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Starbucks Corp. (SBUX)

Q1 2024 Earnings Call



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MANAGEMENT DISCUSSION SECTION

Operator: Good afternoon. My name is Diego, and I will be your conference operator today. I would like to welcome everyone to Starbucks' First Quarter Fiscal Year 2024 Conference Call. All lines have been placed on mute to prevent any background noise. After the speakers' remarks, there will be a question-and-answer session. [Operator Instructions]

I would now turn the call over to Tiffany Willis, Vice President of Investor Relations. Ms. Willis, you may now begin your conference.

Tiffany Willis

Vice President, Head of Investor Relations and ESG Engagement, Starbucks Corp.

Thank you, Diego, and good afternoon, everyone, and thank you for joining us today to the Starbucks' first quarter fiscal year 2024 results.

Today's discussion will be led by Laxman Narasimhan, Chief Executive Officer; and Rachel Ruggeri, Executive Vice President and Chief Financial Officer. And for Q&A, we will be joined by Belinda Wong, Chairwoman and Co-Chief Executive Officer of Starbucks China; and Brady Brewer, Executive Vice President and Chief Marketing Officer.

This call will include forward-looking statements, which are subject to various risks and uncertainties that can cause our actual results to differ materially from these statements. Any such statements should be considered in conjunction with cautionary statements in our earnings release and risk factors discussed in our filings with the SEC, including our latest Annual Report on Form 10-K and Quarterly Report on Form 10-Q. Starbucks assumes no obligation to update any of these forward-looking statements or information.

GAAP results in the first quarter fiscal year 2024 and the comparative period include several items related to strategic actions, including restructuring and impairment charges, transaction and integration costs and other items. These items are excluded from our non-GAAP results. All numbers referenced on today's call are on a non-GAAP basis, unless otherwise noted or there is no non-GAAP adjustment related to the metric.

As part of our non-GAAP results, revenue, operating margin and EPS growth metrics on today's call are measured in constant currency. Current period results, however, are converted into the United States dollars using the average monthly exchange rates from the comparative period rather than the actual exchange rates for the current period, excluding any related hedging activities. For non-GAAP financial measures mentioned in today's call, please refer to the earnings release and our website at investor.starbucks.com to find reconciliations of those non-GAAP measures to their corresponding GAAP measures.

This conference call is being webcast, and an archive of the webcast will be available on our website through Friday, March 15, 2024. Also, for your calendar planning purposes, please note that our second quarter fiscal year 2024 earnings conference call has been tentatively scheduled for Tuesday, April 30, 2024.

And with that, I'll now turn the call over to Laxman.

Laxman Narasimhan

Chief Executive Officer & Director, Starbucks Corp.

Thank you, Tiffany, and thank you all for joining us this afternoon. I will start by sharing an overview of our business performance in our first quarter of fiscal 2024. I will then turn it over to Rachel Ruggeri to walk through the detailed segment results.

We saw strong momentum and a highly successful holiday in the quarter, with record revenue and expanded margins. We saw strong growth in our loyalty programs, sequentially increased in frequency and record spend among our loyal customers, positive traction from new product innovations, exciting momentum in China with our focus on premium, and progress on the execution of our Triple Shot strategy.

We also saw some unexpected headwinds, which impacted the rate of growth. We feel very confident about our robust plans to address these challenges. While we are already seeing traction, there was an impact in the quarter, and it will take some time to normalize.

Let me walk you through the details. Our performance in the quarter was fundamentally strong. Our Q1 total company revenue was a record \$9.4 billion, up 8% year-over-year. Our global comparable store sales grew 5% year-over-year, supported by a 5% comp growth in North America, driven by 4% ticket growth and 10% comp growth in China. Our global operating margins expanded by 130 basis points to 15.8%, and our overall earnings per share grew 20% to \$0.90. This speaks to the continued successful execution of our reinvention plan and the durable business we are building.

We are fortunate to have built one of the strongest brands in the world, and we continue to benefit from customer loyalty. Throughout the quarter, we saw our most loyal customers around the world coming into our stores more often. Specifically, in the US, we set new records with our 90-day active Rewards members growing 13% year-over-year to a record 34.3 million, with tender reaching an all-time high of 59% demonstrating increased engagement.

Importantly, the frequency of our most loyal customers increased sequentially and spend per member reached a record in Q1 fueled by our holiday promotion, which significantly exceeded our expectations.

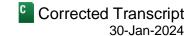
Our cold and Gingerbread platforms drove a record high ticket in the US in the quarter. We also had the highest sales of Starbucks Gift Cards in our history, making us number-two in Gift Cards sold. In total, we have an incredible \$3.6 billion preloaded onto our cards in the US in the quarter. In short, our growing Starbucks Rewards members are visiting our stores more frequently and increasing their spend each time that they come.

We also saw great momentum in China. We aim to be the best in the premium market in China. Our brand equity across Starbucks and Starbucks Reserve is second to none. Based on our latest brand tracker, Starbucks continues to be the first choice in away-from-home coffee, including among the Gen Z consumers. We continue to lead in brand affinity and have highest awareness, brand familiarity and purchase intent scores.

We have the most outstanding partners in our stores with very strong customer connection and the highest retention rates in our industry. We offer distinctive global and locally relevant product innovation anchored on superior coffee with food attachments and a morning daypart that now have surpassed pre-COVID levels.

Our loyal customers, a major part of tender, are coming more often and our loyalty program is growing. We're doing all of this while offering premium physical and digital experiences delivered across our distinctive store

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portfolio across other physical channels and through our digital connection and doing so at a commensurate value. This ambition of being best in premium in China is in line with our long-term growth ambitions for China.

Let me now talk about the headwinds and our response. We entered the first quarter very strong globally. We had great momentum in August and September, and that continued into October, which exceeded our expectations across every measure. Beginning in mid-November, while our business continued to grow, the growth rate was impacted by three unexpected factors.

First, we saw a negative impact to our business in the Middle East. Second, events in the Middle East also had an impact in the US, driven by misperceptions about our position. Our most loyal customers remain loyal and in fact, increased their frequency of spend in the quarter. But we did see a softening of US traffic. Specifically, our occasional US customers, who tend to visit at the afternoon, came in less frequently. I will speak in a moment as to how we quickly responded with an effective action plan.

Finally, we experienced a slower-than-expected recovery in China, driven by a more cautious consumer. While we had a relatively very strong Double 11 holiday, the overall market weakness led to significantly increased pricing competition.

We responded quickly to these headwinds. In the US, we implemented targeted offers aimed at bringing our occasional customers into our loyalty program. As we've seen over time, Starbucks Rewards members develop a routinized long-term relationship with our brand that increases both ticket and transactions. Additionally, we activated new capabilities within our proprietary Deep Brew data analytics and AI tool to identify and incentivize specific Rewards members cohorts. Finally, we are leaning further into our brand, marketing and factual narrative and social media to engage these audiences where they are.

We've already seen the positive impact of these new initiatives with our more occasional customers beginning to rebound in December. However, we continue to see further opportunity to welcome back our very occasional customers. We feel good about the trajectory over the course of the quarter, but it will take time for our plans to be fully realized.

