using all this additional power can make decisions. But in the instance now where a bot can't make a decision or get stuck because, let's say, a box opens and some honey spills on the deck. Essentially, our bots will become a drone. We can actually run those bots remotely over time anywhere in the world, and that's also going to make, nobody in the world has that capability in the system.

We're taking the same software, the same logic. Not exactly the same chips, but similar chips but use of vision on our minibot, which is what will allow our BreakPack solution to process lots of transactions in a very small area and be able to do essentially batch -- large batch picking of individual items.

So, break open a case, take a pack, put it on a minibot, minibot drives down a deck, very similar to what we have on a regular transfer deck, but in a mini version and be able to drop something in a tote. So those are all innovations that we're working very hard. And the good news is where the talent we have is doing great, and we're acquiring lots of new talent as well.

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

Appreciate that color. And then either Tom or Carol, maybe can you just talk about what the go-forward kind of cadence looks like for gross profit -- adjusted gross profit margin from here as we move through '24 and how that informs you about the longer-term potential for gross profitability?

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

Absolutely, Matt. Thanks for the question. So, we continue to see very strong leverage in the business, not only at the gross profit level, but in the operating margin level as well. So, I think what you should expect is, particularly when you're looking on a year-on-year basis, you should expect that the company will continue to make steady progress. Individual quarters, you may see some stronger sequential quarters and weaker sequential quarters as just due to the variability of the timing of improvements and things that we're working on that could impact the gross margin line.

But this quarter, we just posted a 19.1% gross margin, we think, reflects kind of the balance of healthy profitability with really spending to move very fast. So, we're continuing to invest quite aggressively into new technologies such as SymBot that Rick talked about, and you also asked BreakPack as well. These are important new innovations for us that are absolutely -- we're excited to be investing in, along with while our outsourcing network is working really well for us there's still a significant level of redundant spend and inefficient spend as we're getting that network up to speed and continue to extend in advance. So, we see strong leverage above that 19.1% as you look out on particularly on an annual basis and then look out over the mid- to longer term.

**Andrew Kaplowitz** *Citigroup Inc*. - Managing Director

Rick or Tom, maybe you can give us a little more color into just Southern Glazer's, your customer, but really the vertical, you really haven't spoken about it before. So, if you could talk about the TAM. And despite your focus on GreenBox could you continue to see this sort one to two new customers such as Southern Glazer's in '24 and beyond.

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

Yes. Thanks for the question, Andy. Maybe I'll take the first and Rick, if you have any comments on it. So, Andy we think that Symbotic solves a fundamental problem that exists across the broad economy. And that's the fundamental problem of taking large concentrated homogeneous quantities of pallets and cases and getting the right case out to the next node in the supply chain.

And so, this problem exists clearly in our first several customers that we have -- one that you know well, such as Walmart and C&S Wholesale Grocers and Albertsons on Target. But it exists just as fundamentally in liquor distribution as it does in other verticals that we see as kind of the next step in our strategically addressed market.

And so, Andy, implicit in your question, we do want to go out and win those one or two new customers per year that continue to give us that experience of bringing this technology and that fundamental problem solving to those new verticals and just getting in the data from proving it out. So, we're excited about Southern Glazer's. Our strategy for penetrating is those direct customers, they're going to build captive systems by the ones are twos per years.

And then GreenBox gives us the ability really to turbocharge that attack on the market and enable GreenBox to get out and service customers even more broadly and move down market as well to help us really more rapidly and more efficiently penetrate the whole TAM.

**Andrew Kaplowitz** *Citigroup Inc*. - Managing Director

And then, Tom, over the last few quarters, your quarterly revenue has been beating quarterly guidance by really an increasing rate. I know you want to be conservative, but maybe talk about what has been getting better versus your own expectations? I think you said it's the pace of deployments that's accelerating. And then with the understanding that maybe there is some seasonality in the business, why would revenue be sequentially down in Q1, '24 versus Q1, versus Q4 '23?

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

Yes. Thanks for the question, Andy. So, I don't think you should expect a seasonality in our business. If there's any seasonal effects that's really -- you have to see it in the microscope. What we've experienced here, particularly as 2023 is transpired is that we've seen a combination of two things.

We've seen very healthy improvement in our ability to deliver across the spectrum of our build phase and installation phase of our deployments, meaningful improvements in our speed to do so. And so, as we think about that and as we look forward, we continue to expect that we're going to deliver systems fast however, those that speed can come and stair step function.

