Symbotic Inc

Q3 2022 Quarterly Financials Call

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PRESENTATION
Operator
Good day and thank you for standing by. Welcome to the Symbotic Third Quarter 2022 Earnings Call. At this time, all participants are in a listen-only mode. After the speaker's presentation, there will be a question-and-answer session. (Operator instructions).

Please be advised that today's conference is being recorded.

I'd now like to turn the conference over to your speaker today, Jeff Evanson. Please go ahead.

Jeff Evanson *Symbotic Inc. - VP, IR and Corporate Development*
Good afternoon, everyone. Thank you for joining Symbotic's Third Quarter Fiscal '22 financial update. I am Jeff Evanson, Vice President of Investor Relations and Corporate Development at Symbotic.

Our press release, presentation 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 a result of the factors described in cautionary statements and risk factors in Symbotic's financial release and regulatory filings with the SEC, by which any forward-looking statements made during this call are qualified in their entirety.

In addition, during this call, certain financial measures may be discussed 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 has been furnished to the SEC and is available in the Investor Relations section on our website, and in our filings with the SEC. These non-GAAP measures may not be comparable to measures used by other issuers.

Today, we'll provide guidance on our fiscal yearend 2022 including revenue and adjusted EBITDA. We're not providing guidance for net loss today, which is the most comparable GAAP financial measure to adjusted EBITDA. We're not able to provide reconciliations of adjusted EBITDA to GAAP financial measures because certain items required for such reconciliations are outside of our control and cannot be reasonably predicted such as provision for stock-based compensation.

On today's call, we'll be joined by Rick Cohen, Symbotic's Founder and Chairman; Michael Loparco, Symbotic's Chief Executive Officer and Tom Ernst, Symbotic's Chief Financial Officer. These executives will discuss our third quarter financial '22 results and followed by Q&A.

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

Rick?

Rick Cohen ***Symbotic Inc. - Founder and Chairman***
Thank you, Jeff.

Becoming a publicly traded company is a tremendous validation of Symbotic's value. Since becoming publicly listed, the market and our investors have shown they believe in our potential for growth and future success.

Our public listing has been 15 years in the making, and achieving this feat was not possible without every Symbotic employee working hard to help us develop the best solutions and be invaluable partners to our customers.

One of the biggest reasons I wanted to take us public, was to give our employees the opportunity to be owners of Symbotic and reward our team members who have worked so hard to help us succeed. Now, we are all invested together in our future success.

In addition, public company validation and liquid equity help us to attract the best talent among potential employees and supply chain partners. Hiring Michael Loparco as our CEO is one example of our improved ability to recruit top talent. Michael is an accomplished executive, and his leadership is already helping transform Symbotic from a supply chain innovator into a company that can do many things really well, all in parallel.

While the innovation will continue, we are also evolving into a company that can rapidly scale system deployments in a mass production-oriented environment. Michael's deep experience at Jabil in developing a wide range of technology partnerships along with his expertise in manufacturing and supply chain management are rapidly helping us build our infrastructure to execute successfully at scale.

The entire team helped us achieve success with Walmart. Today we have an expanded commercial agreement to implement Symbotic's robotics and software automation platform in all 42 of Walmart's U.S. regional distribution centers over the coming years. The critical deal helps Symbotic to accelerate our becoming public.

Now we are just at the starting line of the marathon. In our relentless pursuit to innovate and lead, we know we can keep making transformational changes to the supply chain industry and further prove to our investors and customers that we will be successful in the long term. This is just the beginning of our journey.

Michael, can you share some thoughts now as to how we're transforming Symbotic, so we can more rapidly scale system deployments and deliver against our $11.3 billion backlog?

Michael Loparco ***Symbotic Inc. - CEO***
Thanks, Rick.

I'm happy to. And thank you also for the kind words. It's a real privilege to be here.

Since joining Symbotic, my excitement about our team, our technology and the market opportunity has only been strengthened. Now we need to enhance our execution capabilities and hone the organization to move with even greater speed.

To this end, we're investing aggressively in: People, Partnerships, and Technology, to not just further innovate, but to efficiently and cost-effectively scale our operations. Given the incredible opportunity to penetrate the market and truly become a category creator, we believe the investments in these areas will reward us with rapid revenue growth and improving margins in the years ahead.

As Rick alluded to, our transformation into a much larger company capable of doing many things well, in parallel, begins with people. I'd like to thank our maniacally dedicated, passionate and innovative team that has brought us to this point. This is a talented team who focuses on making 'braggingly happy customers' as we say, and what's been accomplished to date with now 13 additional systems in deployment and the attainment of an expanded backlog of more than $11 billion is nothing short of amazing.

At this next stage of accelerated growth for the company, we are adding world-class capabilities for the team and creating an ecosystem of partnerships to help us build our bots faster and more reliably; to install cells, lifts and structures more efficiently; and ultimately ramp fully functioning systems at sites faster and more predictably. These third-party partnerships are just beginning, but already enforcing disciplines in our operations and helping de-risk the business as we scale.

At the same time, we have a focus on continuous improvement and believe that it's easier to improve what you measure. So, we are actively enhancing our metric-driven business processes and building on our data-driven culture. By identifying key management metrics and regularly measuring, reporting and evaluating critical data, we are building systemic feedback loops that quickly identify issues, drive investigations of root causes, and systematically solve problems.

