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Starbucks Corp. (SBUX)

Q1 2021 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good afternoon. My name is Hector, and I will be your conference operator today. I would like to welcome everyone to today's Starbucks Coffee Company Conference Call. All lines have been placed on mute to prevent any background noise. After a brief introduction, we will go directly to a question-and-answer session. [Operator Instructions]

I will now turn the call over to Durga Doraisamy, Vice President, Investor Relations. You may now begin your conference.

Durga Doraisamy

Vice President-Investor Relations, Starbucks Corp.

Good afternoon everyone, and thank you for joining us today to discuss our first quarter fiscal year 2021 results.

Today's discussion will be led by Kevin Johnson, President and CEO; and Pat Grismer, CFO. And for Q&A, we will be joined by Roz Brewer, Chief Operating Officer and Group President, Americas; John Culver, Group President, International, Channel Development and Global Coffee, Tea & Cocoa. Also present is Rachel Ruggeri, Senior Vice President, Finance, for the Americas. This conference call will include forward-looking statements, which are subject to various risks and uncertainties that could 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 Factor discussions in our filings with the SEC including our last 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 fiscal 2021 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. For certain non-GAAP financial measures mentioned in today's call, please refer to our website at investor.starbucks.com to find their corresponding GAAP measures as well as a reconciliation of these non-GAAP financial measures with their corresponding GAAP measures. This conference call is being webcast and an archive of the webcast will be available on our website through Friday, February 26, 2021. Finally, for your calendar planning purposes, please note that our second quarter fiscal year 2021 earnings call has been tentatively scheduled for Tuesday, April 27.

I will now turn the call over to Kevin.

Kevin Johnson

President, Chief Executive Officer & Director, Starbucks Corp.

Well, good afternoon, and thank you for joining us today. As I reflect on this past year, clearly, we have all been through a lot, a lot of trying times and a lot of change, and at a time when society and all of humanity are a bit fragile, I am optimistic because this year holds tremendous promise for healing. I believe Starbucks can play an important role in that healing process, bringing people together to feel connected, supporting our communities in a positive and responsible way, and advancing a more equitable and inclusive world.

It was just one year ago this week that we temporarily closed stores across China to protect our partners and customers from the coronavirus. We quickly realized the need to establish a set of principles for navigating this virus to operate safely in a global pandemic and then shared our principles and store protocols with every market around the world. That approach has served us well. And I'm proud to say today our business in China recovered in Q1 in line with our expectations and we remain on track to achieve full sales recovery of our US business by the end of Q2.

This journey has not been linear, and because we have operationalized our ability to monitor events in real-time and adapt to the changing conditions store-by-store, our recovery continues to track slightly ahead of our expectations. Since the start of this pandemic, while being guided by our three fundamental principles, our 400,000 Starbucks partners around the world have been well-equipped with tools, resources, and support to enable quick decision-making at the store level. The agility with which our partners navigated an unprecedentedly complex global situation, while caring for each other and for our customers leaves me as confident as ever about Starbucks' long-term outlook.

Last month when we met for our biennial Investor Conference, we talked about Starbucks' resilience. There were three takeaways from that discussion that I want to iterate as we share this quarter's results. First, our Growth at Scale agenda that we established almost three years ago has sharpened our focus, enabled disciplined execution, enhanced our ability to allocate capital to its highest and best uses, and unleashed a growth mindset throughout Starbucks. Second, our speed and agility have enabled us to rapidly adapt to changing consumer behaviors and strengthened our competitive position. And third, we have an innovation agenda for our customer experience and for store transformation that positions us well for future growth.

Now, I want to share with you results from Q1 that reinforce our belief that Starbucks is stronger and more resilient than ever. Let me begin in the US. Our first quarter comparable store sales of minus 5% in the US improved from the prior quarter's minus 9%. Even with pandemic-related business disruption in the latter half of the quarter that significantly reduced our ability to offer in-store seating, with over 60% of our US company-operated stores offering limited seating as we entered our fiscal Q1, comparable store sales improved in October, building on the momentum we saw in the prior quarter. When COVID-19 cases began to surge mid-quarter, we adjusted our operations to grab-and-go in alignment with our principles and in support of regulatory requirements across a number of states.

We rapidly adapted and ended the quarter with approximately 40% of our US stores offering limited seating. Underpinned by our powerful innovation agenda, our phenomenal green apron partners delivered a very strong holiday performance in Q1, building positive momentum on our path to full US comp recovery. Importantly in Q1, we laid a solid foundation for achieving our fiscal 2021 goals by further advancing the three business-driving initiatives fundamental to our Growth at Scale agenda: elevating the customer experience, driving relevant beverage innovation, and expanding digital customer engagement.