We don't expect that we'll see accelerations every quarter. In fact, we anticipate some quarters, you can see challenges, you can see, and these can come not just from our own capabilities, but then it can come from customer issues. So, you never know when there's going to be a tornado or a flood or a hurricane that slows us down.

And so that's the other half is while we get after -- we just have not had those kinds of things that have really slowed us down or beyond our control as well, particularly here in the second half of 2023. So, I don't think you should read in that you should expect Symbotic to be beating their numbers by greater amounts every quarter. It's just that we've had a couple of very strong quarters here in a row. And as we think about our setting guidance forward, we try to kind of bring that all together.

One final effect too in this fiscal fourth quarter, we did have some minor timing things that helped us that maybe take a little bit of revenue out of Q1 into Q4 that are just timing considerations as well. So, I feel like Q4 is an exceptionally strong quarter relative to some of them that we've had recently.

**Andrew Kaplowitz** *Citigroup Inc*. - Managing Director

Appreciate it, Tom. Good luck to you, and welcome, Carol.

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

Maybe just starting with the recurring revenue profitability that you pointed out in the prepared remarks, is the expectation that now that those recurring revenues have turned positive from a profit perspective that, that is sustainable from here?

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

Thanks for the question, Nicole. We do think it's sustainable. It was a pretty significant sequential wise improvement in those margins. So again, on a quarterly basis, you can see some minor retrench, but I think you should expect the general trend is expansion. So, I think as we -- as perhaps as Carol comes to explain how we close out 2024, I would expect Symbotic see some meaningful expansion, not necessarily on a quarter-wise basis, though, Nicole.

But yes, we're very encouraged. The pieces that are going into this recurring revenue expansion are, we're beginning to get more of the revenues as we now have 10 systems up and running, generating recurring revenue.

Meanwhile, invested for 45 total systems we have, right? The 35 we're in various stages of deploying. And we have – let me correct myself, we have 12 up and running now. So, the total together is 47. So, we're invested for 47 systems, but only getting recurring revenue on 12.

So, I think as we move forward with time, that ratio of recurring systems that are paying recurring revenue to the number we're in investing in to begins to be more and more favorable.

As does just the overall scale kind of the platform. So -- and I guess I said in my prepared remarks, over the long run, we do think that this mix of recurring revenues begins to push us closer to and then eventually through a 60% gross margin.

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

Got it. That's clear. And then just any thoughts on as you move to 2024, like the SG&A line or the R&D line, are we at a reasonable run rate to model moving forward or anything going out there?

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

Yes. Thanks for the question, Nicole. We do think we're -- we have a very strong level of investment in both operating and expense lines, and we have the luxury of not needing to expand those. We continue to feel like we are investing more in research and development than anybody else in supply chain technology automation.

Not only that, but we had our R&D is extensively pointed at new product innovation, whereas our competition has to invest heavily in tech debt and just maintaining what they have. Similarly, with our SG&A line, while there are certainly some parts of our SG&A that will need to scale as we grow, there are other parts of our SG&A that are redundant spend.

So, we're in a luxury standpoint of where we don't -- need to expand those. However, given our market opportunity, you should expect that Symbotic will continue to modestly expand both of those lines looking forward as we scale our operations. And that will be in contrast to what we expect to be much stronger revenue growth. So that's the implicit high operating leverage we see in the business.

**Derek Soderberg** *Cantor Fitzgerald & Co* - Analyst

So, I think you are really on an ongoing basis, finding areas where you can speed up the deployment timelines. Can you talk maybe a little bit about where along the project you're seeing -- you're finding ways to sort of speed up that process? And maybe if you could just quantify how long the average deployment takes at this point?

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

Maybe I'll start with the quantification. And Rick, do you want to talk about some of the things that we see we can do over the long run. Derek, when we first became a public company and we talked about those systems we are starting -- we expect it to be around two years or so in terms of from the start of a project launch until we actually turned it on and customer took acceptance and began ramping full usage.

Those first systems that actually went live were actually north of 2.5 years. And so, what we're experiencing now though is that where we're hitting effectively on these systems or in 2024 or are going to hit on that 2-year timeframe and the systems that we're rolling out now we expect to be under 22 months.

So, what we're seeing progress in is we're carving days out and occasional innovations are carving weeks out. But we continue to see over the long run that there's meaningful opportunities not only from a process standpoint or a partnership with endpoint, but from technology insertion that we can do over the long run that can meaningfully carve into that.