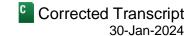
In China, we remain very confident in the long term. The market is going through a transition as we see an increase in mass market competitors, which we believe will shake out over time, and the market will emerge looking fundamentally different than what we see today. We expect a much larger and tiered market as per capita consumption continues to increase and the market matures. There are three key elements in our China strategy.

First, we are offering more coffee forward, locally relevant product innovations and we're increasing engagement in social media channels through influencers and partnerships, which are highly effective in China. These actions are increasing awareness and have led to greater customer frequency.

Second, we have made significant investments in technology, increasing our omni-channel capability, allowing us to serve more customers through new occasions. These investments have also led to a more digitized store environment, increasing efficiency of our supply chain and stores, while enhancing the partner experience and strengthening our unit economics in both existing and new stores.

Finally, we're increasing the percentage of new stores opening in lower-tier markets and new county cities where we see meaningfully stronger new store economics. As you can see, we moved quickly to respond and implement a plan to address these unexpected headwinds. It will take time for these action plans to be fully realized. That

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said, we remain confident in our Triple Shot strategy and our long-term growth. So let me share some of the progress in the quarter.

Our first Triple Shot Reinvention priority is to elevate our brand by operating great stores and driving product innovation. The best lever for elevating our brand is our store experience. We continue to raise the bar on running great stores with a focus on enhancing both our partner and customer experience. One example is the continued rollout of our Siren System cold and food stations. We remain on track to have approximately 10% of our stores equipped with a Siren System by the end of this year.

We are a coffee company, and we will continue to lead with coffee innovation. We're continuing the installation of our Clover Vertica in nearly 10% of our US company-operated stores in the quarter. We are on track to have ondemand single-cup brewers installed in nearly 60% of our US company-operated stores in fiscal year 2024. This will continue to elevate our coffee offering while also making partners more productive by reducing waste and creating efficiencies in store, allowing them to spend more time doing what they do best, connecting with our customers.

Just imagine a perfectly brewed on-demand cup of coffee at any time throughout the day, even decaf. This quality and the offering are like no other in the industry.

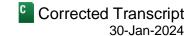
We also continue to offer coffee blends, which are distinctive and remind people of the romance with coffee. Our Verona blend is anchored in the essence of Verona, Italy. It was our tribute to the city of romance in Italy. In celebration of our five years in Italy, we will introduce a new coffee, Starbucks Milano Roast inspired by the art and culture of Milan. Milan's miart, an international modern and contemporary art fair, is the perfect backdrop to a launch in our Milan Roastery that will then scale globally. The moment will capture our love of coffee, the passion of our partners, and the dynamism of Milano.

Today, we are excited to launch the Oleato platform with Oleato customizations across the US. In the coming weeks, we will also launch a Chocolate-Covered Strawberry Crème Frappuccino and a Chocolate Hazelnut Cookie Cold Brew in time for Valentine's Day. Starting this week, and continuing over the next few months, we will be introducing three new beverage platforms, each of which is squarely aimed at our Gen Z and millennial customers across the range of coffee and cold beverages and compelling for the afternoon. These product innovations are examples of how we continuously elevate the brand and welcome customers back with a unique Starbucks experience.

We're also offering new and exciting options beyond coffee, including food that appeals to different dayparts, especially the afternoon. In January, we added new menu items, including the Potato, Cheddar & Chive Bakes and the Chicken, Maple Butter & Egg Sandwich. These are products that tide our customers over between lunch and dinner. Importantly, our digital experience makes attaching food to afternoon drink orders easy and convenient. We've seen a very positive customer response to these new items, and we are expanding inventory to meet the strong demand.

We're also pleased with the pace of our new store openings and strong unit economics. Our most recent age class of company-operated new stores in the US is averaging unit volumes of approximately \$2 million with ROIs of approximately 50%. And as we continue to open more stores, growing by approximately 4% this year in the US on a base of over 16,000, including licensed stores, we will further invest in purpose-built stores to meet our customers where they need and want us to be. This includes drive-throughs, which have grown by over 500 stores since Q1 of last year.

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Even in the US, we see abundant greenfield opportunity ahead. Our second strategic priority is further strengthening and differentiating our leadership position in digital. We saw our Mobile Order & Pay surpass a record high 30% of all transactions in the quarter, and we reduced downtime of mobile Order & Pay by half as we continue to find ways to deliver a better customer experience. We'll continue to make the Starbucks app even better, including adding the ability to use a personal cup in ordering through the app and the rollout of more accurate order wait times.

We're also laser-focused on ensuring our customers can personalize their orders in whatever way they want. One example is helping customers find products based on dietary needs.

We saw record results in our US delivery business with growth of nearly 80% year-over-year, aided by our expanded partnership with DoorDash. We see significant growth for continued incremental growth as delivery represents only 2% of our transactions. Our purpose-built stores optimized for delivery and fulfillment help seize this opportunity.

Additionally, we are conducting a pilot with GoPuff, targeting a fully incremental opportunity for overnight orders between 5 p.m. and 5 a.m. In this pilot, Starbucks trained baristas prepare handcrafted Starbucks drinks and food inside GoPuff micro-fulfillment centers, delivering to the customer's door in about 30 minutes.

To further expand the reach and impact of mobile ordering and rewards, we now offer Starbucks Connect in over 40% of our more than 6,700 US licensed stores, with further expansion planned for this year. We're also pleased to share that Bank of America will be our next Starbucks Rewards partner, delivering even more value to our most loyal customers. This opportunity builds on the great success of our partnership with Delta Airlines that has deepened connection and engagement with our members and is one of two new Starbucks Rewards partnerships we told you we would roll out this year.

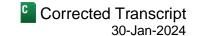
Our third strategic priority is becoming truly global. Our international business represents an important growth opportunity for us over the long term. If you look at our business, excluding the headwinds, we had a strong quarter, demonstrating the momentum and resiliency across the portfolio. We opened over 420 net new stores in the quarter, a growth of 10% year-over-year, bringing total store count to over 20,600 stores with nearly 14,000 of those stores outside of China and the US. In Japan, we reached a milestone of 1,900 stores across the market with much opportunity ahead.

Let me address our business in the Middle East. I am deeply distressed by the violence shaking the region. As I have shared, Starbucks condemns violence against the innocent, hate and weaponized speech. We are intensely focused on supporting our partners and the many other stakeholders affected by what is taking place. We have seen a significant impact on traffic and sales in the region and we are working with our licensees during this time to ensure the safety and well-being of our partners and our customers.

I shared earlier in my remarks how we are addressing the near-term situation in China. Overall, our business and brand in China remains strong. Our revenue in the quarter grew 20% in constant currency underpinned by a 10% increase in comparable store sales growth as the market lapped prior-year mobility restrictions. As we strengthen our position in the premium market in China, let me point to a few accomplishments of the quarter.

We launched 12 new coffee-forward beverages in the quarter, including Intenso, which was incredibly popular with our customers, including Gen Z, fueling the morning daypart, which is now larger than pre-COVID levels.

