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Boxed, Inc.

First Quarter 2022 Earnings Call

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CORPORATE PARTICIPANTS

Chris Mandeville, *Investor Relations*

Chieh Huang, *Co-Founder and Chief Executive Officer*

Mark Zimowski, *Chief Financial Officer*

CONFERENCE CALL PARTICIPANTS

Brian Fitzgerald, *Wells Fargo*

Ron Josey, *Citi*

Marvin Fong, *BTIG*

Tom Forte, *D.A. Davidson*

PRESENTATION

Operator

Good afternoon. Thank you for attending today's Boxed, Inc. First Quarter 2022 Earnings Call.

I would now like to pass the conference over to our host, Chris Mandeville, Managing Director of Investor Relations. Please go ahead.

Chris Mandeville

Good afternoon and thank you for joining us on Boxed's first quarter 2022 earnings conference call.

On the call today are Chieh Huang, Co-Founder and Chief Executive Officer; and Mark Zimowski, Chief Financial Officer.

In the course of this call, Management may make forward-looking statements within the meaning of the federal securities laws. These include expectations and assumptions regarding the Company's future operations and financial performance. These statements are based on Management's current expectations and involve risks and uncertainties that could differ materially from actual events and those described in these forward-looking statements. Please refer to Boxed's reports filed from time-to-time with the Securities and Exchange Commission and its press release issued today for a detailed discussion of the risks that could cause actual results to differ materially from those expressed or implied in any forward-looking statements made today.

Management's remarks today will include non-GAAP or adjusted financial measures. Reconciliations of GAAP results to non-GAAP financial measures are available in the earnings release.

This call is being webcast and an archive of it will be made available on Boxed's Investor Relations website.

Now, I'd like to turn the call over to Chieh.

Chieh Huang

Thanks, Chris. Hi again everyone.

I'm very proud of what our team has accomplished so far in 2022, building on the momentum from the last time we convened. I'm going to first provide some recent updates on our business and then Mark is going to discuss our Q1 financial results in greater detail, as well as our outlook for 2022. After that, we'll open up the call for questions.

If you remember, as we debuted as a public company last year, we discussed a few key things amongst others. We were excited about how the capital infusion as well as increased awareness could benefit Boxed. We also discussed how B2B recovery would be one of the keys to our business since it is one of our more profitable and stickier customer cohorts. I'm happy to provide updates on these fronts plus more today.

I'm thrilled at the trends we're seeing in our B2B cohort after two years of variability related to COVID. B2B customer GMV for the quarter grew 65.4% year-over-year. We're capitalizing on this return-to-work shift by deploying more dedicated sales and marketing efforts towards B2B and remain focused on the industry verticals where we've had excellent traction to date. We also saw good growth in overall GMB, growing by almost 20%, year-over-year, 19.2% to be exact.

On the net revenue front, we're seeing re-acceleration there as well. First quarter net revenue increased 14.1% compared to the prior-year period. We've done all of this while increasing gross profit 27.3% year-over-year and gross margins to 13.1% for the quarter. Regarding margin, cost savings, and partnerships, we're excited to expand our commercial partnership with FedEx. At a time when all you're hearing about is cost increases and inflation, we feel incredibly fortunate to be able to announce the partnership which will not only provide us with transportation cost savings, but will also improve service levels to all of our customers. It's a real testament to the entire team's dedication to delivering convenience, value, and savings to our end customers.

Now, going back to our previous discussion, remember, we've also said how excited we were to have the opportunity to increase awareness by investing in our brands. As mentioned during our last earnings call in March, we recently launched new creative content across our linear and streaming video channels, and have begun a more holistic rollout of our brand messaging across all marketing channels.

As a result of these efforts, based on our ongoing survey results, aided brand awareness has approximately doubled during the first quarter of 2022 compared to the levels we were seeing throughout 2021. While we were starting from a low base, this illustrates that our marketing strategy is already working, and we expect to build on this momentum throughout this year.