So, we look to try to drive that under 22 months total deployment time to -- our long audacious goal is to get it under six months over the long, long run. But Rick, you want to talk about some of the things that we can do.

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

Yes. So, I mean, some of the things that we're doing is that as we -- as our volume has increased, and that we're able to continuously produce instead of starting and stopping. And so, two things have happened. Our suppliers are getting better. We're building and auditing quality into the products at the factory where they're being built.

And so that reduces the amount of inspection and installation time on site. And that's a very powerful thing for us. And the other thing is that we're able to just -- we're in the process now of building up just continuous flow of manufacturing so that we're not building for specific sites. So, we have a pretty good backlog. We have good visibility as to where it is.

And so, we're starting to build ahead, not a lot ahead, but ahead enough so that when we deploy at a site, we can sequence everything much more accurately than we could before.

And the other thing that's happened, a lot of people have talked about it is, we're post-COVID now the supply chains are a little more stable. We're still very proactive about making sure that we protect our supply chain, and we have multiple sources. But it's just -- we're just getting much better at it, and we're getting -- and our suppliers are getting much better at manufacturing.

**Derek Soderberg** *Cantor Fitzgerald & Co* - Analyst

Got it. Well, really appreciate the detail. And then as a follow-up, just as it relates to your outsourcing initiative, it sounds like the plan is to sort of keep expanding that network on an ongoing basis. But how many systems do you think today you can sort of concurrently deploy before augmenting or expanding that supplier base? I mean can you get to 50 or 60 with the current supply base? Can you help us sort of quantify the sort of that capacity that you're at today, that would be helpful.

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

So, Derek, before we continue expanding our network today, we feel that we've already solved for growth for the coming two to three years in terms of our capacity of our existing network. What we're doing is actually solving for even longer-term growth and just creating a healthy level of innovation and competition and the increase in that data flow that we have to our network today.

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

Tom, congrats again on the retirement, and Carol, welcome aboard.

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

Thank you, Greg.

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

I guess really good results I'll simply pick at. So, I guess I'll maybe just choose one thing that I thought maybe could have been a little bit better. Systems gross margin I think you mentioned based on our math, up slightly quarter-over-quarter, even though a pretty big jump in revenues. What were there any headwinds at all relative to what you saw in Q3 from cost absorption standpoint. I mean I know it's lumpy and over time, it goes up, but was maybe thinking it could have been a little bit better just based on the revenue jump.

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

Yes. Actually, Greg, we see a very ripe opportunity to be much more efficient in the cost and delivery of our systems. Some of those costs, our customers bear and many of the costs our customers don't bear, and these are the ones that you're asking about. And so we've made the conscious choice to grow as fast as we are and to put as much innovation as we have out in the field as we have -- but very clearly, we spend a lot of our time as an executive team here at this company focused on exactly the point of your question; why do we have wasteful and inefficient and redundant costs at the gross margin line?

And we know the cause because we're moving so fast, but that is a focus of our intense effort as a team. And so, I think as we've begun to plan process partners network and what we do as a leadership team, there are very clear and tangible things that are kind of just highly inefficient that flow into our gross margin line that we think we can improve on over time.

And just to give some examples, some of these have to do with, how do you deal an order and make sure that your inventory is flowing the right way. As you can see, as we terminate our manufacturing operations, for example, we chose to restructure those operations and the dissolution of materials of inventory, we took a $14 million restructuring charge is just one example and beyond.

That actually doesn't affect this gross margin line. That's one example of inefficiency. Other examples include we continue to have redundant teams that are procuring and arrange for the arrival of materials on site. We think that as we begin to -- as we continue to get deep with our supplier network, those teams can not only be leaner but can process the flow and get the materials to site in a more cost-efficient manner. I'm giving just a couple of examples of really a dozen that we focus on as a team.

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

Yes. That makes sense. Appreciate the color. And just on the overall ramping up of deployment, it's been impressive, and it's clear that the outsourcing strategy has, I think, well exceeded expectations relative to maybe a year, year and a half go.

I know you've been talking about this, adding one to two customers a year I think you've added maybe more like 3, plus GreenBox in the last, I don't know, 12, 14 months or so, -- is it time to think that you could be adding more than one to two a year just based on some of the success over the last year? Or are you still trying to be a little bit more conservative there?