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Our digital channels accounted for a record 52% of sales, up 4-percentage-points quarter-over-quarter. Our Starbucks Rewards Gold member frequency increased by nearly 10% over the prior quarter, with total member engagement setting a record 73% of tender, demonstrating the stability of our most loyal customers. Our new stores continued to deliver attractive returns on both the top line and profitability with further strengthened unit economics in stores opened in new county cities. And our turnover amongst full-time store partners reached a record low in the quarter, coupled with an all-time high partner satisfaction score.

Early this month, we celebrated our 25th anniversary in China. With nearly 7,000 stores, we have built a durable business. We have built a terrific brand, and we are well on track to hit our 9,000-store target by 2025 and continue to have full confidence in the market opportunity. We continue to see enormous potential in China's premium market, and no one is better positioned to lead in this space.

Even as we navigate a dynamic environment, we remain confident in our long-term growth in our International segment. As part of elevating our brand across the International segment, along with a second Reserve Store in India, we will open two additional Starbucks Roasteries that celebrate coffee, art and design in markets outside the US and China. We will announce these locations and opening timings in due course.

Turning to our fourth priority. We're focused on unlocking \$3 billion in efficiencies, and I'm pleased to say that we're making steady progress. Our Triple Shot Reinvention efforts delivered 130 basis points of margin expansion in the first quarter of the fiscal year. As you heard me say often, the key to our success is the experience that our partners create for our customers. We're investing in a better experience for our partners to advance our business to a more balanced growth model as we unlock efficiency.

In the quarter, we have seen the effectiveness of the Reinvention-driven investments we have made in in-store operational efficiencies such as standards, equipment innovation, and scheduling improvements, leading to a more stable environment for our partners.

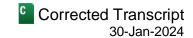
Turnover has decreased by 5% year-over-year and is now well below pre-COVID levels. Average partner hours increased 10% leading to a 14-percentage point increase in partner sentiment related to scheduling, specifically preferred hours, which we know is important to partners. We are listening to our partners and investing to make their experience better. Of course, we have more work to do, but we are proud of the progress we have made today.

Outside of our stores, we're working to drive efficiencies across our supply chain and expenses. I am pleased with the progress, and we remain on track to unlock \$3 billion of efficiencies over the next three years.

Our final priority is reinvigorating our partner culture. In addition to the investments in partner experience, we're focused on partner culture. Our leadership team and Board of Directors have been deeply engaged in putting the partner experience at the heart of the business. An independent assessment found that our strategic investments, greater on-the-ground support, a dedicated labor relations team, and more bespoke management training are having a tangible impact on the commitments we've made to our partners. The assessment was also clear that there has been no union busting playbook at Starbucks.

I want to be clear in my view on the matter of unionization at Starbucks. We believe in a direct relationship with our partners. And in the 4% of our stores in the US where our partners have chosen to be represented by a union, we are committed to finding a constructive path forward with those unions.

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I care deeply about our partners, their experiences and safety at Starbucks and their futures. Our partners remain core to the success of our business, and I am proud to be restitching the fabric of the green apron for all partners.

Going forward, we plan to continue to focus deeply on reinvigorating our partner culture. It's a priority for me, and I'll continue spending time each month working up close shoulder to shoulder with partners in stores. I did this during my visit to India earlier this month, and I will continue doing it to stay grounded in the realities of the business, good and not so good.

I'm also proud to have earned my Coffee Master Black Apron along with my executive leadership team. A deep connection to partners and to coffee is a top priority for me and for every leader at Starbucks.

As we look ahead to what is brewing for Starbucks in 2024, I have great optimism. We have a strong strategy. Our refreshed mission, values and promises are underpinning everything we do. We have many strengths to build on and a clear plan to navigate this dynamic environment. While it will take time, we are confident we have significant headroom to further grow top line and bottom line in the long term and invest in our partners and the business by delivering strong shareholder returns.

Finally, before I turn this over to Rachel, I want to remind everyone that Starbucks is focused on human connection. We stand for belonging. We stand for joy. We stand for humanity. That is what differentiates our brand and our business and has for the last 52 years. We believe this has never been more important in the world. And with that, Rachel?

Rachel Marie Ruggeri

Chief Financial Officer and Executive Vice President, Starbucks Corp.

Thank you, Laxman, and good afternoon, everyone. Let me start by saying that I am so proud of the significant margin expansion and double-digit earnings growth we delivered in our first quarter despite the top line headwinds we experienced. Our strong focus on Reinvention continued to unlock efficiencies, driving a balanced outcome where both revenue growth and margin expansion drove our earnings growth.

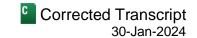
As we have shared, we are unlocking multiple paths to support our earnings growth over the long term, creating a more durable business and this quarter proved testament to that durability.

Our Q1 consolidated revenue reached a record \$9.4 billion, up over 8% from the prior year, even with a confluence of factors adversely impacting our business as Laxman discussed in detail at the top of our call. The revenue increase was driven by 5% comparable store sales growth, 8% net new company-operated store growth, as well as a 6% increase in our global license store revenue over the prior year, underscoring the strength of our broader portfolio and our execution.

Q1 consolidated operating margin expanded 130 basis points from the prior year to 15.8%, primarily driven by sales leverage and Reinvention-related in-store operational efficiencies, partially offset by our continued investments in our partners. Our Reinvention has successfully driven resiliency in our business with our North America margin expanding a notable 280 basis points in the quarter, which I'll discuss in further detail in a moment.

Q1 EPS was \$0.90, up 20% from the prior year. Our strong double-digit EPS growth in the quarter demonstrates multiple paths to drive growth and profitability.

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I'll now provide segment highlights for Q1. North America delivered another quarter of record revenue in Q1 with \$7.1 billion, up 9% from the prior year driven by a combination of a 5% increase in comparable store sales inclusive of a 4% and a 1% increase in average ticket and transactions, respectively, as well as net new company operated growth of 4% over the prior year. Our US licensed store business also contributed to the segment's growth from increased travel and further rollout of our Starbucks Connect program.

Our US company operated business delivered 5% comparable store sales growth in Q1 driven by 4% ticket growing from pricing, mix and customization. This led us to having our highest average ticket in our 50-plus year history as our successful holiday innovation and complementary product offerings, including our new Chai Tea Lattes and Sugar Plum Cheese Danish resonated with customers.

Comparable transactions for the quarter increased 1% as traffic was pressured to negative single-digits in November before it started to rebound in December. In light of the pressured traffic and as Laxman mentioned earlier, customers showed strong loyalty through our Starbucks Rewards program with record engagement and the highest ever spend per member.

North America's operating margin was 21.4% in Q1, expanding 280 basis points from the prior year driven by 240 basis points from Reinvention-related in-store operational efficiencies as well as sales leverage and pricing, partially offset by continued investment in our partners.

This substantial margin expansion in the quarter reflected the meaningful labor staffing and scheduling improvements we made as part of our Reinvention. We unlocked significant stability by focusing on staffing and scheduling hours based on partners' preferred shifts, which enhanced both our partners' experience and subsequent store performance. We saw store efficiency increase as items per labor hour reached its highest level in the quarter.