This awareness we believe will be a factor in helping bolster our active customer accounts. We're seeing positive trends on that front as active customer accounts stood at about 161,000 at the end of the first quarter. This represents a quarter-over-quarter increase of more than 11,000 customers. As we previously noted, this trend is important in supporting subsequent quarter-over-quarter GMV, and retail net revenue growth, something we're focused on throughout 2022.

Other items we've discussed in the past are AOV and repeat behavior. As stated before, we believe our product expansion efforts will be important to improving both of these metrics. However, as we add assortment, improving product discoverability will become increasingly important. As such, we fully revamped the taxonomy (phon) on our properties, which will support continued growth as we bring on more third-party sellers. You'll begin to notice new general merchandise categories, expanded pet assortments, and even more organic products.

From a metric standpoint, AOVs for the last few quarters have been hovering in the $130 range, which is up more than 16% versus the prior-year period. Beyond that, we're seeing order frequencies increase across our active customer base, which means our wallet share is also increasing, a trend we feel bullish about

I'd also like to provide you with an update on our first acquisition, MaxDelivery. As a reminder, MaxDelivery offers 10,000 products, including fresh and frozen foods, delivered from a dark-store environment in under an hour. The business continues to perform in line with our expectations as we invest behind marketing acquisition spend to grow the customer base here in Manhattan.

The acquisition has benefited our customers in New York by expanding access to fresh groceries, and on demand one-hour delivery. We're on track to fully integrate MaxDelivery operations with Boxed by the end of this year. We look forward to expanding the service to new locations and to more of our customers, and we're in active negotiations for several new locations which we expect to launch during Q3 and Q4 of this year.

Turning to the software and services business, over the last couple of months, we've been focused on development to the underlying technology platform and building the infrastructure to support broader scalability. In addition, we've recently deployed our payment on delivery functionality. We launched this feature first for AEON Malaysia, but we believe it's an important capability as we consider expansion into other emerging markets where a large portion of the population still prefers to pay upon delivery. We think this will provide us with yet another competitive advantage when attracting customers in other emerging markets across the globe.

Now, let's talk team. From day one it's been not just me but our entire team that has delivered results. Being so, it's key that we continue to invest in the right people here at Boxed in order to ensure we maintain a world class team. In 2022, we've already expanded our leadership team through the addition of industry veterans across key positions including General Counsel, Chief People Officer, Chief Revenue Officer, Vice President of Merchandising, and Vice President of Strategic Growth for our software and services business.

Jung Choi, General Counsel was previously Vice President, Assistant General Counsel, and Assistant Secretary at Stanley Black & Decker, overseeing public company reporting, securities regulation, corporate governance, and its ESG shareholder engagement strategy.

Veracelle Vega, Chief People Officer, was previously Chief People Officer at Resident, a direct-to-consumer technology-driven company.

Anna Meyer, Chief Revenue Officer for our software and services business, previously led sales at Sezzle, a fast-growing FinTech company.

Elizabeth Hochberg, Vice President of Merchandising was previously Senior Vice President of E-commerce at Town & Country Living and had years of leadership experience in online consumables prior to that.

Chris Sheng, Vice President of Strategic Growth, was previously COO at software provider Dynamo Technologies.

We're honored to have this collective force of talent with such an impressive and eclectic background join our growing Company.

Lastly, helping the world stock up through our technology is our stated mission. Help has multiple meanings here and doing good has always been at the core of Boxed. I'd like to take a moment to say that on behalf of all of us at Boxed, our hearts go out to everyone suffering because of the Russia-Ukraine war. It's very important that we do our part as well. We donated 100% of profits over a two-day period in March to the Ukrainian relief effort, and are actively working to enable inventory storage and supply chain support out of our fulfillment centers.

As you can tell, 2022 is a very exciting year for us. We feel we're differentiated and well-positioned in this dynamic and changing world. Our B2C business can help customers save in bulk as inflation rises. Our B2B business is ready to serve our customers as the post-COVID world returns to normal. Lastly, our high-margin software and services business is yet another point of differentiation for our overall Company. All of these factors make Boxed unique.

With that, let me hand it over to Mark.

Mark Zimowski

Thank you so much, Chieh.

We're pleased with what we have accomplished so far in 2022, and we'll start off by reviewing our financial results for the first quarter.