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

Well, Greg, our systems and deployment are up over 100% year-on-year. And we are more than comfortable with the number of new customers we've added and the fact that we do have now -- deployments in flight with seven customers. With the addition of GreenBox, we still feel like the one to two customers per year is the right rate for us in the near term as we continue to move forward. Don't forget that GreenBox is one customer that eventually we anticipate will be adding many, many customers.

And that's a vehicle for us to do exactly what you're suggesting, how do we expand the number of customers we onboard. We think GreenBox is a vehicle by which we can do that far more efficiently. But for right now, direct customers, the right number for us is looking for is one or two per year.

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

Okay. Fair enough. Best of luck. Congrats again.

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

Yes, Tom, just a question on like when you give guidance, right? So, now you have 100% more project systems and deployment given just the nature of how these are all percentage of completion and add a new layer every quarter, like is guidance inherently like more challenging to give now because you have so many more of these layers in and you have 35 as opposed to 17 a year ago?

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

I don't think it's inherently more difficult. If anything, the fact that we have now 35 systems in deployment generating revenue means that you get a little bit of an averaging in and some of that variability of say, having one project and a surprise either the positive or negative means a little bit less on a percentage basis, right, Joe.

But what is the challenge is when you're growing as fast as we are, and when key milestones can be meaningful. A movement of a day or two at quarter end can be a meaningful amount of revenue. So, no. But fundamentally, no, I don't think that visibility and the variability we have is not decreasing, if anything, it's marginally improving.

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

Fair enough. And then on GreenBox, Obviously, as you guys went down this road, you kind of -- I'm sure you kind of tested the waters with some potential anchor tenants, anchor customers there. But I'm just curious as what needs to be in place from a structure standpoint, management standpoint, strategy standpoint at GreenBox for you to be able to start kind of producing for them and getting revenue from that customer.

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

Yes. So, this is Rick. I'll take that. So, when -- so there's a -- I would say it's just a pattern that I go through which is what we went through last year, which was really focused on scaling and availability and vetting suppliers and reliability. So that was last year.

I'm spending a lot of time with customers right now, potential customers about GreenBox. And so just getting the right -- there's lots of different potential customers for GreenBox to some very big ones. There will be some smaller ones. There will be some ones that would be surprising to you. And so, I'm spending a lot of time traveling.

And as we figure out -- and we're also interviewing people. But we haven't hired anybody yet, but we're interviewing to find out what kind of mix we want in the manage team, SoftBank and I have spent a lot of time together. We brought in a little bit of consulting work from some different consultants and probably bring in some more -- so that's the stage we're at.

And you have to remember, we have some time because we're pretty well built out for 2024. So, what we're really talking about is picking a couple, which is exactly what we did with Symbotic, picking a couple of core customers who may have different characteristics than you might see with a typical Symbotic customer, and that's why we're doing GreenBox. Sometime in 2024, will we'll put a spade in the ground and say, okay, this is where we're going to dig, this is what we're going to build, and then we'll build out that network.

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

Rick, would you shock you if some of your -- in the future, when GreenBox ramps up, like that customers will want some sort of mix of owning Symbotic systems in-house and also kind of renting from GreenBox to kind of diversify their base?

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

No. We think that's very likely to happen. One of the things -- one of our basic tenants with Symbotic is the automation that we're providing is so much more advanced than other automation out there. And our innovation pipeline is continuing to grow -- so we actually have to help some of the suppliers that would supply some of our large customers change their supply chains. And so there may be a small customer that can't afford a Symbiotic System that might go into a GreenBox building and be maybe 10 small customers and that building might feed a very large customer. And so, the -- in order to change the supply chain to be the size that Symbotic I think, can become, we have to help a lot of people move into the automation space.

And so, one of the things that you're going to find is right now, we're selling very large systems. We're actually going in the future, I think, sell a lot of small systems, and that's really going to expand our TAM. And that could be both through GreenBox could be in a manufacturing warehouse and it could be at a consolidation center.

**Kenneth Newman** *KeyBanc Capital Markets* - Analyst

Just wanted to circle back on the faster deployment this quarter. Tom, just -- any sense on just how much of the closing of the bot manufacturing facility stays on cost -- fixed cost absorption going forward? And where do you see other opportunities maybe to take that fixed cost to leverage it out even further?

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

Yes. Thanks for the question, Ken. So, we do think that we ultimately see lower fixed costs, we see overall expanded gross margin, overall expanded margins through this outsourcing initiative. It isn't the primary reason that we outsourced the manufacture of all our systems. That was really to drive the ability to produce greater number of systems.

