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Starbucks Corp. (SBUX)

Investor Day - Afternoon Session

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MANAGEMENT DISCUSSION SECTION

[Video Presentation] (00:00:00-00:00:20)

Rachel Ruggeri

Executive Vice President & Chief Financial Officer, Starbucks Corp.

Good afternoon, everyone, and welcome back. I'm Rachel Ruggeri. And I thought about this and I thought, gee, I don't have a video, I don't have special guests to come on, but I decided this, that today my colleagues have given you a narrative. And really what numbers do is they end a sentence, they're the punctuation. And I'm choosing this for today's punctuation, exclamation point. So, keep that in your head. Keep that in your head.

So how many people enjoyed the Tryer Center? Oh, come on, that's pretty cool. All right, I love the Tryer Center because I think it highlights the very best of what we have to offer at Starbucks, which is innovative solutions designed by our partners for our partners. It gives me a lot of confidence in the future, I hope it does for you as well. And it also makes me really proud. Now, as my colleagues have shared today, our reinvention plan supports a renewed focus on the three foundations of our business; our partners, our stores, and our customers.

Investing in this triple shot is what differentiates our brand and our experience. Now, whether you have that great conversation in the morning with your favorite barista, you all do, or you're customizing your pumpkin cream cold brew in the afternoon or if you're like me and you enjoy a quad – grande quad espresso over ice with extra, extra ice twice a day, every day, explains a lot. There's so many different ways to enjoy Starbucks in whatever way works best for you. And what we know that is above all, our brand is defined by the experience and the personal connection that our partners create for our customers. That is the essence of Starbucks and it's what makes us unique. I can say that because I'm not only a partner; I am first and foremost a customer, and a very loyal one.

So now as I wrap up the presentations for today, yeah, this is the wrap-up section, I'm going to show you how the investments and the personalized connection and that experience we're creating for our partners and our customers translates into a new era of performance. Now as Howard teased in the beginning, and as we've shared throughout today in the details, the reinvention plan is set to support a new era of growth. What does new era mean? Simply put, it means accelerated earnings growing to 15% to 20% annually over the next three years. Come on, you got to be on the edge of your seat, 15% to 20% annually over the next three years, up from our previous guidance of 10% to 12%. That's our new era of growth.

Now hopefully you're on the edge of your seat and not sitting there writing and you're listening, because the reality is now what I need to do is explain how that accelerated growth translates into our performance. So it all starts with the building blocks of our ongoing growth model. Our building blocks can be summarized into four key drivers that collectively support our company's earnings growth. They are: number one, comp growth; two, store growth; three, margin expansion; and finally, disciplined capital allocation.

Our reinvention plan was specifically designed to accelerate each and every one of these building blocks, leading to accelerated earnings growth. Now before I get into the building blocks, I want to remind everybody that our ongoing growth expectations are over the next three years, starting in fiscal year 2023 through fiscal year 2025. Additionally, fiscal year 2023 will be outsized as we lap fiscal year 2022, which was pressured from elevated

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investments, inflationary pressures, and COVID-related impacts. For this reason, fiscal year 2023 may be outsized on certain metrics relative to our ongoing performance.

All right. Now back to our building blocks, so our first building block is comparable store sales growth, because we know that comp growth is a key indicator of the health of our business. Now we're expecting acceleration in this metric over the next few years, driven by the collective benefits my colleagues shared throughout today as part of the five strategic shifts, otherwise known as the reinvention plan. As a result, we're now expecting our global comp growth to reach the range of 7% to 9%, with fiscal year 2023 at or above the high end of the range given the timing of recovery in China, normalizing to the low end of the range in fiscal year 2024 and fiscal year 2025.

Now this is 3 percentage points above the midpoint of our previous guidance range of 4% to 5%. Why? Because our path forward prioritizes investments that accelerate our revenue growth through efficiency and unlocked capacity across the globe. Importantly, we've already seen some benefits from the investments we've made, as Frank shared earlier today, as John spoke about. And we're in a position, a unique position, to benefit from some tailwinds including increasing demand for convenience, increasing traffic, as well as a continued taste and desire for cold beverages and personalization.

Now driving this acceleration is our US comp growth, which is expected to increase to the range of 7% to 9% annually over the next three years, also up from our previous guidance range of 4% to 5%. For China, we're expecting our comp to be outsized in fiscal year 2023 and portions of fiscal year 2024, as we lap the severity of the lockdowns in the market. Now as the market recovers, we expect comp to normalize to a range of 4% to 6% in 2025, which is up 2 percentage points from our previous guidance range of 2% to 4%, driven by our confidence in our ability to meet our commitments, aided by an increasing digital capability, which Belinda outlined today, as well as the vast opportunity that we see in this key growth market.

Now our next building block, so on to number two, is new store growth. Based on the demand that we are seeing across the globe, we're also accelerating our global store expansion, targeting net store growth of roughly 7% annually over the next three years, with fiscal year 2024 and fiscal year 2025 higher than fiscal year 2023, as we work to accelerate the pipeline. Now this is up from our previous guidance range of approximately 6%, even on an expanded store base, driven largely by our US portfolio as the reinvention plan, similar to what John outlined today, has identified incremental opportunities, coupled with our deepened confidence for our growth in China.

Now with this, the US store growth target increases to 3% to 4%, John had shared that today, over the next three years. That's up from our previous guidance range – oh, I should say, fiscal year 2023 will be at the low end of that range, and fiscal year 2024 and fiscal year 2025 will be at the high end of that range. Now that's up from approximately 3% that we had previously provided.

For China, given the strong and robust store development that we have in the market, we're now targeting net store growth of roughly 13%, which is basically giving more definition to the low teens that we had previously guided.

We also see tremendous opportunity to be able to expand across the globe outside of markets, like US and China, as Michael had shared today. Now when you think about the store expansion that I just shared over the next three years, coupled with the long runway of opportunity that we have across the globe, it's not hard to imagine that we're now estimating approximately 45,000 stores by the end of fiscal year 2025, 45,000 stores. That puts us on a path to meet the 55,000 stores by 2030 that we had previously guided and projected at our last Investor Day.

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Now with this pace of global store openings, we're expecting to open nearly eight stores per day, eight stores per day. When you have best-in-class returns, the ability to build and remodel stores that optimize the customer experience of the future and a global footprint, it reinforces our leadership position, which is actually unrivaled in our industry. That might need an exclamation point.

All right. So now when you combine comparable store sales and store growth across our company operated and licensed markets, it leads to revenue growth of 10% to 12% annually through fiscal year 2025. Now this is up 2 percentage points from our previous guidance range of 8% to 10%. And this is because we continue to prioritize investments that focus on accelerating the partner experience, creating efficiency in our stores, coupled with an industry-leading digital program, and engaged and growing Starbucks Rewards membership base, game-changing innovation and a rapidly expanding store portfolio. There is no better way to demonstrate a new era of growth than through the confidence that we have in committing to double-digit revenue growth, which breaks convention for a company of our size and our scale.

All right. Moving to the third building block, margin expansion, I know it's always the question of the day, right? We expect our margin to expand in each of the next three years.

So based on the anticipated recovery in China, coupled with the investments that we've been sharing throughout the day, we now expect solid margin expansion in fiscal year 2023 with progressively more expansion in fiscal year 2024 and fiscal year 2025 as the impacts of the reinvention plan start to take effect and amplify. Now, we'll reach our historical levels of margin over the long-term, but it's critically important that we make the right investments and decisions today and in the near term to implement this reinvention plan, because it furthers our advantage.