Net revenue was $46.6 million, an increase of 14.1% or $5.8 million compared to the prior-year period. The increase was primarily due to strengthening B2B customer demand in retail combined with the year-over-year software and services growth. For the retail segment, net revenue was $44.4 million, an increase of 11.3% or $4.5 million compared to the prior-year period. The increase was largely due to increasing overall customer engagement, increased B2B customer demand, and the marketing investments we have been making to support sequential active customer growth.

In terms of customer engagement, we're excited to be seeing year-over-year growth across both our average order values as well as our order frequency, which combined are yielding strong overall wallet share increases. When we blend those two complementary dynamics together, you can see the impact through our retail net Revenue Per Active Customer, or RPAC, which was a new disclosure that we added to our KPIs but also a metric that we spoke to you last quarter.

In the first quarter, RPAC was $276, an increase of $67 or 32.4%, compared to the prior-year period. While growth in B2B customer demand and order mix is supporting some of the RPAC increase, we're also actually seeing a nice AOV in order frequency lift within our B2C customer cohorts as well.

Turning to B2B for a minute, as Chieh mentioned earlier, we continued to see positive momentum from this customer base. For two quarters in a row now, B2B has been growing in the 60% to 65% range year-over-year, with first quarter B2B GMV growth of 65.4% compared to the first quarter of last year. Year-to-date, the return to office momentum we began seeing in Q4 of 2021, has been sustaining and it is proving to be a nice growth catalyst in retail.

From an investment standpoint, we are also leaning in, actively expanding our dedicated B2B team, highly focused on capturing this ever-increasing B2B demand. As we have discussed in the past, we are particularly excited about the re-emergence of our B2B customer base because, compared to our B2C customer, on average, they're spending over three times more per quarter, and on top of that, they're a stickier and more profitable customer.

Finally on retail, we have consistently communicated the importance of marketing in our growth strategy for 2022. We've increased our investments there and are now sustaining marketing spend at levels we believe are appropriate for our size and maturity. The increased budget has enabled us to test (phon) into new channels, and it's supporting increasing brand awareness, which as Chieh noted, doubled this quarter compared to levels seen throughout 2021.

During the first quarter, we spent $11.7 million on advertising of which approximately $1.2 million related to content production costs which were fully expensed during Q1, and as a result, we do not expect those to continue throughout the year. Otherwise, though, we expect to generally sustain marketing investment at these levels over the course of the year with some minor variability from quarter-to-quarter.

Turning now to the software and services segment. We generated $2.2 million in net revenue in the first quarter, which increased $1.2 million or 127.1% year-over-year, and beat our internal expectations. As we previously discussed, timing of revenue recognition within the segment will remain variable from quarter-to-quarter while we scale, and as such, we are highly focused on the long-term potential and opportunity for growth versus near-term quarter-to-quarter results.

Further as we add more customers to our software portfolio, increasing the recurring revenue mix will help support more revenue predictability from period-to-period in the future. As Chieh mentioned, we've had some exciting technology enhancements within our software offerings, and we are confident in our strong customer pipeline, expecting to be able to provide more positive updates there in the coming months.

In addition, we're seeing positive trends within our profitability as gross profit of $6.1 million in the first quarter increased by $1.2 million, or 23.7% versus the prior-year period, and gross margin came in at 13.1%, a 101-basis point increased from 12.1% in Q1 of 2021. The market expansion resulted from an increase in net revenue mix from the higher-margin software and services segment.

Retail gross margin of approximately 10% remained relatively flat year-over-year, and we're pleased with the performance there given the inflationary environment and macro driven headwinds across product and transportation costs. Further, our exciting new partnership with FedEx is expected to yield transportation cost savings, not only combating inflationary trends, but also supporting better seven-day service levels to our end customers.

We believe that between this new transportation cost structure, the continued growth of a third-party marketplace business, the proliferation of B2B, and the significant opportunities we see to increase advertising revenue and vendor trade, we continue to expect nice retail margin expansion this year, and significant increases over the medium to long term.