Lastly, these new and enhanced partnerships across supply chain, manufacturing and complex construction project management services will allow us at Symbotic to focus on what we've always done best and that is to innovate. For example, we are refining and field testing the ninth release of our autonomous robot, which we call SymBot™. This new release will allow increased transactions per hour and improve case handling.

We're also deploying a full-scale proof of concept BreakPack system, designed to handle 'eaches' or single items in addition to cases. At the same time, we continue to advance our A.I.-enabled platform that benefits from roughly six terabytes of data flowing through each system daily. We're innovating with our partners on more modular Lego block-like installation techniques. All of these workstream innovations and R&D are designed to serve customers more quickly and efficiently and lead our company to faster revenue growth and profitability.

I couldn't be more excited about our direction and what the team has already accomplished.

I'll now hand it over to Tom to talk about our investment initiatives and financial performance.

Tom?

Tom Ernst *Symbotic Inc. - CFO*
Thank you, Michael.

Our third-quarter revenue grew 82% over the prior quarter. We are excited with this level of revenue growth, but our public listing and contracted revenue backlog, which more than doubled, represent equally important developments. The cash raised through our business combination transaction and public listing, and revenue visibility from increased backlog, are allowing us to move confidently ahead with the transition to growth and scale that Michael just described.

We now have 13 system deployments currently in progress. This is on top of the six fully ramped and operational systems in the field. This rapid expansion to 13 systems was up from nine last quarter and four in the third quarter of 2021 and was the driver for our strong systems revenue growth of 89% quarter-over-quarter.

These systems now in deployment range anywhere from the early build stage through various phases of testing and validation. System revenue and cost of goods sold are recognized on a percentage of completion basis during the deployment of systems and then, upon formal customer acceptance, recurring revenue streams of software, parts and operations begin. In addition to the rapid growth in the number of systems in deployment during the quarter, several projects progressed very strongly intra-quarter, accelerating revenue growth recognition in the period.

As Michael highlighted, we're moving with even greater speed and innovating more quickly as we scale. Accelerating the business this fast, admittedly, came at a price. Operating expenses were higher in the quarter for two primary reasons. First, we're continuing our strategy of increasing investment to advance key innovation initiatives. Second, to support a shift in the rapid acceleration of system deployments and business transformation, we incurred incremental costs related to building both shorter-term as well as permanent processes and infrastructure to ramp partnerships and operations. While these investments have been prioritized, we are confident the operational improvements and financial benefits will follow.

Notwithstanding the impact to cost of goods sold and operating expenses, Q3 gross margin improved sequentially quarter-over-quarter by more than 40 basis points.

The net result in adjusted EBITDA was a loss of $22 million during the quarter. This was a 15 percentage point reduction in our adjusted EBITDA loss, which represented an improvement to a loss of 12%, from a loss of 27% in the previous quarter. We were able to deliver strong operating leverage despite the investment spending for our transition to a larger and faster-growing organization.

We grew inventory by $55 million during the quarter to a balance of $127 million. We continued building inventory in support of growing deployment capacity and rapid delivery. This positions us for future growth, reduces the risk of supply chain disruptions and positions us for increased flexibility to meet growing customer demand.

In going public, we raised $385 million. After retiring all preferred at the end of the quarter we had $412 million in cash and equivalents and no debt. We are very well capitalized to confidently continue strong deployment revenue growth and reach sustainable cash flow positive operations while continuing to invest aggressively in new innovations and future opportunities.

Now we would like to provide our first guidance as a public company. In our fiscal year ended 2022, we expect revenue of $490 million to $510 million. This implies expected revenue of $141 million to $161 million in the fourth quarter.

For the fiscal year ended 2022, we expect an adjusted EBITDA loss of between $90 million and $94 million. This implies an adjusted EBITDA loss of between $21 million and $25 million in the fourth quarter.

In summary, we're energized about our progress in helping revolutionize the supply chain. As part of this journey, we are prepared to continue to innovate rapidly and scale our business against our over $11 billion revenue backlog. And we're excited to work with our amazing customers and you, our public shareholders as we move forward, building this great company.

We now welcome your questions.

Operator, will you please open the Q&A?

QUESTIONS AND ANSWERS

Operator

Thank you. (Operator instructions).

Our first question comes from Matt Summerville with DA Davidson. Your line is open.

Matt Summerville *DA Davidson - Analyst*

Thanks. A couple questions. First, I was wondering, Tom, if you could put a little finer point on some of the pluses and minuses that impacted gross margin in the quarter. In particular, I'd be curious as to how dilutive, the input cost dynamic may have been on margin in the quarter and then I have a follow-up.

Tom Ernst *Symbotic Inc. - CFO*

Sure, Matt. Thank you for the question and good evening.

So, for gross margins, Matt, if you see our system gross margin, as reported in the financial statements, were 20% for the quarter. We had about a 200 basis point impact from our services gross margins and as you know, our services gross margins are all associated with prior generation prototypes. So, those are software streams, parts and operations streams associated with those businesses and as you also know, those businesses were really targeted for the experience and generally were not expected to be profitable and in general expected to be at negative margin. So, overall services revenue accounted for about a 200 basis point deflection in the period.