Outside of stores, we reaped the benefits of enhanced sourcing and waste reductions in the first quarter as seen by improvement in the segment's product and distribution costs. When you think about the operational efficiencies that continue to manifest both in and out of stores, we expect to continue delivering progressive margin expansion.

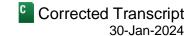
Moving to International, the segment delivered \$1.8 billion in revenue in the quarter, up 12% from the prior year. The revenue growth was driven by a 12% increase in net new company-operated stores year-over-year as well as a 7% increase in comparable store sales, driven by 11% transaction growth, partially offset by a 3% decline in average ticket.

As Laxman mentioned, the pace of recovery in China was slower than expected. That, coupled with a negative impact to our business in the Middle East, pressured our International segment as a whole. However, we continue to see these headwinds as transitory and remain committed to our long-term growth ambitions in the segment.

In Q1, China's revenue grew 20% driven by 15% new store growth as well as a 10% increase in comparable store sales growth, including 21% transaction growth largely related to the market lapping prior-year COVID impact. Comparable ticket, however, declined 9% due to mix shift including lower sales of merchandise and increased promotional environment.

The market opened 169 net new stores and entered 28 new county cities in the quarter, serving as a proof point that our commitment to expanding our premium position in the market has not wavered.

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Total International segment operating margin was 13.1% in Q1, contracting 110 basis points from the prior year. The contraction was primarily driven by investments in partner wages and benefits, business mix shift as a greater portion of the segment's revenue was generated in our company operated markets versus the prior year, and strategic investments partially offset by sales leverage.

Shifting to Channel Development, the segment's revenue of \$448 million in Q1 declined 7% from the prior year, largely in line with our expectations given the sale of Seattle's Best Coffee. Our business continues to resonate with customers as Starbucks maintained the number-one share position in both US At-Home-Coffee and US Ready to Drink in the first quarter, as our holiday offerings such as Peppermint Mocha and Gingerbread were among customer favorites.

The segment's operating margin was 46.8% in Q1, down 60 basis points from prior year driven by product costs in Global Coffee Alliance, partially offset by business mix shift. Although there was contraction in the first quarter, we continue to expect the segment's full year operating margin to expand to the high-40% to low-50% range and be accretive to our total company margin.

Now moving on to our guidance for fiscal year 2024, we are confident that the business pressures we experienced in the first quarter are transitory. With that, our guidance shared at our Reinvention update in November remains unchanged related to our global store growth, operating margin and EPS. However, given the collective magnitude of headwinds on our first quarter revenue and the time it will take for our action plans to be realized, we are revising our full year outlook for revenue and comp to reflect our Q1 results as well as account for recent trends, including a softer-than-planned January, which we expect will impact our Q2 performance.

With that, we now expect our full year global revenue growth in the range of 7% to 10%, revised from our previous range of the low end of 10% to 12%; full year global and US comp growth in the range of 4% to 6%, both revised from the previous range of 5% to 7%; China comp growth of low single-digits for the balance of the year, revised from the previous range of 4% to 6% in Q2 through Q4, with higher comp in Q1.

Just to be clear, we continue to expect to deliver full year global store growth at approximately 7%, progressive operating margin expansion on a full year basis, full year EPS and non-GAAP EPS growth in the range of 15% to 20% as we have multiple paths to such earnings growth as we demonstrated in the first quarter.

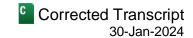
As an additional insight, here are a few clarification items related to guidance. As a reminder, our guidance does not include any impact from foreign currency translation and assumes constant currency.

In terms of quarterly shape, we expect growth rates for our global revenue, comp, operating margin, as well as GAAP and non-GAAP EPS to be the lowest in Q2 and meaningfully below our full fiscal year guidance ranges due to the pressures we discussed in today's call. These metrics are then expected to rebound and stabilize in the second half of our fiscal year.

While we continue to expect our effective GAAP and non-GAAP tax rates in the mid-20% range, they are expected to be meaningfully higher than our fiscal year 2023 tax rate of 23.6%, which benefited from certain discrete non-recurring tax items.

Finally, our disciplined capital allocation approach continues to deliver significant results. The combination of revenue growth, margin expansion, and improved working capital underpinned by the disciplined capital allocation increased our Q1 cash from operations to a record \$2.4 billion. Our strong cash generation together with our

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leverage and investment-grade rating, creates exceptional shareholder return while maintaining balance sheet flexibility to fund our critical investments creating a competitive advantage.

In summary, here are key takeaways from my discussion today. First, our Triple Shot Reinvention is continuing to unlock our greatest potential, evidenced by the strong operating margin performance and balanced earnings growth in the first quarter in spite of the pressured environment.

Next, our revenue and comp guidance has been revised to reflect our Q1 results and expected near-term and transitory headwinds. But importantly, despite these headwinds, we remain committed to our full year fiscal 2024 EPS growth in the range of 15% to 20%. Further, we have robust plans to navigate through the complex and dynamic environment and recognize our plans will take time to materialize but remain confident in our long-term growth.

And, finally, our focused and disciplined approach to capital allocation drives our financial fortitude and balance sheet optionality keeping us in a position of strength.

Before I close, I want to thank all the partners across the globe who consistently find ways to create joy and foster connection to and with our customers. You give me the confidence that our best days are yet to come. So thank you, partners.

With that, I'll turn it back to Tiffany.

Tiffany Willis

Vice President, Head of Investor Relations and ESG Engagement, Starbucks Corp.

Thank you, Rachel. Before we open the call to Q&A, we request that your questions today be focused on the quarterly performance that we just discussed as this call is not to address questions related to recent proxy filings.

With that, Diego, let's take the first question.

QUESTION AND ANSWER SECTION

Operator: Thank you. [Operator Instructions] Your first question comes from Jeffrey Bernstein, Barclays. Please go ahead.

Jeffrey A. Bernstein

Analyst, Barclays Capital, Inc.

Great. Thank you very much. Just a question on the fiscal 2024 guidance. I appreciate that you tempered the comp growth for both the US and China. For the US, it looks like it's only a point, and China, it's only a few points. But we would define that I guess as modestly, and yet you mentioned that fiscal 2Q is expected well below the targets before accelerating the rest of the year.

So with that as backdrop, I'm just wondering if you could talk a little bit about, I think you mentioned January has been softer than expected. Any color you could provide there? And otherwise, your confidence in that new guidance, it does seem like it implies a rather sharp acceleration in the back half of the year. I'm just wondering how you think about the guidance relative to maybe tempering it further and not having that risk if perhaps the recovery doesn't play out as fast as you might be expecting? Thank you.

Rachel Marie Ruggeri

Chief Financial Officer and Executive Vice President, Starbucks Corp.

Sure. Yeah. Thank you, Jeffrey. This is Rachel. As it relates to our guidance, when we look at our revised revenue guidance, it's based on the performance we saw in Q1 as well as the near-term and transitory headwinds that we've spoken about. With that, we expect Q2 will be below the full-year guidance ranges, largely due to the fact it's going to take some time for our plans to materialize as well as we'll continue to see impacts to our business in the Middle East.