I will now share some notable highlights from Q1 and our traffic-driving initiatives for the balance of fiscal 2021, starting with elevating the customer experience. We believe that many of our customers have adapted to their work or study from home realities. Their Starbucks visit has evolved from the stop on the way to a destination to being the destination worth leaving home for because it is safe, familiar, and convenient.

The work we have done to increase throughput in drive-thru, expand our digital reach, enable curbside pickup, and expand delivery capabilities was evident in Q1. US stores with drive-thrus saw a slight improvement in out-the-window times and delivered positive comps throughout Q1. They drove over half of net sales in Q1, increasing more than 10% from pre-pandemic levels. These results give us confidence that our targeted initiatives to unlock capacity and enhance the customer experience at our drive-thru locations are boosting our business recovery, while strengthening our foundation for future growth.

Our industry-leading mobile app continues to be an important tool for us to elevate the customer experience as a safe, convenient, and personalized way to order Starbucks. This quarter, mobile orders represented 25% of US company-operated transactions in Q1, up from 17% before the pandemic, providing clear evidence that our initiatives are resonating with customers. We continue to see average ticket meaningfully higher than pre-pandemic levels driven by group ordering. A combination of increased beverage attach, premium beverage mix, increased customization and upsizing, and an all-time high food attachment, all drove US ticket growth of approximately 19% in Q1.

In addition, our seasonal holiday beverage line-up combined with our creative holiday marketing created excitement amongst our green apron partners and drew customers into our stores. This year, we kicked off holiday with familiar beverages such as Peppermint Mocha, and of course, Starbucks joyful holiday cups, a 23-year ritual. Pumpkin Cream Cold Brew's tremendous success in last quarter's line-up provided a strong prelude to the December return of the new holiday favorite, Irish Cream Cold Brew. Our cold beverages continued to resonate with customers led by Iced White Chocolate Mocha, Iced Chai Latte, and Vanilla Sweet Cream Cold Brew, with all three delivering positive year-on-year growth.

Food outperformed our expectations in Q1 driven by strength in breakfast wraps, the Impossible Breakfast Sandwich, and holiday bakery items such as the Snowman Cookie, and of course, my grandson's favorite, Cake Pops. Finally, we saw accelerating growth of digital customer relationships and customer engagement, a key highlight of the quarter. Following our successful launch of Stars for Everyone in Q4, Starbucks Rewards achieved phenomenal results in Q1, providing a strong foundation for growth in fiscal 2021 and beyond. Our 90-day active Starbucks Rewards member base to whom we directly communicate and provide personalized offers increased by 2.5 million members in Q1 to a record 21.8 million.

Now, this result surpassed our pre-COVID member base representing a 15% increase relative to the same quarter in prior year. I'm also happy to say that this holiday season, Starbucks Card activations, the cornerstone of our holiday gift program, exceeded our expectations. Starbucks Cards are a customer favorite for holiday gifting and are widely available through our stores and other distribution channels, including digitally. The success of Starbucks Cards illustrates the strong emotional bonds that we have created with customers and the relevance of the Starbucks Experience, even in the current environment.

As the number of active Starbucks Rewards members grew during the quarter, so did their engagement. Rewards customers contributed 50% of US company-operated sales in Q1, up from 43% last year before the onset of COVID-19 and up from 47% in the prior quarter, demonstrating our loyal customers' resilience and affinity for Starbucks. Any way you look at it, our first quarter results were quite strong in the US, particularly considering the headwind we faced from the current surge in COVID infections.

I'll now move on to China, our second lead growth market. Building on the positive momentum from the past two quarters, the China leadership team delivered another great quarter, which is a testament to our ability to rapidly adapt to changing conditions, while focusing on the customer experience, new beverage innovation, and continued expansion of digital customer relationships, just as we continue to do in the US. We delivered an impressive positive 5% comparable store sales growth in Q1, but what is most remarkable about our recovery in China is the rapid re-acceleration of new store development, which is our number one driver of growth in that market.

I'm pleased to share that in Q1, we opened almost 160 stores and crossed the 4,800-store milestone. That equates to 13% growth in net new stores over the last 12 months, which is particularly impressive considering that we suspended new store development activities for a couple of months at the onset of the pandemic in China. We entered 15 new cities in the quarter and stores in these cities are off to a strong start with customer traffic outperforming that of new stores in other cities in China. The performance of these new stores underscores our continued confidence in the long-term growth opportunity for Starbucks in China.