Also, as we look forward today, we have 13 systems in deployment, various stages. The services revenue for those system deployments starts upon the next phase. They start upon customer acceptance and that's at which point we transition. So, we don't have any in-period service revenue from the recurring.

Working with a 20% system revenue, two things really drove the business in the quarter; two things happened, or we would've been much closer to a 30% gross margin in the quarter. First, as you also know, we pass through steel index costs to our customers and the input costs for us in the in-period revenue lags as you would expect as the steel had been ordered over the previous months. So, we have somewhat of a lag basis there. That was a material impact.

The second impact is a function of us really putting the foot on the gas and growing faster. So, as we're growing faster, we're putting more cost in to fuel that growth and prepare. So, a bit of that's just inefficient go fast and a bit of it's just the function of our early scale. Those two things would have us a much closer to 30% gross margin in the period versus 20% as reported. Does that answer the question, Matt?

Matt Summerville ***DA Davidson - Analyst***
Yes. Thank you. I appreciate that. And then maybe one for Michael.

Can you talk about, as you've gone from four a year ago to nine prior-quarter, 13 this quarter, either people, process, technology, but can you maybe point to some of the specific things that have enabled you to start, ramping up that deployment curve, if you will and what's actually, that's happened pretty quickly for you guys. So, congrats on that. But I'd be curious as to what specifics you can point to is maybe success factors here in the near term for Symbotic? Thank you.

Michael Loparco ***Symbotic Inc. - CEO***
Sure. Yes. Thanks, Matt. Thanks for the question. Yes, it's been an amazing quarter, right with the expanded backlog, of course, and putting four additional systems into deployment to bring us to a total of 13. We did step on the gas pedal a bit and as part of this, I mentioned in my prepared remarks that we're investing in people and infrastructure to scale to meet this $11 billion backlog. And it's really kind of an approach that's three-pronged the people and our processes, so really creating a culture of operational excellence.

I think you can't scale chaos, right? So, we're bringing folks on board to augment the team with leaders who have scaled before. We're putting in place and enhancing things like our change management systems, so that we can be flexible and adaptable as we ramp new products and incorporate technology improvements and cost reduction opportunities.

We're enhancing our quality management system, Matt, so that our product is predictable and defect-free regardless of the source, whether that's internal or from one of our partners. And we're putting in place and enhancing our business management systems really for standardization of workflow.

We're leveraging our tier one partners for the integral system components and we're working with them on technologies designed really for speed and velocity of installation. So, the intent, of course, is to compress the schedule and leverage our partners for innovation and for cost reduction. So, lots of heavy lifting ahead, Matt, but I'm confident we're taking the right steps to build the foundation and the infrastructure for scale.

Matt Summerville ***DA Davidson - Analyst***
Great. Appreciate the color. Thank you, guys.

Michael Loparco ***Symbotic Inc. - CEO***
Yes.

Operator
We have a question from Piyush Avasthy with Citi. Your line is open.

Piyush Avasthy ***Citigroup - Analyst***
Hey guys, good evening.

Michael Loparco ***Symbotic Inc. - CEO***
Good evening.

Piyush Avasthy ***Citigroup - Analyst***
So, few of our companies have reported that warehouse automation spend is somehow shifting right. Now, you guys are sitting with a very strong backlog, but has the conversations with your new clients changed over the last few months? There's mounting concern of a recession coming through. Has anything changed over the last few months?

Michael Loparco ***Symbotic Inc. - CEO***
Well, I think, the answer to that question, Piyush, begins with our order backlog of $11 billion. I think customers have voted with their wallets. I think we're pretty excited about the opportunity and I think the technology is really being embraced. So yes, we've got advanced technology that really brings benefits of speed, accuracy and efficiency to warehouse operations.

And, remember Piyush, the solution, it really radically transforms how goods and merchandise flow through a warehouse or distribution center to stores. But, unlike other automation companies, our solution doesn't just automate or mechanize human operator activities or tasks, but it's instead really redesigned and rethought how to optimize the entire warehouse operation.

So yes, I think we've seen increased interest for sure and I think folks are recognizing that our solution helps make the warehouse really a strategic asset in the overall supply chain. Tom, I don't know if you have anything you wanted to add.

Tom Ernst ***Symbotic Inc. - CFO***
Yes. Piyush, I know we've been watching comments out in the marketplace. We've seen some of the retailers make comments about over-investing in fulfillment e-commerce, and certainly, we watch that and I think as you know the bulk of our backlog really sits pointed at making much more efficient in transforming the backbone of commerce upstream from the fulfillment center.

There our customers and prospects are still feeling the extreme pain of labor shortages and broken supply chains that just can't handle the demand and the changing demand on them. I think that's something that we're just not hearing a lot about in terms of what some of the other press is happening with retailers.

Piyush Avasthy ***Citigroup - Analyst***
Got it. Helpful. And my follow up question is like, given the higher investment that you're making and their commodity prices are, can you provide a little bit of color on when do you expect your EBITDA to break even?

Tom Ernst ***Symbotic Inc. - CFO***
Yes. So, right now we're providing clear guidance and outlook for the fiscal Q4. One thing that we can say is our traction with these 13 systems and deployment thus far and our customers' vote of confidence along with this IPO really gives us clear line of sight to being a bigger company and so we are excited about stepping up the investment a bit.