Our first quarter net loss was $36.2 million of which $11 million related to non-cash or one-time transaction related expenses. This compared to a loss of $14.2 million in the prior-year period. Adjusted EBITDA was a loss of $22.2 million compared to a loss of $11 million in the prior period, primarily due to increases in growth-related and public company-related investments across advertising, staff, insurance costs, and professional services costs.

On the KPI side, gross merchandise value was $53.4 million for the first quarter, an increase of $8.6 million or 19.2% versus the prior-year period, so strong re-acceleration on both a quarter-over-quarter and year-over-year basis.

Finally, we are pleased with the continued upward trajectory of our average order values, with first quarter AOV of $130, an increase of $19 or 16.6% compared to the prior-year period. There are several factors helping support this increase including an increase in B2B customer order mix, expanding assortment, and ongoing price optimizations.

Turning now to our balance sheet. At the end of the first quarter, we had cash balance of $72.7 million, inclusive of $2.8 million in restricted cash, which will help support our investments in marketing, technology, and software and services over the course of the year. In addition, we had $58.2 million on the balance sheet in the form of a forward (phon) purchase receivable which we have been collecting on throughout the year, and which we hope we'll continue to collect on over the coming quarters.

Finally, as you may have seen, we recently issued an 8-K announcing a three-year $100 million committed equity financing facility with Jones Trading. Subject to the terms of the facility, at our option we will be able to draw on that facility over time, which we expect will provide additional flexibility to raise equity capital, helping further support our future liquidity needs. Our total debt principal remains at $132.5 million, of which $87.5 million is related to convertible debt.

Finally, turning to our outlook for Full Year 2022.

We are maintaining the guidance we provided last quarter as well as the trends and quarterly trajectory that we discussed in detail on our last earnings call.

We continue to expect net revenue in the range of $220 million to $245 million with an adjusted EBITDA loss in the range of $70 million to $80 million.

In addition, we are now also providing guidance for software and services revenue of $15 million to $23 million for Fiscal Year 2022, which we expect to be heavily weighted in the second half of the year. I do want to continue to stress that the timing of revenue recognition in this segment will remain variable in the near-term, given the nature of the enterprise partnerships we are negotiating and deploying.

Overall, we feel great about the first quarter results. We re-accelerated top line growth, expanded gross margin profitability, have seen improvements in customer engagement, increased awareness of our brand, and finally announced some exciting new partnerships which are expected to deliver both cost savings and support future liquidity needs.

Looking forward, there are so many growth avenues for us on the horizon. Between continuing to scale B2C, the momentum we're seeing in B2B, and the massive potential we see for our software and services segment, 2022 is such an exciting year for us.

With that, our focus remains on making the appropriate investments to enable scale and to deliver long-term value for all of our stakeholders. Thank you all.

Let me turn the call back over to Chieh for some final remarks.

Chieh Huang

Thanks, Mark.

We're well-positioned for success as we're capitalizing on this changing consumer environment We're investing in the growth of our B2C and B2B platforms, where we plan to drive customer acquisition, further enhance our loyalty program, thoughtfully expand our product assortment, and are making strategic investments to fuel sustainable long-term growth for stockholders over the long-term.

So with that, we're now available to take your questions. Operator?

Operator

The first question is from the line of Brian Fitzgerald with Wells Fargo. Please proceed.

Brian Fitzgerald

Thanks, guys. Couple of questions.

You mentioned aided brand awareness double. Just wondering if you could give us a sense of the absolute level of aided awareness or maybe relative awareness versus some of your larger peers in the market.

Then, really nice recovery on the B2B GMV in the quarter. Any sense on how many of your large customers have ramped back to pre-pandemic levels or how much opportunity remains to kind of recapture normalized volumes with existing customers? Thanks.

Mark Zimowski

Hey, Brian. Thanks so much.

So, I'll start with the B2B question and then I'll turn it over to Chieh for the awareness point.

On B2B, I think we're seeing a combination of everything sort of happening at the same time. Certainly, we're seeing user growth on a quarter-over-quarter and year-over-year basis. We're also seeing, as we had kind of discussed last quarter, the actual customer engagement on the B2B side has basically returned. It actually outpaced what we were seeing in pre-pandemic levels.