We continue to dramatically expand digital customer relationships in China through the Starbucks Rewards program, as evidenced by the number of 90-day active Rewards members growing to 15.4 million in Q1, a record increase of 51% versus the prior year and 14% over the previous quarter. In addition, we achieved record sales for this year's Double 11 campaign, which grew by 86% versus last year, and we also set a single day retail sales record on our Starbucks Rewards Members' Night. Member engagement campaigns and additional functionalities launched through our Starbucks app and mini apps boosted member engagement and frequency throughout the quarter.

In fact, with Starbucks Now, mobile order & pay services available across 99% of our store base and with Starbucks Delivers in 85% of our store base in China, mobile order sales mix hit a record 30% of the company's China sales, up from 26% in the last quarter, with 14% driven by Starbucks Delivers and 16% from Starbucks Now. Rewards customer engagement continues to grow as mobile ordering has more than doubled in China over the past year. Starbucks remains Chinese consumers' first choice in the away-from-home coffee category and is the most talked-about coffee brand on social media in China. The brand is stronger than ever in our fastest growing market.

And finally, a few comments on our Channel Development business. The strategic value of our Channel Development segment in the current environment is clear. The availability of Starbucks products through multiple channels has secured Starbucks leadership position in the category, acting as a brand amplifier for our specialty coffee retail business. The demand we saw last quarter in Starbucks at-home coffee remained high, boosting our share of the coffee market outside of specialty retail.

In the US, Starbucks share of total packaged coffee grew significantly in the quarter with dollar sales up nearly 14%, nearly twice the category average. The Global Coffee Alliance with Nestlé has been a powerful partnership, and I'm proud to say that for the first time ever, we finished calendar year 2020 as the number-one coffee brand across the entire coffee category. Think about it. Starbucks is now the number one coffee brand ahead of all premium and mainstream choices. In addition, consumption of our US ready-to-drink coffee products in partnership with PepsiCo grew 18% in the quarter. The introduction of ready-to-drink Nitro Cold Brew, which was the number-one innovation in the category last year, exceeded sales expectations.

Unsurprisingly, our Foodservice business continues to be impacted in the current environment with softness in workplace coffee consumption as well as business and leisure travel, which was partially offset by overall strength in our at-home coffee and ready-to-drink businesses. With Nestlé, we entered four new markets in the quarter, bringing Starbucks at-home coffee presence through the Global Coffee Alliance to 66 markets in just over two years. Overall, we are proud of our alliance with Nestlé and pleased with the accelerated global expansion of the Starbucks brand through our Channels business.

Now, before I hand the call over to Pat, I want to close by sharing a perspective and recognizing my Starbucks partners. Throughout this year, Starbucks will celebrate our 50th anniversary as a company, and in that 50 years, since 1971, the most important ingredient that has created this iconic company are the Starbucks partners who share a powerful connection to our mission, a mission grounded in the human experience and brought to life through our values and company culture.

It is those same Starbucks partners who are navigating a global pandemic, caring for one another, creating welcoming experiences for our customers, showing up in our communities, bringing new ideas and accelerating innovation, and rapidly adapting to our new reality every step of the way, showing the compassion and courage necessary to transform into this new version of Starbucks, a company that is more resilient, stronger than ever, and fully committed to a bright future full of adventure, growth, and positive impact on those we touch.

And as markets around the world work tirelessly to vaccinate billions of people, we are prepared for what can only be described as the great human reconnection where people once again connect with others face-to-face to heal, to belong, to reflect, to share, and to celebrate. To celebrate what it means to be part of humanity. And as Starbucks partners, we are here for that great human reconnection where our third place environment once again brings people together if even for a brief moment, to uplift our customers with a smile, a personal connection, a hand-crafted beverage, and a place where all are welcome. Starbucks was built for this moment.

And to my Starbucks partners around the world, we all know that our purpose goes far beyond the pursuit of profit. This is our moment, and I am proud to be your partner and grateful for everything you do for Starbucks, for each other, for our customers, and for the communities we are all a part of. I am optimistic about our shared future, and I want to say thank you.

Now, before he walks you through our Q1 results, I want to close by sharing my sincere gratitude for Pat Grismer. He has helped lead us through unprecedented change and transformative growth at an amazing pace in his time with Starbucks, and he has played an instrumental role in unlocking considerable shareholder value over the past two years. I appreciate Pat's partnership with the entire leadership team at Starbucks and the lasting legacy he is leaving.