It's a little early to give you a target on when we expect to break even. I suspect that as we report our fiscal Q4, we might have a little bit more to say about the look into next year. But we feel very good about the leverage in the model and our progress and traction and the ability to drive leverage in the model.

Perhaps one more comment that can be helpful for you, as we think about the spend in the quarter, the stepped-up spend, some of it is clearly intended to be permanent as we invest for being a much bigger scale company. Other of the spend was clearly shorter term in nature. Some of it very short term in nature as we're really putting the foot down on the gas and growing here over 350% in the fiscal third quarter. Some of that growth just comes in a little bit inefficient.

Big picture, we do see our OpEx cresting at the levels that we're printing here in the Q3 and implicit in our Q4 guidance. And that might help you think a little bit about our leverage as we could move forward.

Piyush Avasthy ***Citigroup - Analyst***
Very helpful. Thank you, guys.

Tom Ernst ***Symbotic Inc. - CFO***
Thank you, Piyush.

Michael Loparco ***Symbotic Inc. - CEO***
Thank you.

Operator
Our next question comes from Mark Delaney with Goldman Sachs. Your line is open.

Mark Delaney ***Goldman Sachs - Analyst***
Yes. Thanks very much for taking the questions. Congratulations on the go-public transaction and Michael congrats on the new role. My first question is for Michael, and you spoke to not being able to scale chaos and all the work you and the broader team are doing on people, processes and supply chain.

I'm looking to better understand where you think the company stands on that and, is there going to be some period of time working on all those things before you can take the next step function higher in growth, or do you think you can make more steady progress and continue to grow relatively consistently in terms of the shipments the company can do?

Michael Loparco ***Symbotic Inc. - CEO***
Hey Mark. Thanks for the question. Yes, I think what's really interesting to note is I spent a lot of time with Rick and the executive management team and even the board before taking this role and really aligned, I think, on the market and the opportunity in the strategy.

We do have a dual strategy when you look at how we're scaling. We are optimizing our existing internal manufacturing and bringing on tier one suppliers really to ensure that we're adequately capacitized, Mark, to deliver the systems on schedule and to scale. I think this dual strategy is completely bought in by everybody in the organization. We're in the early stages of bringing on these tier-one partners, for bots, for cells, for lifts, for structure, etcetera, and there's been a lot of good collaboration to date.

We've got things like a full supplier Summit Day taking place in a couple of weeks down at one of our sites and it's a multi-day collaboration to orchestrate how we're going to continue to work together, how we're going to innovate, how we're going to compress the schedule, how we're going to introduce interesting installation and constructive techniques so that we really can get to a position where our system is very modular and becomes a plug and play at the site.

We're in the early stages of this Mark, but I think, we are confident with the steps that we're taking and the strategies that we're undertaking with the right partners. And we expect to get a multiplier effect as we bring on multiple tier one suppliers in each of these categories.

Mark Delaney ***Goldman Sachs - Analyst***
That's helpful. Thank you. And my second question was on the longer-term financial targets and since the initial investor presentation was provided in December 2021, the company has materially grown as backlog now over $11 billion, as you mentioned. Maybe when that long-term target was given, the company was already expecting to grow its backlog, but more recently you've made significant progress to get the backlog to over $11 billion. So, the question is, have those longer-term targets such as the 2025 model, have they changed at all? Even directionally thank you.

Tom Ernst ***Symbotic Inc. - CFO***
Thanks, Mark. And so, the way we think about it, since as 2022 has rolled on, there's really been three things that have happened and you're right. Backlog is one of those. Really backlog was that more than doubling the backlog to $11.3 from $5.2 billion, followed the great progress we've had in deployments, whereas Mike mentioned in his prepared remarks at the end of the third quarter, we now have 13 systems in various stages of deployment, from early build to late and validation testing.

That success and traction, along with our customer's vote of confidence, along with the third piece of the puzzle, which is the completion of our public listing and the strong balance sheet means we're just in that confident posture to invest a little bit more aggressively.

We're not taking the opportunity tonight to provide a five-year outlook on annual state. We might step back sometime in the future and talk a little bit more about the strategic long-term model, but what's developed since '22 has rolled out is we see the opportunity to think of ourselves as a much bigger company, I think, in the framing you saw in that merger model and that confidence to invest in the appropriate level is what we've taken the opportunity to do.

Mark Delaney ***Goldman Sachs - Analyst***
Thank you.

Operator
One moment. The next question comes from Mike Latimore with Northland Capital Markets. Your line is open.

Mike Latimore ***Northland Capital Markets - Analyst***
Great. Thanks. Congrats on the very strong growth here. Tom, I believe the contracts require a certain level of commitment each year can vary by more than 10%, I guess. Just clarify that, in

fact, the case, and then also are the results we're seeing, sort of well above that 10% variation or how should we think about that?

Tom Ernst ***Symbotic Inc. - CFO***
Yes, thanks for the question, Mike, and hope you're well. So, you're right, that we do have very favorable terms in our contracts with our customers that restrict their ability to change within short durations and as well, even over long timeframes may restrict the ability to make significant modifications.

At the same time, our customers are clamoring for us to move as fast as possible. That's obviously a mutual choice to move faster. But that visibility in having kind of that lock commitment of not only an $11.3 billion backlog but a clear visible roadmap about where we're deploying and when, gives us the ability to plan the rapid growth we plan for.