So, in the near term, we do -- we are highly encouraged with what we're getting on the outsourcing network. Recall, a bit over a year ago, we chose to accelerate our level of investment in it, and we actually took a step backwards in our costs. But our experience has been since we did that, we feel much more strongly that we're actually going to see greater margins over the long run.

So, in the near term, it's about paying for effectively the speed in outsourcing, which we've done. And as we move forward from here is where we actually expect to see expanding margins. So, I would say we're seeing an expanding margins. We've seen lower costs overall yet, but the cost is lower enough to pay for the profit margins in our partners so far.

**Kenneth Newman** *KeyBanc Capital Markets* - Analyst

Understood. And then just for my follow-up. Obviously, some of your customers have talked a little bit more cautiously about higher consumer weakness that's the fringe through this earnings season. Obviously, it doesn't seem like you're being impacted by that at all, but just to clarify and just have the question out there, any sense on whether customers are asking to decelerate or delay deployments? Or do you think get the sense that this environment maybe drives customers to accelerate their automation plans even further.

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

Yes. I think what we're seeing is the customers that we have right now with Symbotic want to go as fast as they can. They ultimately -- we have great customers. They're winning in their market spaces, and they want to -- I think they see headwinds coming and they want to be at the forefront of lowering costs. And I think that's what -- so we're not seeing any slowdown. If anything, people want to go faster.

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

I'll add to that. With following the wake of GreenBox, the inbound interest to us has picked up. So, our early entry of the sales funnel was bigger than it was a quarter ago.

**Kenneth Newman** *KeyBanc Capital Markets* - Analyst

Yes. Maybe if I could just squeeze one more in, just on free cash flow. Tom, if I remember correctly, you just mentioned that working capital is still going to be a use this year -- just any sense with the margins expecting to structurally get better through the year, any sense on whether free cash flow margin should be better in 2024 than it was in 2023?

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

So, working capital was actually a positive contributor to our cash flow for 2023. And I did make a comment that we had some positive timing events in 2023 that gave us a little bit of a tough comp for Q1. But otherwise, we do expect expanding working -- expanding cash flow from working capital in all of fiscal 2024 as well.

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

Let me add my congratulations to both Tom and Carol. A quick question on systems margins. You spoke about ending SymBot production in-house. Maybe you can help us better understand how much that should lead to in terms of savings or margin expansion? And how long it may take to see that?

And then you think about longer term for systems gross margins and getting into the high 20's or even 30% type level in the longer term within systems -- maybe talk a bit more around the levers. I mean how much is cost reductions like what you announced today? And how much is maybe the higher priced backlog flowing through and how much might be volume.

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

Yes. Thanks for the question. Certainly, those are both drivers. Mark, we look over the long run. So, our experience in the actuals to date through fiscal 2023 was it was a significant year of investment for us in terms of getting SymBot out in prototype and proof of concept and getting these first almost 4,000 units now up and field tested.

So, there's been a net investment relative to their prior generation in the actuals.

It's not something that changes kind of in a stepwise way as we look forward, Mark, but it is something that we do anticipate seeing leverage as we deliver the next units going forward.

This is leverage that really comes from two primary drivers. First, it's as engineering change and final release kind of gets out in the field, which drives better performance. And then it's scale manufacturing with outsourcing partners brings the cost of those units down which drives of the margin. And so that's going to -- we anticipate that as we plan out over the coming several quarters, those improve kind of consistently over time.

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

Okay. That's helpful. And my second question was just thinking about the backlog and the opportunity to expand with some of the current customers and backlog around GreenBox and of course, Walmart is a key customer and has something you've spoken on to the extent you're able to.

But when we think of some of the other comers Albertsons, Target, you're trying to get into any specific customer plans. But when we think about some of the other customers who do have systems, what do you think it might take for some of those other customers to expand and place new bookings with you?

And is that something they'd want perhaps in-house or maybe that's GreenBox, but just wondering when we may perhaps see some additional backlog from some of these other customers and what it might take for them to put those bookings in.

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

Yes. So, I'll take that. So, this is Rick. So, I think from a good example would be with Southern Glazer's, so our first site for them, it's been announced is Las Vegas and it's a big site. But they -- but that space is regulated. And so, it's state by state. So, they may end up actually wanting smaller systems in a number of places. And I think we all expect some of our other customers, they want smaller systems. And smaller systems, surprisingly, are more difficult in the sense of they're easier to build, but if you have less parts to them, they have to be more reliable.