Okay. Now, let me provide a little bit more color around the shape of our recovery – margin recovery. Our margin is a function of pluses and minuses together net to accelerated growth. We expect an outsized impact on the plus side of the equation driven by sales leverage from the accelerated revenue growth inclusive of strategic pricing, improved turnover, efficiency in our stores and labor leverage, as John had outlined today and some of which we shared with you in the Tryer Center earlier. We also expect waste reduction as well as supply chain savings across the P&L and G&A leverage over the near – over the long term as the reinvention plan investments begin to lessen and we get leverage from the accelerated revenue growth.

Now on the other side of the equation, we anticipate incremental investments in the support of our reinvention plan and our other initiatives. In fiscal year 2023 specifically, we're estimating to spend slightly more than a $1 billion of incremental investments, half of which will reflect the annualization of the investments we made in fiscal year 2022 largely related to wage and benefit rate increases.

Now we also expect headwinds related to supply chain and commodity pressures, inflationary pressures to continue with a potential opportunity for a tailwind in the future if rates decrease. That's going to be critically important for us to continue to invest in our partners, our stores and our customers well beyond fiscal year 2023. But we believe the benefits from those investments will outpace our costs, leading to further margin tailwinds in the future.

Okay. We're getting close, fourth and final building block. Moving on to capital allocation. Despite the accelerated, elevated level of investments, we remain committed to sustaining a strong balance sheet and superior shareholder return underpinned by disciplined growth-oriented capital allocation. Now let's start with CapEx. Based on what I shared today and the expansion of our global footprint, as well as our ability to continue to invest

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high-return, growth-oriented investments in our partners, our stores and our customers, to enable this, we'll need to increase our CapEx relative to previous guidance to $2.5 billion to $3 billion annually over the next three years.

Now these incremental investments will go to support store growth, renovations, innovation in our stores like equipment and design. Like what you saw in the Tryer Center today, as well as supply chain and technology improvements. Now as we continue to prioritize high-return growth oriented investments. Which bolster our revenue and our capital efficiency, we expect our ROIC to progressively improve, exceeding 25% in the next three years. Now our ability to continue to invest in the customer experience of the future is a competitive advantage. Importantly, the learnings from the investments we're making today help drive better returns for our capital investments in the future.

Next, we remain committed to sustaining an incredibly compelling dividend, continuing to target an earnings payout ratio of approximately 50%, which equates to an estimated yield of about 2%. Now both our payout and our estimated yield are near the top-end of growth companies of our size and scale creating superior shareholder returns when you combine it with the rate of our earnings growth.

And finally, we will resume our share buyback program, reinstituting a healthy level of return of shareholder capital. We expect to yield a benefit of approximately 1% on earnings net of interest – incremental interest expense beginning in fiscal year 2024, as we expect the reinvention plans to help uplift our free cash flow and our debt capacity while we maintain our long-term leverage target of three times lease adjusted EBITDA, which is consistent with an investment-grade credit rating of BBB+.

Now, between our dividends and our share buybacks, we expect to return approximately $20 billion to shareholders in the next three years, $20 billion to shareholders. Now, on the topic of capital allocation, I also want to address an alternate scenario of 10%, 20%, 30% that we shared at our last Investor Day. As a reminder, that scenario assumed licensing – further licensing of some of our markets and a redeployment of the capital, which would lead to an earnings growth of at least 10%, operating margin approaching 20%, and ROIC approaching 30%.

Based on a more recent evaluation of our ownership structures, we believe that we largely have the structures in place today to support the growth scenario over the next three years. So if you take disciplined capital allocation, a compelling cash distributions, and enhanced ROIC, it reflects our confidence in the strength of our business, creating exceptional shareholder return while maintaining balance sheet flexibility, and importantly, funding our critical investments. Okay. We're getting to the very end because now I'm going to add up all the components of the building blocks.

So when you take accelerated comp and store growth, it leads to revenue growth of 10% to 12%. When you combine that with accelerated margin expansion as well as a return of our share buybacks, it converts to an EPS growth of an estimated 15% to 20% annually over the next three years. So see that's where we started and now we're back. 15% to 20% annually over the next three years, that far surpasses our previous guidance of 10% to 12% when combined with a dividend yield of approximately 2%. This is an incredible ambition on every single level. Howard started with ambition, and I just punctuated the ambition.

Now, hopefully what you've heard today through everything that my colleagues have shared and what we've talked about all day, is that we're designing a plan and implementing a plan that delivers a new era of growth. And if you're in finance, you hear a new era of growth, I know because I do this too, you think of percentages and CAGRs, and basis points. But the reality is, or in my opinion, there's another definition of new era that I particularly like that comes from The Longman's (sic) [Longman] (00:21:09) Dictionary of Contemporary English. I

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know, probably never uttered at our Investor Day. The Longman Diction (sic) [Dictionary] (00:21:18) of Contemporary English defines new era in this way. It's a period that is just beginning, especially one that seems to offer better opportunity. I'm going to say that again, a period that is just beginning, especially one that seems to offer better opportunity.

I've been in a partner at Starbucks for over 18 years, and I have had incredible opportunities and I have learned so much, and I love working at the company. But what keeps me here and importantly, what keeps me coming back each and every day is something that I learned from my parents when I was growing up in Walla Walla, Washington, and that is people make the difference. We shared the reinvention plan today and talked about a lot of things, and I just gave you incredible growth numbers.

But the reality is all of that, everything we've shared is in support fundamentally of a better experience for our partners, as Frank outlined, for our partners to thrive. That's what this fundamentally all leads to. Because we know that when our more than 450,000 green apron partners across the globe work together side by side to reinvent Starbucks, that is our superpower. Our partners are our superpower. And that is why we dare to enter a new era of growth to create long term value for all, for partners, for customers and for shareholders. I have confidence in this growth. Why? It's simple. I have confidence in our partners.

Thank you so much for being here today. And we welcome Q&A, which I have to imagine you've got a lot of questions, so we will entertain those in just a few minutes. Thank you.

QUESTION AND ANSWER SECTION

Howard D. Schultz
Interim Chief Executive Officer & Director, Starbucks Corp.
A

So, I think we want to open it up for any questions, comments. And if you just introduce yourself and maybe stand up because the lighting is tough, we can't really see you very well, that would be great. Go ahead. Mr. Palmer.

Frank F. Britt
Executive Vice President, Chief Strategy & Transformation Officer, Starbucks Corp.
A

The mic's coming. The mic's coming.

David Palmer
Analyst, Evercore ISI
Q

Hi. Dave Palmer, Evercore ISI. Just a question on the Siren System, I assume you've tried it out. You have the Tryer Center. Maybe you've done some end market stuff. Could you maybe give us numbers or give us a sense of what it looks like in terms of labor productivity and the throughput upside, in other words, the sales upside...

Howard D. Schultz
Interim Chief Executive Officer & Director, Starbucks Corp.
A

Sure.

David Palmer
Analyst, Evercore ISI
Q

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...as you roll that out? And that $450 million you're spending in 2023, is that really the Siren System rollout itself? Or does it include some others? Can you talk about what is in that? Thanks.

Howard D. Schultz
Interim Chief Executive Officer & Director, Starbucks Corp.
A

Okay.