So, those customers are now spending plus 3x, or a little more than 3x more than our B2C customer base. They're ordering more frequently. The AOVs have returned well above actually what we were seeing pre-pandemic there as well, so those are growing really nicely. It's kind of all just hitting us at once, and that's what you're seeing in the underlying growth of the GMV side when we look at that 65% year-over-year increase.

Chieh Huang

It’s Chieh here.

On the branded awareness or the aided awareness study points, every month we do an internal study. We go out to about 2,000 respondents for each survey each month, so the sample taken at random on online mobile network or online ad networks, and overall, in exchange for taking the survey, they get in app rewards on the app that they're currently using at the time.

It's US only. We haven't disclosed what the exact number is previously, but I'm happy to say that was from this internal survey, it had jumped from 4% to 8% as a whole number. Of course, 8% still is much lower than some of our much larger peers when it comes to selling in the categories that we do sell, but with that said, whenever you're seeing a doubling of a number when it comes to awareness, I think you're starting to see these KPIs move in the right direction.

Brian Fitzgerald

Got it. Thanks, Chieh. Thanks, Mark.

Operator

Thank you, Mr. Fitzgerald.

The next question is from the line of Ron Josey with Citi. Please proceed.

Ron Josey

Great. Thanks for taking the question.

I wanted to ask, I think I heard order frequency is increasing, coming up to levels that you hadn't seen before. I just wanted to see how does that order frequency compare to pre-COVID, I guess is the first question?

Then on the new FedEx partnership, just can you talk a little bit more just about the benefits of this partnership, the impact to shipping times, and things along those lines? I know you talked about it in the preamble but just more details on the FedEx partnership. Thanks guys.

Chieh Huang

Certainly. Thanks so much, Ron.

From an order frequency standpoint, what we're basically seeing is compared to pre-pandemic levels, overall order frequencies are relatively in line, I would say what we've seen is across sort of B2C and B2B, that dynamic has shifted over time. On the B2B side, what we saw was a big fall off there, sort of during the pandemic and even in post periods coming off of that, and that's where we've seen a large amount of the recovery happen on the order frequency side.

Now, I will say year-over-year on B2C, order frequency is also up pretty nicely from, from a lift perspective. So when we look back at sort of that a very (inaudible) post pandemic environment in Q1 2021, we certainly are seeing growth from that perspective as well. I think all positive things from customer dynamic standpoint, and often when you see the AOV increases we're seeing, you may expect to counteract that with lower order frequency. That's always something we're very mindful of. What I can see is the good news there is that that is not the case. We're definitely seeing growth across both, which is also yielding the spend per user increases that you're seeing on the platform.

Then moving to the transportation cost question. So, overall, we're not disclosing exactly what we expect the impact of that to be below, but what I would say is that we are anticipating some nice margins, gross margin growth on the retail business over the course of this year, and really, the effects of that agreement will start to kick in, going into the back half of this quarter, as well as through Q3 and Q4.

When we think about the overall partnership there, while we're really excited about the transportation cost savings, on the other side of that we're quite excited about the seven-day delivery framework that FedEx deploys. That's really going to help us deliver a better service to our end customer, ultimately enable scale of the retail business over time, and so we're really, really excited about that commercial alliance that we have with them and how that will impact the business on a go-forward basis.

Rona Josey

Great. Thank you, Chieh.

Operator

Thank you, Mr. Josey.

The next question is from the line of Marvin Fong with BTIG. Please proceed.

Marvin Fong

Good evening, guys. Thanks for taking my questions. So, wo for me.

Just wondering if you could describe any changes in consumer behavior you might have noticed. I guess we could use maybe late February when the Ukraine conflict began, or subsequent to that just any behavioral changes you're noticing.

Then my second question is on CAC, now that we have one quarter, and I know it's still early, but how has CAC trended relative to history, which I think was something in the $50. Alternatively, how has it trended relative to your internal expectations? Thanks.

Chieh Huang

Hey, Marvin, you got Chieh here. I'll provide some context, and maybe I'll hand it over to Mark to fill in the blanks on the detail.