Pat, as you prepare to retire, I want to thank you and wish you the very best in your next chapter. You leave the company in the great hands of a 16-year partner, Rachel Ruggeri, who is incredibly well-positioned to assume the mantle as Starbucks's Chief Financial Officer on February 1. Having worked closely together for many years, I look forward to partnering with you, Rachel, as you lead our finance function and contribute as a valuable partner on our executive leadership team.

Further, as you all may have seen today, Roz has accepted an incredible opportunity as Chief Executive Officer at another publicly traded company. She will be leaving Starbucks at the end of February and her next role is expected to be disclosed in the days ahead. In the meantime, I want to share that we're very excited for her and are grateful for her many contributions over the years in leading our operations across the Americas. Roz, on behalf of the entire leadership team, I want to thank you for your leadership and wish you every success in your new role. Congratulations.

With these shifts, I am immensely proud to have a very strong bench of Starbucks veterans who represent the next generation of leadership for our company. Rachel Ruggeri succeeding Pat as CFO, and as we flatten the organization, Rossann Williams, President of our North America retail business, and Brady Brewer, Executive Vice President and Chief Marketing Officer, will now be reporting directly to me, taking on what have previously been responsibilities of our Chief Operating Officer. Combined, these three talented leaders have more than 45 years of Starbucks experience and we will not miss a beat. Rachel, Rossann, and Brady, building on your passion, authenticity, and many years of success at Starbucks, I am excited about our next phase of Starbucks growth together. I'd like to thank all of my partners for their support as we are well-positioned for the future.

And now with that, I will turn the call over to Pat. Pat?

Patrick J. Grismer

Executive Vice President & Chief Financial Officer, Starbucks Corp.

Thank you, Kevin, and good afternoon, everyone. As Kevin shared, we are very pleased with our start to fiscal 2021 with meaningful sequential improvements in quarterly financial results despite ongoing business disruption from the pandemic, again demonstrating the new level of resilience that we have introduced into the business during these unprecedented times.

Starbucks reported global revenue of $6.7 billion in Q1, down 5% from the prior year. Q1 EPS was higher than the guidance range we provided on our last earnings call, primarily driven by better-than-expected margin recovery. Q1 GAAP EPS of $0.53 declined from $0.74 in the prior year, but outperformed our guidance range as it also benefited from lower-than-expected restructuring and impairment costs, as I will discuss in greater detail later. Q1 non-GAAP EPS was $0.61, down from $0.79 in the prior year primarily due to the lingering impact of the pandemic.

I will first take you through our Q1 fiscal 2021 operating performance by segment, followed by an analysis of our consolidated margin performance. I will then share some perspective on our outlook for Q2 and the full fiscal year.

Our Americas segment delivered revenue of $4.7 billion in Q1, 6% lower than the prior year primarily due to a 6% decline in comparable store sales as well as lower product sales to and royalty revenues from our licensees as a result of the pandemic. As Kevin mentioned, in the US, we saw continued sequential improvement in quarterly comparable store sales from minus 9% in the prior quarter to minus 5% in Q1. As we entered Q1, October improved modestly to minus 3% from minus 4% in September. Then, as the quarter progressed, US comparable store sales were minus 4% and minus 8% in November and December, respectively, primarily due to pandemic-related operating restrictions across several states, which impacted customer mobility.

As Kevin also noted, approximately 40% of our US company-operated store base was offering limited seating at the end of the quarter, down from more than 60% at the beginning of the quarter. So, we are quite pleased with our comparable store sales performance in Q1 in light of these increasing restrictions. Americas' Q1 non-GAAP operating margin contracted 320 basis points from the prior year to 18.8% primarily due to the impact of COVID-19 including sales deleverage and additional costs incurred as well as growth in retail partner wages and benefits. These impacts were partially offset by improved labor efficiency driven in part by order consolidation and sales mix shift as well as pricing. Notably, this represented a significant improvement from the previous quarter's non-GAAP operating margin of 16.7%.

Moving on to International. The International segment delivered revenue of $1.7 billion in Q1. Excluding a 5% favorable impact of foreign currency translation, the segment's revenue in the quarter was flat relative to the prior year, reflecting 8% net new store growth over the past 12 months offset by lower product sales to and royalties from our international licensees as well as a 3% decline in comparable store sales primarily due to COVID-19, inclusive of a 3% VAT benefit.

In China, comparable store sales grew 5% in Q1 including VAT favorability of nearly 5 percentage points or slightly positive when excluding the impact of VAT for the quarter. In line with our previous outlook, we substantially recovered our sales in China by the end of calendar 2020, even when excluding the temporary VAT benefit, demonstrating the strength and resilience of the Starbucks brand in our fastest growing market. In December, China's comparable store sales were up 4% or only slightly negative when excluding the nearly 5 percentage point VAT exemption benefit for the month, an improvement from both October and November when excluding each month's VAT exemption benefit and setting aside the Mid-Autumn Festival seasonal shift that benefited October.