Rachel Ruggeri
Executive Vice President & Chief Financial Officer, Starbucks Corp.
A

I can take that. What I would say is our Siren System is really, we're in a test period. There are some stores today that have it. We'll continue to test to 2023. The rollout is in 2024 and 2025 more broadly. So that $450 million that John outlined is a lot of the equipment, as well as some of the activities that we're doing in the stores today to be able to create more efficiency. Some of what John talked about with automation, we're simplifying our tasks.

So that's really what's largely going into that number today. Inclusive in there also is some of the training that we're also spending for the partners. So, that's really what combines that number that we're talking today. And in terms of the Siren System, what I would say is the $2.5 billion to $3 billion in capital that I guided for the next couple of years, that will include our rollout of the Siren System. So it will be part of new stores as well as renovations and it's part of that overall capital spend.

Howard D. Schultz
Interim Chief Executive Officer & Director, Starbucks Corp.
A

If you're staying in Seattle, any of you, and you want to see it in action, it's in a store about 20 minutes from Seattle and Renton, and it's live. We've all seen it. We've been there a number of times. Our partners love it, and it's – right there, you can see it in action.

Rachel Ruggeri
Executive Vice President & Chief Financial Officer, Starbucks Corp.
A

And we can send out the address. I know I already have a couple people so we can send the address out.

John Culver
Group President-North America & Chief Operating Officer, Starbucks Corp.
A

And what you'll see is that it will drive throughput, right? Clearly, the time to make a beverage versus where it's at today drives an increase in capacity to help us achieve those revenue targets that we're looking at, and ultimately, flow through into the margin growth that we're looking for.

Howard D. Schultz
Interim Chief Executive Officer & Director, Starbucks Corp.
A

Yeah. We need another mic. Thank you.

Gregory Francfort
Analyst, Guggenheim Securities LLC
Q

It's Greg Francfort from Guggenheim. Thanks for all the detail, and I thought the Tryer Lab (sic) [Tryer Center] (00:27:14) was just really good to get a hands-on feel for. In terms of the revenue growth and the comp growth, I mean, I guess 7% to 9% just feels a lot stronger than where it's been. How much of it is the technology enabling that versus something else? And what's the breakdown of traffic versus pricing that's assumed in that?

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Rachel Ruggeri
Executive Vice President & Chief Financial Officer, Starbucks Corp.

A

Sure.

Gregory Francfort
Analyst, Guggenheim Securities LLC

Q

Thanks.

Rachel Ruggeri
Executive Vice President & Chief Financial Officer, Starbucks Corp.

A

Thanks for the question. I'd start with 7% to 9%, remember, FY 2023 is at the high end of the range, given the timing of recovery in China. So we're normalizing to the lower end of the range in 2024 and 2025, still a big number. And a big driver of the difference from where we were before is some of the things that I outlined, which include the investments that we're prioritizing that drive accelerated revenue growth, as well as this increasing digital capability that we have across the globe.

What Belinda talked about in China, what Michael addressed for the international markets, and as well as what Brady talked about, so that's a significant driver. We have a engaged and growing Starbucks customer base that also supports the growth, as well as the fact that we've continued to innovate in our products, beverages, and food, and that also helps drive it. So it's a combination of all of that that leads to the accelerated revenue – or excuse me, accelerated comp growth that also leads to the accelerated revenue growth.

Brady Brewer
Chief Marketing Officer & Executive Vice President, Starbucks Corp.

A

If I could add just a little bit on top of that, on the ticket side, what we're seeing is premiumization. So as people shift towards that cold customized plant-based beverage, that tends to be a premium beverage. As they customize, they're adding things like cold foams or plant-based milks, which again is a premium ticket. Plus with the growth that we're seeing on food, we're just seeing an expansion in ticket completely.

But if we look at the transaction side, offices are still at a fraction of their pre-COVID occupancy levels. And as we see that to start to come back, we think we'll see a lot more traffic coming into our stores, not to mention some of the digital innovation that we've put in place, as well as the expansion of delivery. So, both on the ticket side and the transaction side, we see a number of levers to really drive the business.

Rachel Ruggeri
Executive Vice President & Chief Financial Officer, Starbucks Corp.

A

But I will note that the 7% to 9% comp, particularly in FY 2023, because it's reflecting the recovery in China, it's got a significant part of it that's traffic. In the out-years, there is still traffic growth, but it's smaller relative to ticket given to what Brady spoke about with personalization and more premium beverages.

Howard D. Schultz
Interim Chief Executive Officer & Director, Starbucks Corp.

A

Let's take one in the back.

Jon Tower
Analyst, Citigroup Global Markets, Inc.

Q

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Hey, Jon Tower at Citi. Just had a couple questions, if I may, in terms of – I think we had a few numbers today around investment, whether it's the $450 million, $220 million in China, and I believe another $200 million in digital. So I was hoping you could walk through where that's going across the business, OpEx versus CapEx, as well as the timing. And then I hate to get greedy on this, but thinking about the business beyond fiscal 2025, obviously, we got the 15% to 20% up through that point, but how should we think of it beyond that?

Rachel Ruggeri
Executive Vice President & Chief Financial Officer, Starbucks Corp.

A

Well, I can start, and I can have Belinda and John add. But in FY 2023, we're committing to slightly more than $1 billion in incremental investments. Half of that reflects the annualization of the investments we made in fiscal year 2022 related to the benefit and wage rate increases. So the way to think about the remaining amount is a good portion of it – almost all of it goes to partner.

Then in terms of the $2.5 billion to $3 billion in incremental capital that I spoke about, right, relative to we've been closer to, say, the $2 billion range, that increase is reflecting the stores, the renovations, the innovations we're speaking about. But that's the high level, so I'll give it to my colleagues to give you more detail.

Belinda Wong
Chairwoman-Starbucks China, Starbucks Corp.

A

Great. In terms of the $220 million in China is really around three areas. One is digitalizing our operations, so we can simplify the work for our barista. Like I shared before, they can focus on connection with the customers and the craft, right? Second piece is the new experience that we could bring in the omnichannel space. And either in delivery or in-store, we're constantly bringing and elevating the Starbucks experience that we could offer.

The third piece would be around the membership, how we're going to acquire, engage our membership – our members a lot better. I mean, the enormous opportunity we can reach new members, and then cultivating that relationship with them requires a lot of investments for us to be able to offer personalized experiences to them. So those would be the three areas that we'll be focusing on, on those investment.

John Culver
Group President-North America & Chief Operating Officer, Starbucks Corp.

A

And for the US business, I would just add the $450 million is the investment we'll make this coming fiscal year. It's really centered around the store and store experience, and really the work we're doing around simplification for our partners, as well as giving them the increased training that we are investing in. Equally are the investments that we'll make to drive demand as well from a marketing standpoint, as well as from a digital standpoint. So, clearly, we see that these investments are the right ones to do. And we are definitely going to hold ourselves accountable to seeing the returns from those.

Rachel Ruggeri
Executive Vice President & Chief Financial Officer, Starbucks Corp.

A

And if I could just add, the $1 billion – the slightly more than $1 billion that we spoke about, that's all OpEx. It's all partner. And then largely what Belinda talked about and what John talked about are part of the $2.5 billion and $3 billion in capital. So that gives you the breakdown. And then beyond fiscal year 2025, I just have to say we're incredibly encouraged by our reinvention plan. But I think the guidance we gave today is a great outlook for the next couple of years.

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Howard D. Schultz
Interim Chief Executive Officer & Director, Starbucks Corp.

A

Please.