And so, we've been working very, very hard -- that's what I was talking about, the new chipsets, the reliability, the artificial intelligence, the ability to run a site remotely. So, I think we're having those discussions with people now -- we're having similar discussions with people in , for instance, in a GreenBox opportunity that's saying I can't I don't want to put out the capital now, but if I don't put up the capital, I don't save any money.

So, I'd rather do a small GreenBox system or participate because at least I'll save money -- and so all of those factors are in play, and that's -- we're attacking all of them at the same time. But it's not one size fits all.

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

I'll just add to that, Mark. So, we have deployments with seven customers in flight. The strong majority of those we're giving them a system at a time. And so, I think as we move forward, the strategy is not to add customers that have a large amount of backlog. You'll probably see more of kind of the mix we have now, where we're giving customers a site at the time is common.

**James Ricchiuti** *Needham* - Analyst

When you talk about smaller systems. How much of a role, if any, does BreakPack play in this as you begin to think about different types of deployments.

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

Yes. So BreakPack -- so BreakPack is something we've talked about. It's actually very few customers at this point that have seen the BreakPack operation, and it's still a prototype. We've learned a tremendous amount, and it's working very well, but there's a lot of innovation that we will have on the BreakPack 2 site. We have a lot of customers that are saying, when it's ready, please let us know.

**James Ricchiuti** *Needham* - Analyst

But you don't see this necessarily as -- will this be a key element as you go forward and pursue -- be able to offer customers smaller deployments? Or is -- should we just think about the traditional system that you have scaled down for a smaller deployment?

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

Yes. So -- but the answer to your question is both. So, we could -- so you could sell a small system that supports in a BreakPack system. So, let's say somebody has slower-moving items or is a smaller retailer, they still have their fast-moving items. But our system, the main system provides a storage sortation and selection solution.

But then for instance, somebody that is shipping totes or shipping smaller quantities to drug or convenience, they could put a small regular system in combined with a BreakPack and that would be a very good solution.

**James Ricchiuti** *Needham* - Analyst

Got it. And final question. Tom, I thought I heard you mentioned that there was some modest level of revenue that came out of fiscal Q1 into Q4 that potentially drove some of the upside to revenue. So, I wonder if you can quantify it.

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

That's right. That's right. So, a modest level. So, I don't want to quantify that hard, but think about it as single digit percent.

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

I had a question about just your system starts. So, if I have my figures correct, in 2022, new system starts were 13. This year, they're 23, so stepped up about 10. Is that roughly kind of high single digits to 10, low double digit. Is that roughly the trajectory we should think about on a go-forward basis in terms of how you're able to add stack new system starts year-to-year?

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

Rob, I don't think we quantify that looking forward. But the way we think about it is, Rick sets, the culture for the company and we say it every day here, braggingly the happy customers. So first and foremost, we want to ensure that the 35 systems we have in flight that the customer is braggingly happy when they're done. And then our goal after that just grow as fast as we can. So, our customers want us to move as fast as they can.

We have more people that want to become customers -- and so I don't really think about it in terms of we're going to add 10 a year. We think about the balance of those two goals against each other.

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

I see. I see. That's helpful. Just a question around Southern Glazer's as well. You mentioned BreakPack, but I'm just curious, is that an opportunity for BreakPack that strikes me as a customer with a lot of mixed case opportunity just in terms of the way their operations run. Is that assumed there as well, a BreakPack system?

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

I think the technology is applicable for lots of different customers. So that's why I would look at it. It might be slightly different things we have to do. But yes, it's applicable to lots of different customers.

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

Just last question, really quick. I did notice that there was a new senior VP added at some point during the period for the international regions. Just any commentary there in terms of how you're thinking about pursuing international expansion would -- and I'm curious, would it be more likely with existing customers first in that respect or seeking new customers?

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

Well, we did say when we announced GreenBox that the GreenBox is targeted at being a global distribution network. And we also talked about how our operating plans are that we do expect that our direct captive customers as well. We see a global opportunity with Europe being potentially one of the more attractive markets. We felt that it was a good time to begin thinking about what -- having a connection point of a business leader that can help us with the reach in the Europe.

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

Makes sense. Makes sense. Congrats, Tom, and welcome, Carol.

**Operator**
That's all the time we have for questions for today. I would now like to turn it back to Jeff Evanson for any closing remarks.

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

**Operator**
Thank you for your participation in today's conference. This does conclude the program. You may now disconnect. Everyone, have a great day.

## 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.