International's non-GAAP operating margin declined by 100 basis points to 20.4% mainly due to sales deleverage as a result of the pandemic partially offset by improved labor efficiency. Much like the Americas, this represented a very significant improvement from the previous quarter's non-GAAP operating margin of 16.3%.

On to Channel Development. Revenue was $371 million in Q1, a decline of 25% from the prior year primarily due to a 22% unfavorable impact of Global Coffee Alliance transition-related activities including a structural change in our single-serve business. When excluding the impact of these transition-related activities, Channel Development's revenue declined by 3% in Q1 mainly driven by the adverse impact of COVID-19 on the segment's Foodservice business partially offset by growth in our ready-to-drink business.

The segment's non-GAAP operating margin expanded to 48.7% in Q1 from 36.6% in the prior year. Normalizing for the 840 basis-point impact of Global Coffee Alliance transition-related activities I just mentioned, Channel Development's operating margin expanded 370 basis points in Q1 driven primarily by the strength of our Ready-to-Drink business.

Finally, at the consolidated level, non-GAAP operating margin was 15.5% in Q1, down from 18.2% year-over-year, but a substantial improvement from 13.2% in Q4. Unsurprisingly, much of the year-over-year reduction in our operating margin for Q1 was due to sales deleverage attributable to COVID-19 as well as growth in wages and benefits, partially offset by store labor efficiencies and pricing in the Americas.

Moving on to our guidance for fiscal 2021 and starting with GAAP EPS. In Q1, GAAP EPS was $0.16 higher than the upper end of our guidance range, primarily reflecting lower-than-expected restructuring costs related to our Trade Area Transformation initiative. This upside was attributable to two things: First, a shift in the timing of store closures to future quarters; and, second, a reduction in average restructuring costs per closed store. As we expect these lower restructuring costs to sustain, we are raising our full-year fiscal 2021 GAAP EPS guidance by $0.08, from a range of $2.34 to $2.54, to a new range of $2.42 to $2.62, both inclusive of approximately $0.10 for the 53rd week.

Now moving to non-GAAP EPS guidance. Our strong start to the year combined with a tailwind from foreign currency translation as evidenced in our Q1 results provides optimism that we have the potential to exceed our full-year non-GAAP EPS guidance, barring of course any new significant and sustained waves of COVID-19 infections and any major economic disruptions. However, given where we are at in our fiscal year with three-quarters to go and considering that we're continuing to see volatility from the pandemic, we believe it is prudent to provide a comprehensive guidance update with our second quarter earnings report by which time we'll have much better visibility to full-year results. Therefore setting aside the updated fiscal 2021 GAAP EPS guidance I just mentioned, we reaffirm all other full-year fiscal 2021 guidance for now including non-GAAP EPS in the range of $2.70 to $2.90, again inclusive of approximately $0.10 for the extra week.

We will, however, provide guidance for selected Q2 metrics given our better visibility to near-term trends, which provide further evidence of recovery in line with our overall expectations. In the US, we expect to report a comparable store sales decline of approximately 2% for the month of January, representing a marked improvement from December's 8% decline. Then as we lap material adverse COVID-19 impacts in the month of March, we expect US comparable store sales growth of approximately 5% to 10% for the second quarter. This is consistent with our previous outlook that we would achieve full sales recovery in our US business by the end of Q2 with a two-quarter lag beyond that before we expect to see full margin recovery.

In China, we are seeing another wave of COVID-19 infections in selected provinces and a corresponding impact to customer mobility and store operating protocols. In addition, we started to lap material adverse COVID-19 impacts last week and this will continue through the remainder of Q2. Combining these two items, we expect to report a comparable store sales decline of approximately 7% for the month of January and comparable store sales growth of nearly 100% for the second quarter, reflecting very significant lapping effects in the months of February and March. On a two-year basis, that would equate to roughly flat compound growth in the second quarter as we move through the one-year anniversary of COVID-related store closures and return to our long-term growth algorithm in China.