But what gives us confidence in that revenue range is the fact that we still have a very strong and growing loyal customer base. We're having increased capability as it relates to our digital programs around the world. And we've also seen that our Reinvention has been very successful in helping us to meet increasing demand. Most specifically in this quarter we saw really strong demand supported in our morning daypart, our busiest daypart in our US business, and we actually exceeded both prior-year, the prior before and we're very right on line with pre-COVID levels. So we're encouraged by that overall just in terms of transactions.

And in addition to that, as we talked about in the call, we're confident that we have multiple levers to be able to drive our earnings growth. Revenue growth is one factor and we believe we've got growth in that guidance range. That will help drive margin expansion through flow-through. But in addition to that, we have in-store and out-of-store efficiencies that we're seeing great success with, and so that gives us some confidence that we have a balanced path and multiple levers to be able to drive that earnings growth of 15% to 20% on a full-year basis.

Jeffrey A. Bernstein

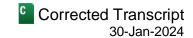
Analyst, Barclays Capital, Inc.

Thank you.

Operator: Your next question comes from Brian Harbour with Morgan Stanley.



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Brian Harbour

Analyst, Morgan Stanley & Co. LLC

Yeah. Thank you. Good afternoon. Could you talk more about the specific plans to drive the occasional customer? And it sounds like you would expect some pretty solid improvement in US sales as we go through the year. It sounds like what was new was some new product platforms. Could you just elaborate on how quickly you think those will work? What might be coming on the product side that drives your confidence in US sales?

Laxman Narasimhan
Chief Executive Officer & Director, Starbucks Corp.

Sure. Let me start and I'll call on Brady a bit to provide some more color.

As we said earlier, what we saw in the US was a quarter that was actually very strong until about the middle of November. And what you see in the results, very strong performance from the loyal customers. Very strong holiday performance. Very strong brand equity and very strong performance in Gift Card sales, and we mentioned as well that we've got about \$3.6 billion loaded on our card. It's sort of a manifestation of the overall brand being very strong.

And so there is of course what we do have with the isolated impact with the occasional customers, particularly those that visit in the afternoon. So if you look at some of the actions that we have in place, first, there is actually more demand than we're currently meeting in the US. Second, our loyalty program is already performing exceptionally well as Rachel mentioned, but we have a combination of things that we're doing to address the traffic slowdown, particularly in the afternoon.

The first area is innovation. We mentioned a couple of new products coming in time for Valentine's Day. But we're going to have three new beverage platforms coming in the next six months and you will see how important that is for us over time.

The second action is really we're opening up our app ecosystem to bring more people into the app because we know that our members developed a routinized long-term relationship with our brand that increases both traffic and transactions.

And third, we are implementing targeted offers aimed at some of these very occasional customers to bring them back into the stores.

And all that, of course, is foundational to, we continue to execute on our stores in order to elevate partner pride, bring a great deal of passion back into the business and ensure that we can meet more of the demand that we know exists.

Brady, do you want to give a bit more flavor around some of the activations, particularly on the innovation side?

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

Sure. Thank you, Brian. Thank you, Lax. As Laxman said, there's a calendar of compelling product innovation. Laxman spoke about the new beverage platforms that are coming over the next few months. On food, we're seeing a lot of momentum on this health-conscious all-day breakfast and all-day snacking that I spoke about on the Investor Day. As we've released new products in that space, we've seen great resonance with customers and we'll continue to mind that space.

Then we look at digital. Laxman referenced that 30% of US transactions coming through MOP. We're seeing high demand for that service even among occasional customers. So increasing the reach of the app, number-one. Increasing personalized communication in the app both to drive ticket for those routinized customers but also frequency for the less frequent customers is a capability that we continue to build. We talk a lot about our personalization capabilities at Starbucks but truly that job is never done because as new technologies and capabilities come online, we are grabbing those and integrating them into our system to use that as a business accelerator.

And then lastly, I'd say just making Starbucks more accessible. Expanding as you heard from Laxman, the delivery options you have with Starbucks and a very fast-growing part of our business. And then looking at ways to capture more Starbucks Rewards members who are currently not members through big partnerships like the one we just announced with Bank of America. So between compelling products, really accelerating SR member acquisition efforts, and then building our brand as Laxman said to address the fact-based narrative in social media and win our customers and win every visit back, that's where we're focused.

Operator: Your next question comes from Peter Saleh with BTIG.

Peter Saleh

Analyst, BTIG LLC

Great. Thanks for taking the question. I did want to ask about the check dynamics going on in China. It looks like down call it 9%. It's a pretty steep decline. Can you just talk about the promotional environment that you're seeing there, and what exactly you guys are doing to combat that? And just more specifically, should we expect this check impact to really continue for the balance of the year, or how do we think about that going forward? Thank you.

Laxman Narasimhan

Chief Executive Officer & Director, Starbucks Corp.

Well, we have Belinda online here, so maybe I'll turn this over to Belinda. Do you want to answer that question, please?

Belinda Wong

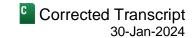
Chairwoman & Co-Chief Executive Officer-Starbucks China, Starbucks Corp.

Okay. Thank you for the question. Let me just address the AT decline first, the average check decline. First of all, our beverage and food sales were strong and contributed majority of our comp growth in Q1 and our AT decline, the 9% decline mainly came from two areas. One is lower sales of our higher priced merchandise as our consumers now more cautious in their spending. But the merchandise category constitutes a relatively small portion of our sales mix.

Second is the targeted promotional investments that we're making to personalize offers and reward customers' behaviors in order to drive trial frequency. Now this enabled us to optimize our sales and margin. And this is powered by China Deep Brew that helps us to design the right offers to the right cohorts of customers at the right time. So that's mainly the reasons for decline.

And you asked about the promotional environment. Let me just say this. The coffee market is evolving as Lax said and going through a transition. It's still early days and it has not yet fully tiered, right. You see mass – an influx of

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mass market competitors focused on fast store expansion and low-price tactics to drive trial. This will shake out over time, and yes, we're operating under an increased promotional environment.

We're not interested in entering the price war. We're focusing on capturing high-quality but profitable sustainable growth. Okay? And it is our aim to be the best and lead in the premium market, as Lax has said, which Starbucks has pioneered in China 25 years ago. And we will continue to focus on premium experience that is high-quality coffee and human connection.

And we have clear strategies to fuel our comp and total growth. As Lax shared, the three points, well, the three strategies, I'll add a little bit more colors. We're going to dial up our beverage and food innovation with robust marketing activations on social media and in-store. We're going to accelerate our visualization efforts to drive innovations, sales and productivity. We're going to continue our new store expansion, in-fill in existing cities and accelerate new county city entries, as Lax has said. We're going to dial up our omni-channel expansion, scale up our membership program, and continue to invest in our partners.

So we have all these strategies to drive our comp growth and total growth and traffic and ticket. So we are very confident in our ability to deliver our growth in a short and long term. Thank you.

Operator: Your next question comes from Lauren Silberman with Deutsche Bank.

Lauren Silberman

Analyst, Deutsche Bank Securities, Inc.