Overall, if you remember just when it comes to consumer behavior, we have two sets of customers really that we serve within our retail segment. As you heard before, B2B, that's something that we're really pleased about. The last quarter, if you remember, we posted up plus 50% year-over-year gains. Now you're seeing that accelerate even more to plus 65% in this current quarter that we're reporting.

As Mark mentioned before, that behavior is coming from not only increased back (phon) decide, but also increased repeat behavior. So they're spending more and they're coming back more to us, and that's the B2B trend, if you hearken back to when we first went public, that we said would be so important for us to capitalize on. As the pandemic happened, B2B, which was such an important part of our business largely went away, and then now as we reopen, as the world reopens, we're starting to see that built in tailwind that I think a lot of folks out there don't realize was a key part of our business.

On the B2C side, as Mark mentioned before, in a good way, we're seeing folks behave as they did pre-pandemic in a great way. So, we sell consumables. Folks repeat quite a bit when you're buying these consumables, and seeing that cohort behavior continue to trend in the right direction is something that gives us great confidence for this year.

What I also want to say before I hand over the mic to Mark is that when you look at the individual KPIs of these customers—so net revenue per active customer, how much they're repeating, AOV—all these things I believe are trending in the right direction. I think you're going to start to see the output of that really gain steam as the quarters go by. As we had that injection of capital, we started deploying it, and I think you're starting to see some tailwind coming out of that. Mark?

Mark Zimowski

Yes, Marvin, related to your question around Ukraine, I don't think we've seen anything specific within the data that would suggest there's been any major change as a result of that conflict. Obviously, we're being very mindful there, and certainly our hearts go out to everyone who's been impacted by the conflict itself.

When we look at—turning to your other question around sort of customer acquisition costs and what we're seeing there, I think as we sort of previously communicated, early across the investment periods, in Q1, and Q2, we’re really, really focused around sort of this brand messaging and starting to build some of that awareness around the brand and investing much more heavily in marketing across those types of channels, which we always anticipated would basically yield medium to longer term gains across customer acquisition, conversion rates, etc.

In the near term, certainly we're seeing some variability in the CACs compared to maybe where we had been when we were only spending and investing behind performance channels, but our focus there is that overtime, that brand investment will help to support those bottom 1,000 funnel channels as we move forward. That's when you're going to start to see CAC sort of re-stabilized back to historical norms, as well as enable us to really scale marketing investment in a very efficient manner in the future.

Marvin Fong

Yes, I apologize, maybe I missed…

I probably didn't describe the question. I guess I was using the Ukraine conflict as sort of a separation point between like spiking energy prices and maybe some product shortages. I guess I think my question was more just sort of like, have you noticed any change in maybe the B2C segment and how consumers are sort of reacting to inflation, and maybe even product shortages? So, maybe that'll help clarify the question. I don't know if there was anything new for you to say relative to that.

Chieh Huang

Yes, Marvin it's Chieh again. Thank you for clarifying that.

Overall, I wouldn't say really any big changes because of that conflict or because of inflation that we can report as of yet. Of course, we have a very strong private brand and we believe that people will continue to flock to that, especially as inflation picks up. Overall, if I could speak holistically about the business, especially for B2C, as inflation does pick up to a point where now I think overall the world is seeing it as pretty hot in terms of inflation historically, you're going to start to see folks really potentially shift the channels in which they're shopping at, and so potentially going to different discounters and of course, for us, saving money by buying in bulk. I think in an inflationary environment, I think a high inflationary environment could be actually quite good for our B2C business.

Marvin Fong

Okay, great. Thanks for that additional commentary. I appreciate it, Chieh and Mark.

Operator

Thank you, Mr. Fong.

The next question is from the line of Tom Forte with D.A. Davidson. Please proceed.

Tom Forte

Great. Thanks for taking my question. I have one question and one follow-up.

You talked a little about inflation there. I think you have a tremendous private label product. Are you seeing consumers opt more for your private label, and generally speaking, how should we think about the margin opportunity as a greater percentage of sales are private label?