Mike Latimore ***Northland Capital Markets - Analyst***
And then you talked about acceleration inter-quarter here, I guess it sounds like that was more Symbotic motivated as opposed to, or as opposed to like, customers specifically asking for things. Is that the way to think about it?

Tom Ernst ***Symbotic Inc. - CFO***
Yes, really there are a couple of things in the fiscal third quarter. One was just strong execution on deployments in flight. I think as you know, Mike, we recognize revenue on a percentage of completion basis from the early start of building these deployments through what typically we expect to be about an 18-month process to that moment of acceptance. And that moment of acceptance is when all of the system revenue has been recognized and we begin charging for recurring revenues looking forward.

What we saw during the fiscal third quarter was strong execution in that a number of these systems really kind of hit some chunky cycles in terms of key progress gates. A second factor was with this perfect first wave of the systems we're deploying here, there was a stacking of some of those key progress gates as well that provided a bit of a concentration of some of that deployment revenue relative to both the fiscal second and fourth quarter. I think you can see that, in our sequential growth momentum, really accelerated in the fiscal third quarter. Our fiscal fourth quarter implies that we might even be down sequentially despite being up over 250% year-on-year in the fiscal fourth quarter on an apples-to-apples basis.

Mike Latimore ***Northland Capital Markets - Analyst***
Yes, yes. Okay. Great. Thanks a lot.

Tom Ernst ***Symbotic Inc. - CFO***
Thank you, Mike.

Operator
Our next question comes from Nicole DeBlase with Deutsche Bank. Your line is open.

Nicole DeBlase ***Deutsche Bank - Analyst***
Yes. Thanks. Good evening. Good afternoon, everyone.

Hi. Just maybe piggybacking on the answer to that last question about the fourth quarter, the implied Q-on-Q stepped on in revenue, I suspect that that's kind of a seasonal thing. Is that true or are you, do you think that there's some conservatism baked into the outlook? Just we'd love to get some color on why you guys are expecting revenue to step down sequentially.

Tom Ernst ***Symbotic Inc. - CFO***
Yes. Thanks for the question, Nicole.

No, we do not have a seasonality in the business. It really is much more of the impact of, in this first wave of systems. We had a number of those systems that really hit key moments in the deployment where they have a stronger revenue recognition on a progress basis. Along with these first systems had a stacking that had a bit of a revenue concentration to Q3. So, we did expect that and it's playing out that way.

Our momentum as we look at Q4 relative to where we expected to be to start the year or even just a quarter and a half ago is significantly picked up, such that as you look at the second half here and our expectations for the second half in total is up about $65 million from where we perhaps expected it to start the year. So, significant pickup and momentum in both not driven at all by seasonality.

Nicole DeBlase ***Deutsche Bank - Analyst***
Okay.

Tom Ernst ***Symbotic Inc. - CFO***
One more thought there that might help you as well. I think as we move past this first wave of deployments, and as we're beginning to deploy more systems on a quarterly basis, we expect that some of that quarter-on-quarter lumpiness that you're seeing here in Q2, Q3 and Q4 to begin to diminish and be much smoother.

Nicole DeBlase ***Deutsche Bank - Analyst***
Got it. That's really helpful. Thanks.

And just on the inventory step up, this is not uncommon. I think every single company we cover has seen inventory step up as a function of what's happened with the supply chain, but I guess, are you guys kind of thinking it makes more sense to run with higher levels of inventory that you've seen in the past kind of similar to your view on maybe running with higher levels of OpEx as well?

Tom Ernst ***Symbotic Inc. - CFO***
Yes. Thanks for the question, Nicole. Michael mentioned in his prepared remarks our initiatives are really building a world-class manufacturing supply chain. So, a part of that inventory step-up, a significant part of it, is all designed around that. And a second part though, as well, is we are being -- we're investing a little bit extra in what's clearly a more challenging supply chain environment to de-risk the supply chain; give ourselves some greater visibility. Mike, you want to make any comments on how we're building that?

Michael Loparco ***Symbotic Inc. - CEO***
Sure. Tom, yes. Nicole, maybe I'll just add a little color to that, the shift is really moving from focusing on systems in a serial fashion to really doing multiple things in parallel. And I think as Rick mentioned in his comments really migrate into a mass production-oriented environment and as part of that, we are employing really a build to forecast or a build to capacity model.

So, it will result in some increased inventory, which is very intentional. And again, our entire relationship, I think with suppliers has changed recently for the better. I think we're seen as a very desirable company to work with. We're -- if I just think about it, we're playing in a pretty hot market of robotics and software-enabled automation, and these are desirable sectors and growth areas for suppliers.

Of course, because of our outlook, Nicole, and the demand profile we have, we can give long forecasts and that's really attractive to suppliers who can level load their factories to support us and get higher efficiencies in the process. And then I guess also, if you just look at the fact of our IPO a few weeks ago, it just simply gives us more market credibility, better financial transparency for suppliers, and the cash. We raised $385 million of cash. This allows us to go out and secure long lead time items in bulk with confidence and build up inventory as we expect our new model to result in compressed overall lead times and installation times of systems.