Andrew M. Charles
Analyst, Cowen and Company, LLC

Q

Hi. Andrew Charles from Cowen. I guess a question for Rachel or for Michael, but I just want to go through on the refranchising plan, 1.5 years ago, it seemed pretty sound to refranchise company-owned stores outside of China internationally, of course, on the US. Can you talk about the thinking that's changed there, just given that was going to be an opportunity to boost ROIC for the company, cash inflows to buy back stock, make business a little bit more franchised so, therefore, a little bit more resilient, if you will, a little more defensive.

And then, just a follow-up to that, Michael, if you had to pick one market that we can think of as – obviously, you guys did fantastically well in the US. Then it became China being the next big focus. What's the one market you'd say, hey, this could be something big as well in the future that you're most optimistic about? Thanks.

Michael A. Conway
Group President-International and Channel Development, Starbucks Corp.

A

So, I'll start, and Rachel, if you want to talk about it...

Rachel Ruggeri
Executive Vice President & Chief Financial Officer, Starbucks Corp.

A

Sure.

Michael A. Conway
Group President-International and Channel Development, Starbucks Corp.

A

So, I shared today that we're fairly balanced right now internationally between our company operated in our licensed markets. And what we found during the last couple of years is that, that model is working for us, where it's actually been quite robust. If you look at some of our company operated markets like Japan that has been quite resilient, we've put investment in. So, our digital is starting to take off. So, our sales, our profitability is starting to increase. And so, that market is a significant market with actually a lot more runway, whether it's stores or digital to come.

And then you flip to a market like the UK, also very strong performance, some record performance the last couple of quarters. We've had five quarters of just record revenues, and we see a lot of potential there. You flip to our international license markets, and we've also seen resilience across the line there. And we've worked very closely with our partners over the last couple of years to ensure that we're building capabilities. And so, I think as we look at the balance, the balance has worked for us. And, in fact, as customer behaviors change and we start focusing more on shifting our portfolio that balance, both of that is working well for us. I don't know if you want to add in, and I can talk about what's next.

Rachel Ruggeri
Executive Vice President & Chief Financial Officer, Starbucks Corp.

A

Sure. And the only thing that I would add to that is that we continue to evaluate our ownership structures. And so, we'll continue to do that. I was just being very specific around addressing that 10%, 20%, 30%. Well, we don't see that as an alternate scenario. It doesn't mean we won't continue to evaluate our ownership structures. We will.

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Michael A. Conway
Group President-International and Channel Development, Starbucks Corp.

A

And in terms of the future and what might be ahead in terms of the next big market, you may have noticed actually, today, I've shifted from talking about a given market to focusing actually on our licensees. And with our licensees who span multiple markets, we see growth coming from not just one market but multiple regions. So as I think about the future, I see growth across Latin America. I see significant growth in EMEA and also Asia Pacific. And so really, there isn't one market. I think there's going to be a lot of growth to be had in the existing markets. We're always looking at new markets as well.

But there isn't one that stands out. What really stands out is the strength of our licensees and the way we're going to build capability there. And what you're going to see isn't just one market, but you're going to see growth across the entire portfolio, similar to what we've seen the last couple of quarters with the strength of our business.

Howard D. Schultz
Interim Chief Executive Officer & Director, Starbucks Corp.

A

Yeah.

John Zolidis
Analyst, Quo Vadis Capital, Inc.

Q

Hi. John Zolidis, Quo Vadis Capital. You put up on a couple of slides an expected relationship between cost and sales at new stores of 2:1. But obviously, the revenues at new stores are expected to be higher in the future. And we all know the cost to build out stores has gone up. In addition, you're making a lot of investments with the new Siren System, et cetera, to make the stores more attractive. And we know also that drive-thru stores tend to be more expensive than some of the other formats. So I was wondering if you could help us understand the cost – the specific cost of the new stores that's embedded in the CapEx guidance that you provided.

And then secondly, within that, China is a greater percentage of the growth going forward. Are those stores expected to produce higher ROIC than the US-based stores? Is that included in the 25% total company ROIC target over time? Thank you.

Rachel Ruggeri
Executive Vice President & Chief Financial Officer, Starbucks Corp.

A

Yes. I could start, and I'll answer the last part of your question first, which is, yes. Our ROIC exceeding 25% over the next three years is inclusive of the growth, inclusive of the growth that we're seeing in China from a store account. Now in terms of the cost of a store, you got the model right in the sense that we're continuing to support a 2:1 investment ratio. So our sales will go up, but as you indicated our cost also go up. But we're still able to support 2:1 while we do that, while still meeting best-in-class economics keeping to that approximately 50% are ROI in the US and about a 25% cash margin.

China, as you know, is got even superior economics with about 70% ROI and closer to about 35% cash margins. So, that's what we'll maintain as part of how we continue about success, right. We've talked a lot about store growth, store growth is incredibly important, but we aren't chasing a number, we're ensuring that we have the opportunity and the economics as we do that and today we have that line of sight. And so that's why we're optimistic about what we're doing.

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Howard D. Schultz
Interim Chief Executive Officer & Director, Starbucks Corp.

A

One thing about China that I think is perhaps not as obvious is that despite the strength of the unit economics of China, the transactions are relatively low. And historically, if you go back 20 years, 25 years within the US, the transactions of Starbucks were less than 500 a day. And so as the market matures and as we get more and more capacity across China, what's going to happen is those transactions are going to go up.

And when you think about the scale of Starbucks, that we're still getting 2:1 sales-to-investment ratio at the level of scale that we have and you could actually make the case that 10 years ago, we actually had the best locations in the country and our 2:1 sales investment ratio should be going down because we don't have the choice of the highest quality real estate anymore. We've already taken it. But what's happened in America is that the market has expanded well beyond the high profile markets, and that's exactly what's going to happen in China. Yeah.

Sara H. Senatore
Analyst, BofA Securities, Inc.

Q

Thanks, Sara Senatore from BofA. I wanted to go back to the idea of the same-store sales in the US. I know this might be a difficult question to answer, but if you had to think about sort of order of magnitude, how much of that is from new sales layers or new customers versus just improving productivity and maybe just capturing the demand that's out there now? You've talked about perhaps not being able to service. And maybe you can frame it as whether it's transactions to Howard's point about 500 versus 700 or how to think about the drivers? Thank you.

Brady Brewer
Chief Marketing Officer & Executive Vice President, Starbucks Corp.

A

Yeah. I mean, I'm happy to start, Rachel. I mean, I don't know that we'll break down the portions of where it's coming from. But I do think one of our challenges today is that we're not able to meet the capacity of demand that is coming to our stores.

So, as we become more efficient on the front end, when you think about a business that's, 50% drive-thru, we call it line balk. It's when the line is too long and you peel off the line or you don't even stop because the line is too long. That's one of the number one reasons for not visiting Starbucks is the line is too long. So, when you think about just the latent demand that's out there, as we increase the capacity of our stores by enabling our partners and making their job easier and more effortless, we can serve more customers. And that's certainly baked into the model.

But in addition to that, given the programs that we've talked about, the expansion of digital, the new product innovation that's building, and the sweet spot of where the customer is going right now, that will continue to drive demand and drive sales. And then on the ticket side, we'll continue to look at our pricing strategy over time. But, also, we see that premiumization effect, not just in the elevation of the core product categories, but also with the customization that we're seeing increase significantly year-over-year. So, that combination of factors should drive a very strong comp growth in the US.