From an EPS perspective in Q2, we are expecting GAAP EPS in the range of $0.36 to $0.41 and non-GAAP EPS in the range of $0.45 to $0.50. These estimates reflect the comparable store sales growth estimates that I just provided as well as the normal margin seasonality we see in our business comparing Q2 to our holiday-driven Q1. To be clear, except for GAAP EPS, the rest of our full-year fiscal 2021 guidance metrics are unchanged from what we communicated with our Q4 fiscal 2020 quarterly earnings report. This includes our expectation that our retail operating segments will deliver significant margin improvement on a non-GAAP basis as fiscal 2021 progresses yielding meaningfully higher EPS in the third and fourth quarters than the first two quarters of the year.

To summarize, we are delighted with the pace of business recovery in Q1 and the momentum that it provides for fiscal 2021. Our China market has substantially recovered, although it is experiencing recent volatility, and our US business is on track to fully recover in the current quarter as we previously communicated. As a result, we remain confident in the strength of our brand and the durability of our growth model.

I want to express my appreciation to our Green Apron partners for the critical role that they continue to play in our overall business recovery. Before I conclude, I would like to thank Kevin and the Starbucks team. It has been an honor to be a Starbucks partner, and I am proud of what we have accomplished as a team to unlock considerable shareholder value over the past two years. I am thrilled to pass the CFO baton to Rachel Ruggeri, a key member of our senior finance team. Rachel and I have been partnering to ensure a smooth transition and I would like to invite her to share a few words on this call. Thank you. Rachel?

Rachel Ruggeri

Senior Vice President, Finance, Americas, Starbucks Corp.

Thank you, Pat. I'm honored and humbled to assume the role of Chief Financial Officer at Starbucks. In my 16 years with the company, Starbucks has never been better positioned for long-term growth, and I look forward to working with Kevin, our executive leadership team, and of course the partners around the globe to unlock that growth with focus and discipline. And to our investors and financial analysts who have joined us today, I very much look forward to speaking with you soon.

And with that, I'll turn today's call over to the operator to begin our Q&A session. Operator?

QUESTION AND ANSWER SECTION

Operator: Thank you. [Operator Instructions] Your first question comes from John Glass with Morgan Stanley. Please proceed with your question.

John Glass
Analyst, Morgan Stanley & Co. LLC

Q

Thanks very much, and congratulations to Pat and Roz on your new ventures. Good luck, and we'll miss you. Pat or Kevin or Roz, or all three, how do we think about the dynamic between check growth and traffic growth in the coming quarters? I mean, we've never seen this kind of dynamic where traffic has fallen so much and check has gone up. How do you think – do you think this sort of just normalizes, or is it chance or is there programs to continue to get that check benefit even as traffic recovers? So maybe there's an outperformance on comp on that basis.

And Pat, how much benefit to margin has that decline in traffic and bundling of orders benefited? How do we think about the margin impact as traffic comes back but maybe those check averages come down over time?

Kevin Johnson
President, Chief Executive Officer & Director, Starbucks Corp.

A

Yeah, John. This is Kevin. Let me share a perspective on that. First of all, a big reason for the increase in ticket is group ordering. And certainly, as we have grab-and-go and customers are looking for safe, familiar, convenient experiences, customers are coming in and they're purchasing multiple beverages, multiple food items for larger groups than in the past, which is why traffic is down and ticket is up.

That said, I think as we start reopening seating in our stores, as vaccinations continue to propagate around the world, we're going to see that normalize, but I do think there's going to be a long-term positive impact on ticket. I do think through this period, I think customers have gotten very, very used to more premium beverages, more – higher degree of food attach, and I think – I don't – I actually think ticket will come out of this higher than it was when we went into it, while transactions recover.

Now, how long that takes, I think that's a function of how vaccinations unfold in different markets around the world and how quickly people get back to more normal foot traffic patterns and more normal work and school patterns.

And let me just ask, if Roz – if you want to add any additional perspective on that as it relates to the US.

Rosalind Gates Brewer
Chief Operating Officer, Group President-Americas & Director, Starbucks Corp.

A

Yes, Kevin, I do. There's a couple things here to think about in terms of the contributors. Kevin mentioned the higher beverage attach, the higher food attach. There's also the shift to cold beverages, and what we've seen in cold beverages is a couple of things. If you think about the decline in transactions that we've seen in our central business districts in our metro markets, those areas carry single beverages, and they were higher than average brewed coffee. And those skew really at a lower range in our ticket options. So what we're doing in beverage innovation is replacing that with cold beverages and replacing that with plant-based, and so that's why we're seeing this improved food attach. And so we feel confident that those kinds of innovations are going to keep that ticket higher than what we've seen in the past.

Kevin Johnson
President, Chief Executive Officer & Director, Starbucks Corp.

A

Pat, do you want to take the second part of John's question?