Tom Ernst ***Symbotic Inc. - CFO***
Maybe I'll add one more point to that Mike. Mentioning the cash side of it, so Nicole, as I know, you know well, we also benefit from a very significant cost float and you can see that represented in our strong deferred revenue on the balance sheet. One of the other benefits we're getting, you can start to see this move in our payables, as you start to look at the metrics around our accounts payables is we are able to start to get much better payable terms as well to help fund this

strategy. So, those are both trends you should expect to see continue.

Nicole DeBlase ***Deutsche Bank - Analyst***
Got it. Thanks, guys. I will pass it on.

Michael Loparco ***Symbotic Inc. - CEO***
Welcome.

Operator
We have a question from Derek Soderberg with Cantor. Your line is open.

Derek Soderberg ***Cantor Fitzgerald - Analyst***
Hey, guys, thanks for taking my questions and my congrats as well on the strong quarter. Tom, I want to dig in a bit more on systems gross margin. You had a slight uptick in margins, quarter-over-quarter. Is 20% gross margin in systems, sort of a good place to think about, that bucket over the next few quarters? Can you talk about maybe what takes that up from here? Where should we expect systems gross margin over the next few quarters? Can you provide some more detail on that?

Tom Ernst ***Symbotic Inc. - CFO***
Derek, happy to talk a little bit more. I think I said earlier that there were two primary factors that had our system gross margin of 20% being different from something much closer to 30%. The first I had mentioned was steel index. Our input costs due lag, but we have been watching the steel index settle down and do a much more normalized range.

Can't predict for you, what's going to happen in that steel index, Derek. We saw it settling down a few months ago only to spike back up to 1300. While we can't predict the future, I think the futures market would indicate that it is expected to continue settling down. So, we do have a natural lag in our model as we're purchasing steel-based input goods. Sometimes weeks, sometimes many months in advance. So that natural lag does apply. But if the steel market does what we expect, we should benefit from that on a reported gross margin basis.

I know, you know as well that this is just a flow through effect for us. So that, those steel prices are passed on to our customers as flow through cost. So that, regardless of what happens to steel, we're getting the same visibility to gross profit dollars. But it does impact the gross margin percent.

The other side of the equation here at our early scale and our rapid growth, as we're making each micro decision. We've been biased in our decisions on go fast, get the experience, system deployments are going well rather than really optimizing each process for efficiency.

So, we see lots of opportunity for getting in and getting more efficient as we get more at-bats with each of these systems. In addition, we've just been -- we've been putting investment dollars and spend at kind of that scale to get bigger.

So those, I would think you should think systemically about diminishing over time. I don't want to put a timeframe on that, and it's too early for us to talk about next year, but as a general trend, you should expect to see that we get more efficient, not less.

Derek Soderberg ***Cantor Fitzgerald - Analyst***
Okay. That's helpful. And then as my follow up, Tom. Just curious how we should think about the software and support revenue ramp. You've got, I think six or so wide production modules right now. But I guess I'm wondering when we're going to see that software fee piece ramp up. Is it the case that it's going to take the new modules being accepted, coming online, to really see that start to grow pretty consistently? How should we think about that bucket ramping? Thanks.

Tom Ernst ***Symbotic Inc. - CFO***
Yes, thanks Derek.

You're right. That what's going to drive growth in our recurring revenues, which are led particularly by the margin contribution from software, but also include healthy business and maintenance parts along with some typically build-operate transfer services. We expect those to start ramping post acceptance of systems, and that is the trigger event for those revenues.

One thing to keep in mind, as well as, as you think about modeling this forward, our expectation is we're going to be rapidly growing those number of systems and, looking at the team here around the room on this call, led by Rick and Michael, our goal is to grow that 13 as fast as we can to 26 and then double it yet again. So, we don't intend for our system revenue to slow down in growth.

That means that you're unlikely to see the recurring components becoming a strong percentage of revenue over the future timeframe, as long as we're growing fast, but that being said highly profitable stream and when you really break down the economics of our business, the actual gross profit contribution from these recurring businesses are in a similar order of magnitude today to our overall -- to our overall system revenue. So, a very important part of the business model that just happens to lag in timing.

Derek Soderberg ***Cantor Fitzgerald - Analyst***
Got it. Thanks guys.

Tom Ernst ***Symbotic Inc. - CFO***
Thank you.

Operator
We have a question from Rob Mason with Baird. Your line is open.

Rob Mason *Baird - Analyst*
Yes, good afternoon. And congratulations again on the good start. The question that I had was around the average system value that we've talked about, or you've talked about in the past, roughly $50 million. I know there's variability to that, but as you think as we think about both the inflationary aspect that may be influencing that as well as just, what the customers are requesting, which it seems like they have a desire for more of your technology. You're working on some things I understand, as well as I think that the upsized opportunity at Walmart talked about enhanced capabilities as well.

So can you just give some context around how that may be that $50 million, if we want to use that number, how that may change over time and to the extent you can, maybe the inflationary aspect for technology there.

Tom Ernst *Symbotic Inc. - CFO*
Yes, sure. Rob, thanks for the question. And, I'm sure you can do the -- you can do the math, obviously the revenue in period probably scores material higher for the 13 systems and deploy on average when you spread it over projected timeframe. I think you hit some of the issues. First, as we talked about a typical system might cost $50 million wasn't necessarily meant to represent what you would see on a quarterly average for a handful of reasons.

First, generally our average systems that are in deployment in this period are a little bit bigger just in terms of scope and planning. But then second, there are significant timing events within the quarter, such as the comments I made a few minutes ago about the stacking that as you look at it on a quarterly basis are really going to throw your numbers off a little bit.