Howard D. Schultz
Interim Chief Executive Officer & Director, Starbucks Corp.

A

Yeah.

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Jeffrey A. Bernstein
Analyst, Barclays Capital, Inc.

Q

Thank you. Jeff Bernstein from Barclays. I feel like, Howard, Rachel when I talked to investors, I have them look for prudent conservatism in the environment like this, especially with your size and scale, what you've referred to on a number of occasions, setting up for maybe more of a scenario to consistently beat and raise, which companies your size set the bar at a reasonable level and trying to exceed that. I'm just wondering, the driver and the confidence behind actually accelerating your comp growth, your unit growth, your revenue margin, EPS growth, just the scenario behind which you lay that out, especially in an environment right now where it seems like most people are talking about a slowing economy...

Howard D. Schultz
Interim Chief Executive Officer & Director, Starbucks Corp.

A

Yeah.

Jeffrey A. Bernstein
Analyst, Barclays Capital, Inc.

Q

...whether it's in the US or worldwide. I know, Howard, you mentioned you haven't seen anything to date, which is fantastic. I'm just wondering, one, just why raise? Why not manage it lower and beat expectations? And two, is there – what do you see today versus past slowdowns where you feel like you have greater confidence? Now, that's more of a short-term question, but just it feels like...

Howard D. Schultz
Interim Chief Executive Officer & Director, Starbucks Corp.

A

Sure.

Jeffrey A. Bernstein
Analyst, Barclays Capital, Inc.

Q

...over the next year or two headlines are going to be that you raised numbers.

Howard D. Schultz
Interim Chief Executive Officer & Director, Starbucks Corp.

A

Let me tell you how this plan was built, which I think will give you some insight and hopefully some confidence. The plan was built not only bottoms up, but everyone on this stage and the teams that we represent, individually built their own plan. Then we came back together, we rolled up the numbers and we had a real tough conversation about the scale of exactly what you've asked. And when I said to everyone on the team, and be very straight up with you, is go back, take the next few days and have an individual conversation with Rachel as to whether or not you want to revise your plan down.

So there was no pressure whatsoever about trying to hit a number, a comp number, an EPS number. It was based on what we are experiencing and our faith and confidence in the investments we're making. And then, Rachel had the opportunity, as we presented to the board, to have the same kind of conversation. And I'll let Rachel take it from here.

Rachel Ruggeri
Executive Vice President & Chief Financial Officer, Starbucks Corp.

A

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What I'd start with, Jeffrey, is I would say, really, the building blocks that I shared I think are the logical way to think about it. And from a comp perspective, which is the first start of the building block, to see a comp increased. And again, 2023 is elevated relative to the recovery.

If you think about the more normal end of the range, you think about we're investing to be able to drive an accelerated revenue growth. That's critically important for us. Our ability to invest in the customer experience tomorrow is a key differentiator. So, without that level of investment, we wouldn't be able to get to the future we need to get to. So in some ways, you sort of have to be where you are to be able to support the level of investment to get us to the future.

The other thing I would add is we have an increasing digital capability that I think sometimes globally we don't even tell the story about broadly enough. We talk a lot about what's happening in the US. We talk separately about what's happening in China. We had Michael share a little bit about what's going to happen in international. When you look at that collectively, that's an area of opportunity for us just in terms of how we think about our growth and what's different from even a couple of years ago. I mean, China was at 47% of their sales in Q3 was digital. Between MOD and MOP, that was a 13% growth from the prior year, so significant increase. And I think that just speaks to the opportunity we have.

And you can kind of get your head around the comp. Store growth, we've been pretty successful with that. That leads you to the revenue. And then, the reality there is we are expanding our margin. But as you saw in our guidance, it's more of a directional on the margin expansion to be able to give us the flexibility so that we can continue to invest and determine how these returns come in. I mean, you can kind of get to the range when you take the revenue and the earnings, but if you've got confidence in that revenue and you add in that margin expansion, which is not an egregious number, collectively that gets you to the earnings.

Howard D. Schultz
Interim Chief Executive Officer & Director, Starbucks Corp.

A

Yes, please, in the back.

Kevin Andrew McCarthy
Analyst, Neuberger Berman BD LLC

Q

Hey, Kevin McCarthy from Neuberger. The question is on China and in particular, what is it that gives you guys the conviction to really lean in on growth here when there are so many mixed signals coming out of that? From a macro standpoint, it almost seems as if you guys are kind of going through a strategic land grab here, why others might be standing still? So any color on that would be appreciated. Thanks.

Belinda Wong
Chairwoman-Starbucks China, Starbucks Corp.

A

Right. Well, I – during my presentation, I mean, the majority of the growth was from the last 10 years. And I explained that just now that there's white space that we could go after. The market has great potential on more people picking up coffee. Middle class is growing, urbanization. All of that is happening. That's tailwind for us. And you look at – just look at the last two years that we went through, major distractions within the market. And our stores are still giving us – our new stores are still giving us our best-in-class returns. And it just – it's just proven that there's just lots of opportunity we can – we're growing our stores not because we want to grab space but there are people – there are more people drinking coffee in China and in different tier of cities. The whole coffee lifestyle and the lifecycle is moving and it's very dynamic.

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And just look at our track record, this is the third time, we're giving a target. The first one, I remember 1,500 by 2015, we delivered before the deadline. 2018 Investor Day, no COVID was in sight. Nobody in the world would imagine we have a pandemic going on. We went through that. We delivered 6,000 stores. Today, I have – I am so confident to tell you that with our people and ability that we can operate in the market, the knowhow, our partners, the relationship we've built with our customers, the relationship we have built with our key stakeholders in the market including the government, 9,000 stores, 2025. Thank you.

John Culver
Group President-North America & Chief Operating Officer, Starbucks Corp.
A

Okay. Let me just add one proof point on that or data point. If you – for those of you that have covered us for multiple years, back in 2012, 2014, we had a statistic that said the average China consumer consumes less than three cups of coffee a year. Belinda put up a statistic showing that that is now 10 to 12 cups per year. The market is moving fast. Coffee is emerging as the choice of beverage for the younger consumers in China. And we are positioned to capture share, and that's what we're doing. We're going after it. We're investing now for the long-term growth aspects of the country.

Howard D. Schultz
Interim Chief Executive Officer & Director, Starbucks Corp.
A

Yes, at the back there. Thank you.

Danilo Gargiulo
Analyst, Sanford C. Bernstein & Co. LLC
Q

Thank you. Danilo Gargiulo from Bernstein. So, it looks like this is a very ambitious exclamation mark plan.

Rachel Ruggeri
Executive Vice President & Chief Financial Officer, Starbucks Corp.
A

As a headline.

Danilo Gargiulo
Analyst, Sanford C. Bernstein & Co. LLC
Q

I wanted to ask you, how are you planning – if you're planning and how you're planning to cascade down incentives down in the organization to make sure that everything is aligned? And the second question I had related to that is it seems I hear a lot – I hear co-creation of the plan, so what's still outstanding in terms of aligning incentives with unions so that this plan is actually carried forward by the entirety of the Starbucks system? Thank you.

Howard D. Schultz
Interim Chief Executive Officer & Director, Starbucks Corp.
A

Frank, do you want to start?

Frank F. Britt
Executive Vice President, Chief Strategy & Transformation Officer, Starbucks Corp.
A

I'll start by saying I think that we're – I think it's an excellent question. I think this notion of cascading from the top to the bottom, the bottom up is very much at the core of the reinvention. I think we have some opportunities to continue to tighten that connection. Our first sort of thrust into this was just a recommitment to the partner experience as the source of value creation, comparatively speaking to all other things, as Rachel has said so well.