Thank you very much. I wanted to ask about the US business, and I appreciate all the color. I guess two related questions. One, I understand you're seeing a more significant slowdown with the occasional customer. Have you also seen a slowdown in traffic with Rewards customers, or are the challenges really isolated to occasional? Trying to understand some of the breadth of the social media challenges.

And then second, you ramped up the level of promotional activities for Rewards. Is this effectively hitting the occasional customer? Trying to understand how you're thinking about promotional activity ahead. Thank you.

Laxman Narasimhan

Chief Executive Officer & Director, Starbucks Corp.

Well, let me take this on. First of all, we are seeing no slowdown in our loyal SR customers. In fact, we're seeing an increase in frequency, they're buying more, they're customizing more. That part of the business is extremely strong.

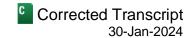
We did see as you rightfully said, a slowdown in the very occasional customer which we're still working to get back. But the folks in the middle who are occasional, some of the tactics that we use which of course you're seeing essentially help bring them back into the fray in terms of the traffic we've seen it bounced back towards December.

So we're focused on ensuring that we do the right thing in terms of welcoming back our very occasional customers with the right offer, with the right innovation, and with the right experience in stores.

Operator: Your next question comes from Brian Bittner with Oppenheimer & Company.



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Brian Bittner

Analyst, Oppenheimer & Co., Inc.

Great. Thanks. Thanks for taking the question. Rachel, I wanted to ask about the operating margin expansion in the Americas segment. Obviously, it was very impressive and it was driven by leverage on your store operating expense line. In fact, when we break it down on a dollar basis, on a same-store basis, those operating expenses were actually flattish or even slightly down year-over-year. Can you just unpack what's going on in that line item? How sustainable is this performance on the operating expense line?

Rachel Marie Ruggeri

Chief Financial Officer and Executive Vice President, Starbucks Corp.

Sure. As you look at the store operating expense, it's largely driven by the activities we've taken around our Reinvention in in-store operational efficiencies. So that's a combination of a number of factors, including we've focused on operational execution, leveraging standards, to be able to manage performance across over 9,700 stores and growing. So that's been one driver.

In addition to that, we've had continued improvement in our equipment. And the investments we made in equipment a year ago as well as the investments we currently make, that's all annualizing in helping to support the favorability that we're seeing in the margin expansion.

And then third is more recently we focused on improving our overall scheduling. So providing more hours for our partners per store. We have ways to go, but we know that that's a high driver of engagement. All of those efforts together have led to lower turnover and a more stable environment. And it's that stability that really allows us to create a better efficiency in serving our customers.

So as an example, I already spoke about our morning daypart this quarter in the US was the strongest that we've seen, and that's a function of all of those efforts and activities that I just spoke about being realized in supporting our demand. So creating a better experience for our partners leads to the better experience for our customers.

Now, some of that was annualization from the efforts that we made last year, but we continue to see quite a bit of opportunity ahead when we think about continuing to focus on scheduling, continuing to focus on improvements in staffing. We have more work ahead of us there, as well as in-store – or excuse me, out-of-store efficiencies, the way we scrutinize our sourcing, the way we distribute to our stores. We've seen some benefits from that this quarter. That won't show up in store operating expense, that will be in our product and distribution costs. But between those two lines, that's where we see potential opportunity going forward.

So it gives us confidence in the progressive margin expansion, but importantly our ability to continue to meet that 15% to 20% earnings growth.

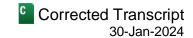
Operator: Your next question comes from David Palmer with Evercore ISI.

David Palmer

Analyst, Evercore ISI

Hi. A big-picture question. I don't know if this is maybe one for Brady, but by our math, just looking back to 2016 just because you gave some percentages on what was cold and what was hot of your beverages, it looks like your US cold beverage sales have grown by roughly \$750,000 per store while hot beverage sales have declined by \$150,000 per store. And since pre-COVID, your Rewards membership has more than doubled, but traffic is down since that time. So – and we don't see your customer like you do, so this is a bit of a question.

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But it looks like you maybe have less of that everyday hot coffee and latte consumer and more of a new type of consumer that comes less frequently and probably has opts for cold beverage. I'm envisioning them being my daughter and three of her friends coming in some afternoon. So it's more of an episodic visit, big orders, cold beverage led.

So with this happening, if this is what's happening, how does that inform your strategy for growth going forward? I know you're doing some things to increase capacity on cold beverage, and maybe that helps fuel the summer months a little bit more, but I'm just wondering like what are – do you share that perspective and how does that fuel your strategy? Thank you.

Brady Brewer

Chief Marketing Officer & Executive Vice President, Starbucks Corp.

Yeah. Thank you, David. It's a great question. My perspective is a little different in that we don't see a trade-off in frequency between cold beverage customers and hot beverage customers. It's really a shift in generational taste preferences where that highly frequent millennial Gen Z customer is drinking cold coffee every day, just as people of different generations were drinking hot coffee to start their day every day. So we've seen a continued increase in our cold beverage in our portfolio, as you noted.

But what I found with the cold beverages is there are infinite customizations possible on the cold beverage platform. And what that means is that it's increasingly a beverage you can't get anywhere else. And so it has a staying power to it. So we don't see a trade-off in frequency from hot to cold. It's – cold is a great business for us. And we don't see a threat there. We see a great opportunity.

You mentioned about the capacity that we can put in place with Siren Systems and other aspects of the things we're doing in Reinvention, which is really about accelerating our capacity to create and craft cold beverages at pace with our customers. Both in drive-thru, mobile order and delivery in particular. So that is a huge opportunity for the company.

And on hot beverage, I would say we're not leaving that customer behind. We're continuing to innovate on hot beverages just as we did today with the launch of our Oleato beverages. We're launching Clover Vertica stores across our portfolio. We're in 10% of stores now and that is the best cup of brewed coffee you've ever been able to get at Starbucks rolling out on a proprietary machine.

And then lastly, you mentioned – or Lax mentioned our Milano Roast, which is really our passion for coffee coming to fruition. So whether you're a cold coffee customer or a hot coffee customer, we're increasingly creating a reason for you to visit and we see no trade-off there.

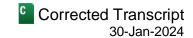
Operator: Your next question comes from Sara Senatore with Bank of America.

Sara H. Senatore

Analyst, BofA Securities, Inc.

Thank you very much. I just wanted to ask about unit growth. I know – in both the US and China, I know you mentioned new – the most recent vintage has high volumes and strong ROIs in the US. But I was curious if you are seeing anything that might suggest that the acceleration in unit growth may be translating into slower samestore transaction growth? I know this is a very kind of idiosyncratic quarter, but in the past, I think when we have seen faster growth, it has sometimes corresponded with slower same-store transactions. And I wanted to see if

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you had any color on any variation in markets or in-fill versus greenfield? And then if you could just maybe address that same question in China? Thank you.

Laxman Narasimhan

Chief Executive Officer & Director, Starbucks Corp.

Rachel, do you want to take on the US, and, Belinda, I'd love you to take on China?

Rachel Marie Ruggeri

Chief Financial Officer and Executive Vice President, Starbucks Corp.