I think, as you do some of that analysis around typical systems and smooth them out over a few quarters' timeframe, it'll make a little bit more sense. Then specifically to your questions about input costs in terms of inflation, the biggest one we've talked a little bit about already this afternoon, that's the impact of the steel index. Inflation does impact our model as well. Now we do have inflation protection with our customers, but there are some timing events that may provide just a little bit of lumpiness to that.

I think like, like everybody else in the marketplace, as we look across kind of broad input costs, we definitely see the starts of inflation pick-up this year relative to last year. That is a marginal impact as well in terms of flow through flow through revenue and cost on the business.

Rob Mason ***Baird - Analyst***
Sure, sure. And Tom, you had mentioned, you would expect the operating expenses to start to plane out here over the next, this quarter or past quarter than the current quarter. Should we think that most of the again, I'll just reference enhanced capabilities, but we've talked about break pack and bringing the next generations SymBot to market as well. Those costs are included in that assumption about operating expenses planing off.

Tom Ernst ***Symbotic Inc. - CFO***
Yes, Rob, I think we've talked a little bit about, and Michael mentioned this in his prepared remarks, that you gave a couple of examples BreakPack and SymBot you're right, that are some prominent innovation initiatives that we're working on that do represent a very significant amount of our R&D spend.

I don't want to get into addressing the specifics on those programs. One thing I will perhaps add is that what we've done in terms of in investing here in period, as we all of our investments were actually direct expensed as well. So, I think we've -- that's been helpful to our financial profile as we think about that, but relative to where we might have been when we started the year, our CapEx year-to-date is about $11 million versus a plan for the full year of $28 million.

I think you should expect that we will continue to want to fund innovation. Our innovation, our let me say another way. Our R&D budget is extensively pointed at new innovation and I think we're excited about the portfolio there. While we can't talk, a little bit more specifically about BreakPack and SymBot, I think maybe Mike, do you want to give a sense about a couple of things that are important to us around our R&D budget?

Michael Loparco ***Symbotic Inc. - CEO***
Sure. Rob, I think we've got, a lot of investments not just in the key programs of SymBot and BreakPack, but, when you look at, what really drives our entire system it is a software-enabled system and whether we're looking at, things like the high-speed robotics or intelligent vision and scanning systems, or just this fleet of autonomous vehicles that are software-driven, A.I. really is a potential massive unlock for future potential.

And, I think we've got a first mover advantage here and when you think of the applications of A.I., maybe I'll just give you a couple of examples to put some color on this, but you take our bots, for example, Rob, and they gather information from sensors and motors on the bots, and they look for patterns of data that can predict upcoming performance issues or degradation or failures.

And, we use that information to proactively remove a bot from the system and prevent an issue. We use artificial intelligence modeling for routing and tasking on which cases to go pick up in the optimal order or in the case of our palletizers the robots that build these four by four by eight pallets.

We created digital twin of every case as it goes through a scan tunnel and gets indoctrinated into the software of our system. And then we use that information with pallet-building algorithms that self-learn and take into account past behaviors, and they can anticipate based on the product type crushability or fragility, or where there may be an open flap. And then of course, dynamically adjust in a Tetris-like fashion to build these pallets.

So, I think when we're thinking about R&D generally, we are absolutely going to continue to innovate. I think we're on a run rate of north of a $100 million annually for R&D and that's really, what Rick founded this company on is just wild innovation and we're going to pivot towards speed and scale of the company. But we're not slowing down the innovation. There's lots of key areas that I think are on our product roadmap and our technology roadmap and that's something that Rick is personally really leaning in heavily.

Rob Mason ***Baird - Analyst***
That's very helpful. Thank you.

Michael Loparco ***Symbotic Inc. - CEO***
Yes, you got it, Rob.

Operator
Thank you. Our next question comes from James Ricchiuti with Needham. Your line is open.

James Ricchiuti ***Needham - Analyst***
Hi, thank you. A couple of questions, if I may, just on the 13 systems that you have deployments in progress, can you give some flavor as to how that might be the makeup of that, presumably if you're one large customer and because the follow-up question that I have is as you talk about scaling and going from say 13 to 26 and doubling again, I recognize that you're following this module or plug and play strategy, but will there be some learning curve challenges as you expand with some new customers?

Tom Ernst ***Symbotic Inc. - CFO***
Yes, thanks for the question, James and as I think, you know our $11.3 billion backlog is across our five customers today but does have a strong concentration to our largest customer, the one that we've disclosed with a -- that we've given a multi-site contract to. As we think about the 13 systems that are in deployment today, that is with more than one customer, but it does represent a strength towards one customer in particular.

Your question on how does that apply towards learnings? I think Michael addressed it in his prepared remarks. Michael, maybe you want to speak a little bit more, we're focused on our system being a Lego block-like installation. The same system that we deploy to customer A goes to customer B. It just might be a little bit different configuration of the Lego blocks. So, I would say our confidence in deploying to customers across verticals is very high.

Michael Loparco ***Symbotic Inc. - CEO***
Yes James. I'll just add in Tom's comment, the model is about, doing many things simultaneously here, and in order to do that, we've got to have good process control. We've got to have good discipline, good change management control and minimize the opportunity to introduce errors and risks as we ramp with speed. And there are two things that I think kind of help in that journey.