Patrick J. Grismer
Executive Vice President & Chief Financial Officer, Starbucks Corp.

A

Yes. Thank you. In relation to the impact of the higher ticket on margin and how we expect that to normalize over time, to Kevin's point, we do anticipate some of that ticket growth will sustain and with that some margin benefit will linger. But there will be as customer behavior normalizes some reversal of some of that margin benefit.

But it's important to highlight some of the other ongoing initiatives underway in our store operations to build new levels of productivity, whether the deployment of handheld POS to improve throughput at the drive-thru and how we believe that will not only increase our capacity but deliver some margin enhancements, or what we're doing to deploy new equipment both new espresso machines as well as new ovens that help us to reduce transaction times out-the-window, or just ongoing operational engineering work to ensure that our operating routines as we've adopted new protocols continue to achieve higher levels of efficiency in terms of how we deploy our labor.

So there are a number of other activities underway that will drive new levels of productivity and unlock further margin benefit even as some of the sales activity normalizes and with that reverses some of the margin benefit that we've seen here recently.

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

Sharon Zackfia
Analyst, William Blair & Co. LLC

Q

Hi. Good afternoon, and congratulations, Roz, on the news, although we'll be sad to see you go. I guess I had a question on Stars For All (sic) [Stars For Everyone], and it's probably best directed to Roz. As you rolled that out, clearly you saw the membership jump in the US. How much of that is directly related to Stars For All (sic) [Stars For Everyone], if you could kind of quantify that?

And then any kind of quantitative elements on potentially how these Stars For All (sic) [Stars For Everyone] members differ from preexisting cohorts of members and how you've kind of trended in potentially upselling them to the higher level of Starbucks Rewards?

Rosalind Gates Brewer
Chief Operating Officer, Group President-Americas & Director, Starbucks Corp.

A

Great. Thank you, Sharon, for that note of congratulation. So just a little bit on SFE. The story behind SFE is we provided for our customer base the option for payment removal, and we knew that was one of the most significant frictions that we had in growing our Starbucks Rewards members. So this strong member growth that we're seeing is not only surpassing our pre-COVID highs, but it's pushing well behind. You saw the numbers. 22 million active members. That's up 15% year-over-year. And it's helping us really fuel the all-time highs that we're seeing in Starbucks Rewards as they convert.

And right now, our Starbucks Rewards percent of tender is reaching nearly 50%, as Kevin mentioned, so we are seeing some significant improvement with Stars For Everyone. Also too quarter over quarter our mobile app downloads grew by plus 5% and our acquisitions grew 13%. So we're seeing some significant movement in there in terms of how the conversion rate.

The other thing you asked for is, if there's any qualitative difference between who we're seeing coming in. We're just seeing just an expansion of our customer and just more love for the brand as we apply SFE and so really we don't have the exact numbers in terms of qualitatively how they differ, we just know that we have addressed a significant concern with payment removal. So we're pleased with what we see so far.

Operator: Your next question comes from the line of David Palmer with Evercore ISI. Please proceed with your question.

David Palmer
Analyst, Evercore ISI

Q

Thanks, and congrats, everybody, on their new roles. All the best to Pat and Roz. A question on capacity and throughput. I mean, going back to the mid-2000s, I can think of times when Starbucks talked about reaching near capacity levels and of course some of those comments seem funny now given the fact that you've come so much further in terms of your AUVs, especially after all you've done with mobile order & pay in terms of smoothing out the service for that and then the drive-thru expansion has also raised that.

But I go by those drive-thrus and a lot of them look pretty full, and I wonder about the post vaccine world and how much you think about capacity utilization or basically coming up on these bottlenecks particularly in the drive-thru as we get to a post-vaccine reality. Could you talk about that and what you might be working on to maximize your growth after the vaccine? Thanks.

Kevin Johnson
President, Chief Executive Officer & Director, Starbucks Corp.

A

Yeah, Roz, why don't you take that and go through a little bit of the initiatives that we've done to increase throughput on the different channels, and then maybe I'll comment. But why don't I let you take that question.

Rosalind Gates Brewer
Chief Operating Officer, Group President-Americas & Director, Starbucks Corp.

A

Sure. So we have quite a bit of work happening around our service experience and everything that we're seeing around the drive-thrus. We have so many of our stores in the drive-thru position right now.

First of all, let me speak about our future real estate. When we look at our most productive model, it is the drive-thru, so in our go-forward position, you'll see an increased number of drive-thrus that we're building in the central United States and across the Southeast and in the Southwest. So drive-thru in terms of the numbers will grow.