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And so I think, with that in place, we're now going back and revisiting what are adjustments we should make to make sure the incentive alignment is as tight and as affirming as it can be.

Howard D. Schultz
Interim Chief Executive Officer & Director, Starbucks Corp.

A

Yeah.

Nick Setyan
Analyst, Wedbush Securities, Inc.

Q

Thank you. Nick Setyan from Wedbush. Would it be possible for you to at least bracket some of the operating margin assumptions around FY 2023 in terms of the US or North America versus International, however you'd like to do it maybe relative to 2019? Just because, I mean, there are some big variations we can have there, particularly with international in China.

Rachel Ruggeri
Executive Vice President & Chief Financial Officer, Starbucks Corp.

A

What I'd say is we've provided a revenue range and an earnings range that allows you to get to the trajectory on margin. So that's one way to look at it. What I would say is, the majority of our margin expansion in 2023 comes from the US business. So, hopefully with that perspective, it allows you to kind of consider what that shape might look like.

Howard D. Schultz
Interim Chief Executive Officer & Director, Starbucks Corp.

A

Yes, please.

Lauren Silberman
Analyst, Credit Suisse Securities (USA) LLC

Q

Thanks. Lauren Silberman from Credit Suisse. So question about the Siren System, amazing with time savings, better for partners. How do you think about the customer impact, so differences in taste or even perception when you go from cold brew that takes 20 hours to 45 seconds? And then somewhat related, I believe you mentioned potentially baking in the store. Can you expand on the strategy behind that, and again, just on the impact of the customer, the smell of the store and things like that?

Howard D. Schultz
Interim Chief Executive Officer & Director, Starbucks Corp.

A

I'll take the taste of coffee first, and then you can go to food. I can't tell you how many hours each of us spend on ensuring the quality of the coffee is at the same level it's been for the history of our company. And in fact, we are sourcing and roasting the highest quality coffee today more so than any other time in our history. And the proof of everything we do has to be in the cup. The Siren System will have no dilutive effect whatsoever on the quality, the integrity of the taste of coffee. It will be exactly the same. And in terms of smell and things of that nature, in terms of baking in the store, I'll give it to Brady.

Brady Brewer
Chief Marketing Officer & Executive Vice President, Starbucks Corp.

A

Yeah. I mean, just to build on that, the Siren System does not change our brewing method for coffee. It changes the production system that the partner uses and the tools they use to make cold beverages. So it changes things

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like how they use – how they get ice, how they distribute milk across the bar instead of having to go into a refrigerator. So the coffee, in that way, is unaffected by the Siren System.

But what I would say is that in each case, whether it's hot brewed coffee, whether it's hot espresso or cold press, cold brew, Starbucks is rewriting the science of coffee extraction on patented proprietary technology. And we work with the leading experts in the world on coffee.

Very specifically, to answer your question, we go through very rigorous stage-gate process to test everything we do. We start with our partners. We do focus groups with partners to ensure that any change we make is not only accepted but loved by the partners. And our quest is always we never go backwards; it's only up in terms of the quality.

So increasing quality of both hot brewed coffee through the Clover Vertica machine, increasing cold brew quality and reducing the number of variables that happen over an 18- to 20-hour period in the back of the store by doing cold press, cold brew on demand, and then with hot espresso, we continue to refine our Mastrena II machine to make the world's best espresso.

So quality of coffee, number one priority for us. We start with partners, and then we do multiple rounds of testing with customers in central location testing, products guidance testing. And then we usually do market tests, all to make sure that the coffee only goes up in quality, never backwards.

Michael A. Conway
Group President-International and Channel Development, Starbucks Corp.
A

Can, I...

Brady Brewer
Chief Marketing Officer & Executive Vice President, Starbucks Corp.
A

And food, Michael.

Michael A. Conway
Group President-International and Channel Development, Starbucks Corp.
A

Yeah. I just want to add, so internationally, we're doing baked in in many markets across our international portfolio. In Latin America, Alsea, they're doing baked in right now and it's actually a win-win-win. It's a win for the business, because it actually creates a better tasting. It helps with waste, it helps with just the process of getting it there. It's a win for partners because they get joy from baking it in the store. And it's definitely a win for customers as well.

And so, we have experience in doing that, and that's something that we're sharing certainly across the international portfolio, and perhaps lessons also that we're sharing can apply here as we consider the...

Brady Brewer
Chief Marketing Officer & Executive Vice President, Starbucks Corp.
A

I would just say ditto, because that was so beautifully said. But the only thing I would expand is that's the beauty of the global business of Starbucks. We have multiple markets around the world who are fresh baking in store every day. And so, we've just gone around the world to go look at some of those locations. I was on those trips, we brought someone from operations, supply chain, R&D. And we went, looked physically, and walked the whole

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process end-to-end to say, what would it look like to fresh bake laminate products like croissants, chocolate croissants, cookies in our stores? It actually eliminates a lot of pain points for partners.

So, today we receive a frozen product, and we have to thaw that product, and then we heat it. One of the top complaints we get from customers is a cold center of a breakfast sandwich, or a cold center of a pastry. Some of you are smiling, which means maybe you were impacted by that, and I'm sorry; or cold center of a sous vide egg bite. So in the future, with things like a fresh-baked croissant, we take frozen dough and put that right into the oven. And it not only finishes the bake, but it actually bakes a fresh-baked pastry in the store every day.

The quality is the best you can find. And so we'll start that, you saw downstairs one of the ovens. It was off to the side. And then we had the new pastries in the pastry case. So we'll be taking that out to market test very soon. We've already been doing a lot of work behind the scenes to evaluate what that could look like. But as Michael said, not only does it elevate quality, it's actually more efficient for the partners. It reduces waste. And so there's a number of things, the win-win-win that Michael talked about to do that.

Howard D. Schultz
Interim Chief Executive Officer & Director, Starbucks Corp.

A

Yes.

Brian Bittner
Analyst, Oppenheimer & Co., Inc.

Q

Thank you. Brian Bittner from Oppenheimer. Rachel, as it relates to 2023, you said metrics will be elevated. And I know you definitely were talking about comps being elevated relative to the three-year range because of China's recovery. But are you also expecting EPS growth to be elevated? And I ask that because you outlined the $1 billion of incremental investments...

Rachel Ruggeri
Executive Vice President & Chief Financial Officer, Starbucks Corp.

A

Right.

Brian Bittner
Analyst, Oppenheimer & Co., Inc.

Q

...and quick math says that's like a 300 basis point margin headwind in 2023. And you said that the North America business is going to be the leader of margin expansion. So, I'm just trying to understand the commentary about outsized growth in 2023...

Rachel Ruggeri
Executive Vice President & Chief Financial Officer, Starbucks Corp.

A

Sure.

Brian Bittner
Analyst, Oppenheimer & Co., Inc.

Q

...and whether it relates to EPS. And if you can unpack how that works for...

Rachel Ruggeri
Executive Vice President & Chief Financial Officer, Starbucks Corp.

A

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Yes. The way I'd look at it is the comp range, as I said, was 7% to 9% with FY 2023 at or above the top end of the range given the recovery in China. However, remember on margin, margin is solid margin expansion in fiscal year 2023, with progressively more expansion in 2024 and 2025, as the impacts of the reinvention plan begin to amplify. So you got a greater top line in FY 2023, but you have a margin expansion, but not to the degree we'll see in the out-years. So as a result of that, I'd think about that lower end on the earnings guidance range.