Thanks, Sara, for the question. In the US, what we see is we continue to see that our unit volumes as we shared in Laxman's prepared remarks are continuing to grow. And, importantly, when you look at the growth in North America and in the US business this quarter, our revenue grew 9%. So you've got a 5% comp in there. And we've already spoken to, though we were pleased with the performance and the strength we saw, particularly in our most loyal customers, we talked about some of the headwinds that related to some of the impact we saw there.

But when you look broadly and you look at the combination of comp and new store growth driving to that 9%, it shows you that we still have a lot of, I'd call it, opportunity even in the US in terms of continuing to open more new stores. And when we do it through purpose design, we're able to look at the market and determine how do we drive the overall trade area higher with a variety of different types of stores to meet customers where they are. So we see a lot of opportunity there.

And with that, I'll turn it over to Belinda.

Laxman Narasimhan

Chief Executive Officer & Director, Starbucks Corp.

Sara, can I just add one thing here? We've gone through a look MSA-by-MSA, and what is interesting is as you start looking at where the population has shifted and you look at how the US is so different from what it was even five years ago, I think what you see is white space for us. And particularly as you look at purpose-defined stores and our plans to build in the US, we have a lot more headroom in the US.

With that, let me call on Belinda to talk a little bit on China, both around how our business has been reset but also the kind of growth options we see. Belinda, go ahead.

Belinda Wong

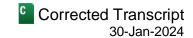
Chairwoman & Co-Chief Executive Officer-Starbucks China, Starbucks Corp.

Okay. Thank you. So despite the short-term headwinds, the long-term opportunity in China is clear. I think everyone will agree to that. So I talked extensively at the investor forum about the huge greenfield opportunities to both increase penetration in existing cities and entering new county cities.

So as of end Q1, we are only in 857 cities out of nearly 3,000 in China. The opportunities are abundant. And new stores continue to deliver best-in-class store profitability and returns. And when you look at new county city stores that we have entered recently and in the past couple of years, it consistently outperformed top-tier cities, new stores and profitability, too. So as Laxman has pointed to, we will accelerate our entry into new county cities.

So we are on track to reach 9,000 stores, so many opportunities out there. We will – we have a very sophisticated system, digitalized, and to help our team to identify the right areas to open, to optimize the cannibalization impact

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and where we should be going. So with our experience, our team, our operating muscle and track record, I have full confidence in our store expansion plan and we're on target to achieving 13% store growth in FY 2024.

Laxman Narasimhan

Chief Executive Officer & Director, Starbucks Corp.

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I've been to China three times in the last nine months and one of the things that's fundamentally impressed me with the business is really how we've used COVID and the time that the business has actually taken to reset the business. If you look at the end-to-end costs from a supply chain perspective with the digitization, what has happened end-to-end in China, it is frankly incredibly strong.

I'd love to have some of that big back in the US. If I look at the ability to deliver the value that we have end-to-end in China, coupled with a premium experience with the wonderful stores we designed at a very low investment cost because that has also been fine-tuned. What you realize is that as we expand the kind of economics, we're seeing are very strong. And so, I think that is foundational to what Belinda talked about. Big headroom in terms of cities to go to. But also what I compliment the team on is the work that has gone in to build the business end-to-end that is extremely strong.

This doesn't happen overnight. This happens because of 25 years of history and the muscle and the capability of the business has built in China. The team is ready obviously as the market turns and we see things come back. You're going to see the kind of economics get even better.

Operator: Your next question comes from Andrew Charles, TD Cowen.

Andrew M. Charles

Analyst, TD Cowen

Great. Thank you. Rachel, how did you arrive at the new low-single digit China same-store sales guidance from the 4% to 6% previously? Perhaps you can help us understand the typical quarter-to-quarter changes in seasonal AWS that you typically see in China, and how that factors into the new 2024 guidance? Thanks.

Rachel Marie Ruggeri

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Chief Financial Officer and Executive Vice President, Starbucks Corp.

Sure. Thank you, Andrew. When we looked at the guidance for China, it's largely based around, I wouldn't say the seasonality is maybe as distinct as what we see in the US business with Q2 being so much lower than any of our other quarters and strengthening as we go through Q3, Q4 particularly because we're lapping quite a bit of compares from the prior year.

If you'll recall last year in Q3, we were lapping the COVID impacts from the prior year. So we have a pretty big lap when you look at that comp and that compare in Q3. So it's more around the progression we expect in the business less about the compare or about seasonality and more about the progression in the business.

And what we're looking to is Chinese New Year as an example is a good indicator of what we expect to see around the consumer environment, and that's factored into our assumption. So a lot of it depends on mainly the recovery, the time it's going to take as Belinda and team work on the action plans, which are in some ways, I'd say, adapted to what we're saying. We've already led in the premium market, but we're adapting some of our strategies as it relates to the awareness of the customer and how we go after the customer through the innovation and new channels of social media. So we expect that that's going to take some time and that's reflected in the guidance range.

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But I would think about it that way is more about the recovery and the progression from where we are with the plans today, which we're expecting we'll see a rebound and closer to a stabilization in the back half of the year.

Laxman Narasimhan

Chief Executive Officer & Director, Starbucks Corp.

I think it's fair to say that the Chinese consumer is very cautious.

Rachel Marie Ruggeri

Chief Financial Officer and Executive Vice President, Starbucks Corp.

Yeah.

Laxman Narasimhan

Chief Executive Officer & Director, Starbucks Corp.

And so, the recovery's going to be choppy. But as Rachel has said, we think we factored that into the guidance that we see. The long-term opportunity in China is tremendous.

Operator: Your next question comes from Sharon Zackfia with William Blair.

Sharon Zackfia

Analyst, William Blair & Co. LLC

Hi. Good afternoon. On the customers that lapsed in the first quarter, was there any particular demographic that you saw more of an impact with? And then on the conversation around the new beverage platform, I think you said three upcoming new beverage platforms. Can you talk about the potential trade-offs there with speed as you talk about untapped demand?

Laxman Narasimhan

Chief Executive Officer & Director, Starbucks Corp.

So I think what I heard you say was there any demographic, specific demographics that it impacted? And the second question was on the three beverage platforms, is there something that is a trade-off between speed. Is that correct? I couldn't hear you properly, actually. Maybe you could repeat that question.

Sharon Zackfia

Analyst, William Blair & Co. LLC

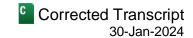
I think my cell's breaking up. When I think about you introducing new beverage platforms and introducing complexity potentially into the system, I naturally worry about throughput and you talk about untapped demand and the opportunity to tap into that as part of a buffer into the back half of the year and I'm just thinking about that with the new beverage platforms, I'm hoping you can talk about if there is a trade-off with speed or if the new beverage platforms have been designed to help facilitate throughput?

Laxman Narasimhan

Chief Executive Officer & Director, Starbucks Corp.

Brady, you want to take that on?

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Brady Brewer

Chief Marketing Officer & Executive Vice President, Starbucks Corp.