One just working with tier one partners, forces some internal disciplines. You don't have the ability to just throw things over the wall when you're working with tier one companies. And so I think, ensuring that we have our BOMs accurate ensuring that we have prints and work instructions done completely, ensuring that we're doing that last mile of engineering. Those are all good practices that drive discipline and standardization that allow us to scale with speed.

The second point, I think, is just, the nature of being a public company and the governance and compliance that comes with that. And again, I think that forces discipline. So yes, we are looking to get to a plug and play model. The idea here is to really invest for speed and scale and build out the infrastructure that's going to allow us to deliver these systems scale the company and continue to innovate at the same time.

James Ricchiuti ***Needham - Analyst***
Just a final question, just in terms of driving innovation, you clearly have a pretty healthy R&D spend, but I'm also wondering if M&A plays into the strategy over the next year or so, and what areas you would like to look at possibly inorganic growth.

Tom Ernst ***Symbotic Inc. - CFO***
Yes, thanks, James. Clearly, we're focused first and foremost on scaling our business with this massive backlog and more, as fast as we can build it our customers want it. That's going to be our first and foremost effort. All that being said, we clearly recognize that we are the most strategic technology provider to our customers and that provides a natural long-term opportunity to be thoughtful in the M&A market over time.

So, that doesn't change the priority today, but we clearly want to be watching the market and being thoughtful about what we do.

Jeff Evanson *Symbotic Inc. - VP, IR and Corporate Development*
All right, Katherine, I believe, in light of time, we have opportunity for just one more caller. The question?

Operator
Our last question comes from Joe Giordano with Cowen. Your line is open.

Joe Giordano ***Cowen - Analyst***
Hey guys, how are you doing? I think Tom, you mentioned the 13 in process, generally, you're talking like 18 months to acceptance. I know you have ambitions to be significantly faster than that over time. Like, how should we think about the roadmap to becoming significantly faster at doing that? And along those lines, have you had discussions more so with like national E&T firms to ensure kind of consistency as you do this?

Michael Loparco ***Symbotic Inc. - CEO***
Yes, Joe this is Mike I'll take that. We're super happy with kind of our 13 deployments. And what's important to know is that, during these deployments the customers often ramping inventory and volumes into the system. These are live production capacity environments, and you can kind of think of these deployments as a fill phase, right?

There's lots of learnings that we're incorporating as we go along into the overall build-out of the system and again, those 13 deployments, if you will, are in various stages from builds to install to commission and testing and validation, but it's given us lots of learnings and insights that we're feeding back into the process. So, we're going to continue to scale that obviously; excited about moving those deployments into fully operational completed sites.

And I think at the end of every quarter we'll update you on deployments and completions, but the effort is really around compressing that overall schedule from kind of the 18 months you mentioned and ensuring that we can do this in a consistent manner and deliver the schedule.

Tom Ernst ***Symbotic Inc. - CFO***
And I'll just add to that, Joe, this is something that's a long-term focus for us. So, we intend on driving improvement, but you should think about this as a long game. Our customers love the system deployments as we do them today and they want them coming as fast as they can. Our goal is to compress that meaningfully over the coming years.

Joe Giordano ***Cowen - Analyst***
And then just can I ask one more just on the one thing I've noticed, I guess in robotics generally is when there's a good idea there's other solutions that pop up that look very similar. I know yours is a very difficult one to do that, but can you talk about maybe the competitive response over the last has that changed at all over the last I don't know, six months or during the process when you initially filed have you seen any kind of your competitors try to move in a similar fashion? Thanks.

Michael Loparco ***Symbotic Inc. - CEO*** Yes, Joe, certainly we watch the market all the time. I do think we're probably the only ones really using A.I. and autonomous vehicles in this type of unique solution and, with the fact that our entire system is really software-driven, it's difficult to replicate.

I think we've got a good first mover advantage in the market. I think the backlog of more than $11 billion speaks for itself, and again, customers have voted with their wallets. But, do we expect copycats? Do we expect imitation? Sure, and then I think it kind of leads me to think about our technology and our IP protection and I'll probably make just a few points on this, I guess, one, if you look at our patent portfolio that we've built out, Joe, we've got nearly, I think it's close to 500 patents, among issued and pending.

So that's number one. Number two, again, the A.I. engine that we have that, analyzed kind of six terabytes of data daily through each system allows us to self-learn, to continuously improve, and that's helped -- that's helping extend our lead in the market, but then third I think it really comes back to, Rick's leadership and vision when he started this company and that's all around this culture of continuing innovation.

So, we're going to continue to innovate around products and solutions and work very collaboratively with our customers who are amazing partners in developing technology roadmaps. But yes, we watch the competitive landscape all the time and certainly the paranoid survive. So, we'll continue to keep our eyes wide open. But we feel pretty comfortable about how we're positioned and the investments we're making.

Joe Giordano *Cowen - Analyst*
Thank you.

Jeff Evanson *Symbotic Inc. - VP, IR and Corporate Development*
Thank you, everybody for joining our call tonight. We'll be seeing you on the conference circuit and working with you in various conversations and one-on-ones. We appreciate your time and interest and we'll talk to you next quarter. Bye, bye.

Operator
This concludes today conference. 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.