Howard D. Schultz
Interim Chief Executive Officer & Director, Starbucks Corp.

A

Yes. John, we'll come to you next.

Jared Garber
Analyst, Goldman Sachs & Co. LLC

Q

Thanks. Jared Garber from Goldman Sachs. Just wanted to understand, transaction counts in the US are still lower than they were in 2019. So I wanted to get a sense of if you think that recovers over the next – course of the next year, or how you're planning to maybe utilize incremental traffic in your stores and what the impact of that looks like? And also, as it relates to 2023 and 2024, how are you thinking about that China recovery? What's sort of embedded in that and in your understanding of that market?

Howard D. Schultz
Interim Chief Executive Officer & Director, Starbucks Corp.

A

Transactions?

Brady Brewer
Chief Marketing Officer & Executive Vice President, Starbucks Corp.

A

Sure, yeah. I mean, our transactions were growing. I mean, I think what has transpired over the last few years is that our afternoon day-part has grown. Morning is now growing and I think what we're seeing is a lot of people are holding on to their afternoon occasion that developed over the last three or four years. And as the offices start to come back in the US and the urban core starts to get new life again, what we're seeing is that single beverage transaction in the morning is starting to recover. And so transactions will grow in 2023. And we're already seeing green shoots of that in our business.

Rachel Ruggeri
Executive Vice President & Chief Financial Officer, Starbucks Corp.

A

And then maybe in terms of the China recovery. As I thought I was in my guidance for 2023 and 2024 on comp saying it would be outsized relative to recovery, but Belinda can speak more specifically in terms of the timing of how they plan to do.

Belinda Wong
Chairwoman-Starbucks China, Starbucks Corp.

A

So, there's obviously a big chunk from the recovery from the Shanghai lockdown and everything else, right? So – and then, but we did plan a very healthy comp growth given what I've just explained to you guys today on the six key growth drivers and we are going to work on those positive growth. And there's an assumption in our comp growth that we're not going to enter the fiscal year with everything just disappearing, right? So, we are still going to be under the COVID – the zero-COVID policy. So, we're expecting and assuming that towards the latter half of next year that you'll see more lifting of the restrictions versus now. So, that's majority how we planned our 2023 plan.

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Howard D. Schultz
Interim Chief Executive Officer & Director, Starbucks Corp.

A

John?

John Ivankoe
Analyst, JPMorgan Securities LLC

Q

Hi. Thank you. John Ivankoe at JPMorgan. We led the presentation earlier today, you're talking about 2008 and the opportunities that came out of that. One of the things that happened in 2008 was the rationalization of the US store portfolio. Coming into GFC, you opened a lot of stores in markets that, quite frankly, didn't develop for a number of years. I mean, whether they are sub-prime markets or otherwise, the trade areas just simply didn't develop at the time that you rightly thought at the time.

So, I was wondering if there are any parallels in China. We read a lot in the Western press about the China property market or different projects that are half built and without people, what have you. I mean, are there Starbucks stores that are located in such markets? And maybe you actually have an opportunity to mothball or just say, listen, we'll come back to them in three or five years is kind of the first point?

And then, secondly, is there a significant change? I would assume there's some type of a seismic shift in consumption patterns in China. Three years of lockdown is a very, very long or just disrupted COVID, zero-COVID behavior. Is there a change in the China store development platforms in 2023, 2024, 2025 that's very different than the past, that maybe, it's kind of obfuscated in what overall very strong growth numbers look. In other words, is the China 2023 to 2025 very different than the stores that you were opening in 2017, 2018 and 2019?

Belinda Wong
Chairwoman-Starbucks China, Starbucks Corp.

A

Okay. So I'll take that.

Howard D. Schultz
Interim Chief Executive Officer & Director, Starbucks Corp.

A

Yeah.

Belinda Wong
Chairwoman-Starbucks China, Starbucks Corp.

A

Well, first of all, I was here till 2008. So the acceleration in China really happened back in 2010 – 2011. So the number one thing our team has learned and throughout the last decade, is that we want to build only profitable stores. And in the way that we will use a very disciplined growth that's the only type of stores we want to build since the beginning of acceleration. So it's not just today. So we really learned the lesson and that was how we accelerated our growth back in 2011. So we watch our portfolio very, very carefully each year. And in the last decade, many things have happened. Things shift, just in the last two years, many things happened as well.

So we very much studied our new stores and make sure that we're not going – we're not chasing after store count, but we're chasing after a healthy new store growth that will give us great return in the future. So that's number one. I want to assure you with that, our portfolio, it's very healthy. Now, of course, this year, we've seen distractions on, when we have to have temporary closures. But even with that, we are delivering best-in-class returns and profitability like what we've showed you. So feeling really comfortable about our portfolio, one of the greatest portfolio you can ever have in this world with our size for our new stores.

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That's – in terms of how we're going to grow, I think that's your second question. So, I mean, I talked about the omnichannel needs. There's obvious – we have a third place business that our customers just love, right? We're building communities. People are gathering. You can see from the video how people are just rushing back to our stores, connecting with each other, connecting over coffee with our people. So that is thriving when there are no restrictions going on, okay? So and then, where you're talking about a delivery business from nothing to now a high percentage, right? Over 20% of our business on just delivery, right? And we're going to double that in the next three years. So if you think about our stores, our previous stores that we just built, those are fulfillment centers for our delivery business.

Now, going forward in our next 10 years of growth, we can be so much smarter. You take Shanghai as an example. We're at 98% of coverage in the entire city of Shanghai already in terms of delivery fulfillment. You think about my next batch of new stores in Shanghai, we can be so much more smarter without capital investment in terms of infills. Do I – I don't need to build extra capacity for fulfillment for other like delivery needs anymore because I have enough. So we – my point is we can be so much smarter with our capital investment. We can leverage and maximize that a lot more. We can – the purpose built stores that I talked about in my presentation, it's really about how are we going to go wide, go deep, go smart and go green with our stores in different cities and how we're going to build out our penetration and the omnichannel needs for our customers. Thank you.

Howard D. Schultz
Interim Chief Executive Officer & Director, Starbucks Corp.

A

Let me take a page out of Rachel's book and say let me put an exclamation point on that. We've been in China now for 21 years. We lost money in China, I think, for the first nine years. It took us a while to get it right. And in the last decade, I think we've proven that the power of the Starbucks brand and the experience in literally creating an industry that did not exist and a category that did not exist, if I had to put a headline on the China opportunity, we are playing the long game. I don't know if you picked up a word that Belinda used in her presentation, she said, the growth in China over the next year or two will not be linear.

There are obviously external issues. But our belief going back to a decade ago when I made the declaration that China one day would be as large as the US. Well, we're 3,000 stores away from the same size in the US. Now, I believe that China is going to be 2X of the US at the size of the opportunity is twice of America. And certainly, if you look at the scale of the opportunity, the population, the power of the brand, the investments we've made, continuing to invest ahead of the growth curve, we are going to build a major business in China. And we will become one of the most respected and recognized brands, not Western brands, but brands in China.

And so from an investment thesis, what other consumer brand in your portfolio has the opportunity, the runway, and the proven success that we have in China? And so we're going to continue to be bullish on China despite some of the external issues. And we believe the relationships we built with the customer, relationship we built with our partner, relationship we built with the government, puts us in a very unique position. It looks like we're out of time, unless there's more questions, sir?