Sure. So in terms of beverage platform specific, I'll start there. We put every product we offer through a very rigorous set of tests and measures to make sure that it's conducive to operations, that it's easier for our partners to deliver in the stores and make sure that it's accretive to the business. A lot of times what we'll do is we'll bring in a new product and we'll take a lower volume product out just to maintain the total complexity of the system rather than just add, add, add. We have a very disciplined approach about how we do that.

And so the three beverage platforms, which we won't reveal yet, have gone through that. And so it's really about how to do these products in a way that's accretive to the business and specifically targeted.

And so in these cases this is about looking at that occasional customer and frequent customer but particularly appealing for the afternoon where we want to continue to build our business. We've really laser-targeted these products for those occasions and so we're excited to bring those to customers.

And then with regards to the demographics, Starbucks attracts a very wide range of customers around the world. And particularly in the US, again, a very wide range of customers. So the way I would characterize it is occasional. And I know we've spoken about the very occasional. That's really what we would say is the audience with whom we saw that impact in November and started rebounding in December. So that's where I would leave it and say we've got plans to bring them back.

Operator: Your next question comes from Andrew Strelzik with BMO Capital Markets.

Andrew Strelzik

Analyst, BMO Capital Markets Corp.

Hey, thanks for taking the question. I wanted to just make sure that we understand the bridge from the revised or lowered revenue growth guidance to maintained EPS growth guidance. Obviously, the first quarter operating margin was very strong, particularly in North America. So is something changing there in your expectations for the year? Are the cost saves coming through faster or greater? Is there a change in how you're thinking about buy back contribution, or just any more texture on that bridge would be helpful? Thanks.

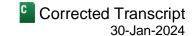
Rachel Marie Ruggeri

Chief Financial Officer and Executive Vice President, Starbucks Corp.

Sure. Thank you for the question. As it relates to our guidance and how we're thinking about maintaining the earnings growth range of 15% to 20%, though our revenue has been revised, I think what's important to think about that is what we're pointing to is that Q2 will be below our full-year guidance ranges on all of our metrics. And then we'll expect to see a rebound and a stabilization in the back half of the year.

And that rebound and stabilization will come to – from the revenue growth that we're guiding to. So the 7% to 10%. And in that revenue growth range, there is an assumption even though we've got these plans in place and we expect it will take some time to materialize, there is the impact we have from a strong and growing loyal customer base as well as what we've talked to around the strength in digital and some of the success we're seeing in Reinvention. So that's factored in there to give us the confidence to be able to expect that we'll see the flow-through from the revenue growth in the back half of the year.

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But in addition to that, what we're expecting is that we'll continue to see the strength in our in-store and out-of-store operational efficiencies. So we had good success this quarter. We'll expect some of that to continue into Q2 and it will further into Q3 and Q4. That's how we'll be able to drive to the 15% to 20% on a full year basis.

Andrew Strelzik

Analyst, BMO Capital Markets Corp.

Thank you.

Operator: Thank you. The last question comes from John Ivankoe with JPMorgan. You may ask your question.

John Ivankoe

Analyst, JPMorgan Securities LLC

Hi. Thank you. It's maybe a related one to the previous. But normally operating companies when they do reduce revenue, it's pretty customary for earnings to come down along with that. Now, you guys have communicated I think \$3 billion of cost savings on a three-year basis. I think that's \$1 billion on a gross basis on a one-year basis.

Can you talk about if there were any cost savings that were pulled forward into fiscal 2024? Were there any meaningful expenses maybe discretionary expenses in 2024 that were perhaps pushed out into 2025 and 2026, and maybe I'm getting a little bit ahead of myself at this point or getting ahead of you at this point, as we kind of think about you getting more margin on that lower revenue than maybe we would have thought earlier, does it actually lead to a more difficult comparison that you'll have to face 2025 over 2024, is there just some shifts in expenses between the two years?

Rachel Marie Ruggeri

Chief Financial Officer and Executive Vice President, Starbucks Corp.

The way I would look at it, John, is as we showed in the first quarter, we were able to demonstrate that margin expansion of 130 basis points at the total company level given a combination of sales leverage. So we still had strong sales growth, right? And that sales leverage as well as the flow-through from that sales leverage and the in-store operational efficiencies that we spoke to.

And when we think about the back half of the year, we'll expect to continue to see benefit from the revenue growth and the sales leverage that comes from that. But we'll also see benefit from the in-store and out-of-store operational efficiencies, which we do have ability to increase our focus on some of those areas which will help to ensure our 15% to 20% earnings growth commitment on a full year basis.

Outside of that, we also have investments as it relates to G&A, investments as it relates to our Reinvention. And we'll continue to make the investments because those investments drive a meaningful impact. And they're a driver of our competitive advantage but we do have an ability to also dial up and dial down some of those investments to help support the commitments we're making.

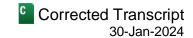
As it relates to the years ahead, I don't think it's probably best to just focus on the year we're in right now. But that's how I would expect the guidance to come together, and how I think about Q2 relative to the balance of the year.

Laxman Narasimhan

Chief Executive Officer & Director, Starbucks Corp.



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John, if I could just add one more thing. I think we've systemized our approach to how we think about innovation, how we think about productivity, how we think about growth overall. It's a very sort of systematic approach that we have in place with pipelines around how we're looking at different things.

So we have visibility clearly in terms of things that we can do for example about the store, and they go multiple years. And so even if you did bring something forward because we can, it does not at all mean that we don't have more that we can go after. So I feel very confident about that that we'll continue to invest in the business. There's no impact from the buy back. I think that was a question asked earlier.

Rachel Marie Ruggeri

Chief Financial Officer and Executive Vice President, Starbucks Corp.

Yeah.

Laxman Narasimhan

Chief Executive Officer & Director, Starbucks Corp.

None whatsoever. And we're investing in the business but we also know that we have opportunities for us to make ourselves more efficient. At the same time, get the throughput that we think we need in order meet the demand that exists out there.

Rachel Marie Ruggeri

Chief Financial Officer and Executive Vice President, Starbucks Corp.

Yeah. I do think it's just worth noting is that our buy backs are expected to be nearly 1% of our earnings growth net of interest. So small in the scheme of things.

Laxman Narasimhan

Chief Executive Officer & Director, Starbucks Corp.

Sure.

Operator: Thank you. That was our last question. I will now turn the call over to Laxman Narasimhan for closing remarks.

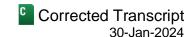
Laxman Narasimhan

Chief Executive Officer & Director, Starbucks Corp.

Thank you so much, Diego. I will close by reiterating our strong momentum from the quarter and our overall confidence in our long-term growth. While we continue to navigate some headwinds, we're encouraged by the strength of our brand, particularly with our loyal customers around the world and the plans that we have in place to address the challenges we have identified.

On a broader level, I've come to learn that we truly are a different kind of company here at Starbucks. But we are now operating in a different kind of world. We recognize that no one can solve the many difficult problems in the world alone. Starbucks is, however, and will continue to be the world's third place, providing people with places to come together to connect, to find common ground, to feel they belong, and to bring a little joy in their every day. Thank you for joining us this afternoon.

Operator: This concludes Starbucks first quarter fiscal year 2024 conference call. You may now disconnect.



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