Mark Zimowski

Hey, Tom, thanks so much. I'll take that one.

When we look at private brand penetration, largely on sort of an ongoing quarter-over-quarter basis, we see that relatively stable when we look at sort of 2021 compared to where we are today. I think some of the dynamic there is that we've actually started—as part of sort of some anti-inflationary sort of campaigns, we've actually started to invest back in price on certain branded items, as well, and so we're actually, providing price cuts on certain items. You've started to see some of that communication around our marketing strategy, which I think is helping support some of the growth trends we're seeing, but on the other side of that, maybe causing some of the penetration rates we're seeing on the private brands to remain relatively stable compared to where they were in Q3 and Q4 of last year.

When we think about the opportunity there, certainly, I think you hit the nail on the head. That private brand business has about 6-point margin advantage over our branded products, and we'll continue to invest behind that on a go-forward basis to try to improve penetration around that private brand in general. And then, just sort of piggybacking off what Chieh said earlier, I think we're starting to see some of the trends around how private brands savings is really going to impact the consumer behavior, especially during this inflationary period.

We should expect some nice tailwinds over the course of the rest of the year if sort of inflation rates maintain where they are.

Tom Forte

For my follow-up question, I have a longer-term question on your fulfillment center build out.

So, where are you today? At a high level, what are your plans for adding more fulfillment centers over the next couple of years? Then how could adding more fulfillment centers improve your shipping from a cost standpoint by lowering the miles delivered to the consumer?

Chieh Huang

Hey, Tom, that's a wonderful question—it's Chieh here again—that we spend a lot of time thinking about. I think you're going to start to see especially in Q3 and Q4 the MaxDelivery acquisition begin to make more and more sense. So remember, right now, MaxDelivery is out of a sub 10,000 square foot facility. So, as we had our Analyst Day, if you remember, our facilities are way larger than 10,000 square feet. As we said before, as we announce the additional locations and open those locations later this year for MaxDelivery, you're going to see them slightly larger or larger than where they are today, but smaller than where we traditionally had been, so that you're going to start to see them as combined facilities.

And so as we begin to dot the country with those smaller, lightweight, dark-store facilities, we can actually cross-stock inventory so that they can pick, pack, and ship out of those facilities, or we can cross-stock actual packed items or packed packages so that the local couriers for MaxDelivery can then deliver in their local locations.

As you alluded to before, getting closer to the customer, the miles traveled is a large, large, large part of how much it costs or the cost structure of what it takes to ship to our end customers. So the closer we are to them, the more we save. So, in addition to our Federal Express relationship, of course, building more fulfillment centers across the country will enable us to continue to lower our costs when it comes to transportation and thereby increasing gross margin.

Tom Forte

Great. If I may add one follow-up to what you just pointed out Chieh.

When I think about your larger fulfillment centers, one thing that impresses me is the high level of automation. How should I think about the use of automation at these smaller fulfillment centers?

Chieh Huang

That's a very astute point.

When you think about all the pieces beginning to fit together, hopefully it also answers why we build our own custom robotics. The fulfillment center that we hosted our Analyst Day at last year, you'll see that was huge conveyors, miles and miles of conveyors, multistory mezzanine, you don't see that in a typical dark-store environment. So, if you remember, we then at the end of the tour showed you kind of the single floor custom-built robotic that we had, which would fit into a much smaller location.

Of course, those robotic wouldn't fit in, say 2,000-3,000 square feet, but once you get to 10,000 15,000 20,000 square feet, that's when those robotics can really begin to shine.

Tom Forte

Great. Thank you, Chieh. Thank, you Mark.

Operator

Thank you, Mr. Forte.

There are no additional questions waiting at this time, so I will turn the call over to Chieh Huang for closing remarks.

Chieh Huang

Well, thanks everyone for joining our call today. As you can tell, we're very excited about what we have created so far, what we felt about the quarter, and we felt that there was a massive opportunity not only in the quarter that we capitalized on but also in 2022.

With that, thanks so much for joining our call. We'll see you next time.

Operator

That concludes today's conference call. Thank you for your participation. You may now disconnect your lines.