Dennis Geiger
Analyst, UBS Securities LLC

Q

Thank you. Dennis Geiger, UBS. I wanted to ask a bit more about the new store growth in the US. You highlighted, there's still very strong returns. I think a breakdown of the stores like format over the next few years, which is super helpful. Can you talk a little bit about the decision to go from three to three to four? How you think about cannibalization maybe within that context or even on the plus side, how you think about easing the pressure

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on existing stores or maybe this urban to suburban shift, just any other pieces to kind of unpack that acceleration would be helpful? Thank you.

Howard D. Schultz
Interim Chief Executive Officer & Director, Starbucks Corp.

A

Well, there's a few factors. I'll start and go from there. I mean, we – all morning long, you heard us talk about the fact that the demand in many cases is outpacing our capacity to serve our customers in the way that we want. One way to obviously to offload that pressure is we need to open up more stores in the proximity of the trade area, those stores that are under tremendous pressure. That's one. Two, the drive-thru opportunity opens up a whole new scale of real estate for us. That really has not been the core focus for the company, that's two.

The other issue is if you look at the map that John put up in his presentation is a whole lot of geography that Starbucks has not played in. And as the market has expanded primarily because of Starbucks, we have opportunities that we have not taken advantage of. The other issue is the multiple formats that we have. We didn't have that in our past. So, the multiple formats gives us tremendous real estate capability. It lowers our CapEx in many cases because the stores are different formats, lower – smaller sizes and we can do lots of things. And so, we don't see – I said earlier in my – first thing I said this morning is we have line of sight and lots of opportunity for Starbucks. And maybe the biggest surprise of the day is the accelerated expansion of store growth in the US.

It looks like the last question – oh, one more. Please.

Patrick Johnson
Analyst, Stifel, Nicolaus & Co., Inc.

Q

It's Patrick Johnson from Stifel. I wanted to drill down on labor just a little bit more on a couple of key things that you guys had mentioned particularly in relation to the dynamic scheduling. Is that something that's on the horizon within fiscal 2025 or sooner? And how do you manage that to be sure that you're matching labor to peak demand times? And you related to that, you mentioned tapping nontraditional labor pools. Can you expand on what you, meant by that specifically?

Frank F. Britt
Executive Vice President, Chief Strategy & Transformation Officer, Starbucks Corp.

A

Yeah. Let me take your question in reverse. On the nontraditional labor pool, I think the number is 90%, 95% of people who work in a Starbucks store today are under age 32, 33. It's in that zone.

We can get the exact number, but order of magnitude, which is terrific. It actually mirrors the customers that are becoming more and more our primary customer. However, there are other labor pools in the labor market. I can say this with some fidelity, AARP people over 50, which I am a member of, that's a labor pool that we've historically not marketed to. If you went to the website of Starbucks to look at applying for a job, all the people look like – the people who work in our store, they don't look like people who are over 50.

So that's an example of a labor pool that we think would be tremendous additive to the culture of Starbucks, who would bring further maturity and stabilization. And those folks are looking for flexibility in their lives and that's the hallmark of working at Starbucks. We meet you where you are. That's the second question, of how to think about expanding labor pool. And I also mentioned we want to think of ourselves as having to continue to grow the labor pool at large because we're one of the bigger players in the category. We have some ideas on how we might do that.

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On the scheduling side, it's a two-sided relationship. Firstly, we don't capture today enough information about what your preferences and needs are as a barista. We get a little bit information in the beginning, but for other information it would be helpful to know relative to your scheduling objectives. So, A, we need to learn more so we can serve you better. And then, we think there are some tools that we're working on currently. We've done a lot of consumer test – a lot of partner testing as part of a reinvention so far, to understand how do you really optimize scheduling so that the store manager is empowered with robust decision support tools across 9,500 stores, but not PhD level, but using artificial intelligence where necessary and other analytics tools of the 21st century and get the information for the partner.

So we think there's a lot of value to unlock in just getting a tighter connection or synchronization between what your preferences are as a barista and how we want to optimize the schedule. And, it's not an overnight thing. It's a complicated problem set, but it's one that we have high conviction already, just doing some of the early analytics that there's a big value to unlock for our partners and for the performance of the store itself.

Howard D. Schultz
Interim Chief Executive Officer & Director, Starbucks Corp.

A

Please.

Stephen G. Boland
Analyst, Odlum Brown Ltd.

Q

Hi, all. Great presentations. Stephen Boland, Odlum Brown. Just wondering, how do you measure partner engagement and connection? And how do you know if you're at a desirable level or not?

Frank F. Britt
Executive Vice President, Chief Strategy & Transformation Officer, Starbucks Corp.

A

We have a kind of – we call it listening strategies – one of the listening strategies and affirming, the transparent listening approach. We have some tools we use that we measure weekly sentiment, one or two questions just to get a kind of a pulse. And then we have a slightly more elaborate model that we do quarterly. The meta question is, would you recommend Starbucks to a person to come work? That's like the highest level order question. Then there's questions that's underneath that.

So we have a pretty finely tuned system now for listening, that's short interval, longer interval. Having said that, I think it's still right with opportunity because it's still averages. And so if you go back to the earlier discussion today about personalized journeys for different cohorts of partners, we think there's an opportunity over time to fine tune the questions to better make sure that we're meeting your specific needs as opposed to my specific needs. And I think part of the agenda for innovation and better meeting needs is getting better at listening.

The last point I'd make is you've heard in some of our narrative, including in the earnings call, we've always been a pretty good listening company, but now we're trying to become a co-creation company and that makes for good rhetoric. But it's not a natural act for at our scale and we're working really hard. I think you've seen a lot of co-creation themes today. And we think that the partner can have an outsized influence on how we think about that going forward as well.

Howard D. Schultz
Interim Chief Executive Officer & Director, Starbucks Corp.

I think we're going to close it. Okay? Well, first off, it's been a long day, and you've been great. We've really thrown a lot at you today. You've all been present, and I can't thank you enough on behalf of all of us at Starbucks

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for coming to Seattle, listening to our story. And I hope that when you walk away, you're struck with a few things, that this is a team of people that represents 450,000 Starbucks partners. And we take that responsibility to heart.

We understand how hard people are working, the changes and the pressures on workforces in general. And we want to do everything we can, as a leadership team to make our people proud. We also realize the fiduciary responsibility that we have to do everything we can to meet our financial obligations. And what we share with you today is our promise to you that we're going to do everything we possibly can to make you proud of your investments, your recommendations, and your involvement with Starbucks Coffee Company.

We stand here on this stage representing a lot of people. The one thing I want to do, and I hope you'll join me, is that there's a lot of Starbucks people in the room. I'd like you all to stand up and to be recognized for everything you do on behalf of the company. Please stand up.

Once again, I want to recognize our international partners who have come far and wide to be with us today. I think it speaks a lot about your relationship with the company. We'll see you all tonight. We'll celebrate the day. And again, thank you all very much, and we'll see you soon either in New York or California or wherever you are and do everything we can to be as present and visible, so we can stay in connect with you.

Thank you very much. Thank you.

Unverified Participant

Thank you everyone for coming. If by chance you brought any luggage onto the shuttle in the morning or you brought any luggage into the building, it's downstairs with the receptionist. Please grab it as you leave out. We also have appreciation bags for you, so please grab them as you leave out as well and safe travels.

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