Also too there are three main approaches that we have to enhance the drive-thru productivity. First of all is to optimize the current state. And that's looking at our operations standards and that's a focus on driving our increased out-the-window times. And so that's reinforcing all of our processes in store, making sure that our baristas can operate efficiently, and that's the ongoing work that we will do.

The second piece is we're developing and testing some drive-thru forward solutions and that includes our handheld POS which right now we have about 300 drive-thru stores with handheld POS and we'll have 500 of those stores by the end of February. And so we're also adding to that the tech improvement to make orders more easily managed through our consolidation and handoff. We call that our bump bar replacement.

And then in addition, we're also targeting the renovation of 150 drive-thru constrained stores that have either issues in terms of meeting the new productivity model from an engine design or removing the pastry case and getting things situated, single point of sale, and other solutions.

And then there's the final piece, the future drive-thru concepts, and those are things like drive-thru only stores that have no seating, very small units, the side-by-side drive-thru lanes that we are bringing on to the footprint. So it's – we've got considerable work in this area to unlock the full potential for drive-thru.

Operator: Your next question comes from the line of John Ivankoe with JPMorgan. Please proceed with your question.

John Ivankoe
Analyst, JPMorgan Securities LLC

Q

Hi. Thank you very much. I would actually like to pivot from that question. In terms of opportunities for the 40% of stores that do not have drive-thru, that do have seating, that'd be maybe the possibility of a drive-thru even on a relocation isn't even possible within the trade area. Could you highlight some of the things that you can do to increase throughput, overall consumer usage whether on a late COVID basis or even the post-COVID basis to make that cohort of stores more productive? That's the first question.

And then secondly, if I can sneak it in, considering that the transactions which are down, offset obviously by ticket, labor hours presumably are down at the store. Do you have a sense of how variable labor should be? In other words, if transactions increase by 10%, is there a type of percent that you would think labor hours should increase as we kind of think about rebuilding the models for the out years? Thanks.

Kevin Johnson
President, Chief Executive Officer & Director, Starbucks Corp.

A

Thanks, John. Roz, why don't you take the first question that John asked, and then Pat will follow up on the second question that he asked.

Rosalind Gates Brewer
Chief Operating Officer, Group President-Americas & Director, Starbucks Corp.

A

Yes, John. Thanks for the question. So thinking of productivity in models that may not have a drive-thru, we're looking at everything too that we can do on the inside of the building. As Pat mentioned, we have our next generation Mastrena espresso machine that actually allows us to have a much faster pull with multiple coffee offerings. And then also too we have our new warming ovens, and those have also an improved operational times and standard improvements.

It's also important that we talk about the work that we're doing with Deep Brew, and this – and Deep Brew is our work that allows us to apply AI to our equipment and the process within the store, and that's improving productivity within the store. So there's considerable work that's happening in our cafe seated stores and you'll see those things roll out over the next several quarters here. Pat?

Patrick J. Grismer
Executive Vice President & Chief Financial Officer, Starbucks Corp.

A

And John, as to your question regarding variable labor, what we focus on is flow-through on variable sales. And that's particularly important as we expect continued sales recovery and then back into growth in the back half of the year. And even as we continue to make significant new investments in the middle of the P&L in order to unlock future growth opportunity, we fully expect very meaningful sales leverage that comes with what we target as an approximate 50% flow-through on those variable sales, and that includes what we derive by way of leverage on fixed labor. So there is a variable labor component that is embedded in that calculation, but importantly, it acknowledges that there is a fair portion of our total cost structure inclusive of labor that is fixed in terms of how we operate these stores. So as we recover sales and further build from that point, we anticipate margin expansion as a consequence of sales leverage that helps to offset the impact of the additional investments we're making to unlock future growth.

Operator: Your next question comes from the line of Sara Senatore with Bernstein. Please proceed with your question.

Sara Harkavy Senatore
Analyst, Sanford C Bernstein & Co., LLC

Q

Great. Thank you. I wanted to ask about China, please. Obviously that was a very strong 5% comp. I was wondering if you can just talk about in the past some of the context you've given for potentially slower China comps were competition, then also intentionally opening new stores and sort of own cannibalization, if you will. A year ago if I look back, you had kind of 3% comp and 16% unit growth and now 5% comp and 13% unit growth. Could you maybe talk about how much of this comp which certainly again very strong especially considering even – and flat even ex. the VAT, how much of that might that – would be a function of less cannibalization versus less competition? And related to that, I think new unit economics are still very good but maybe down a little bit from where they were. So just trying to understand what the sort of competitive and operational environment look like now.

Kevin Johnson
President, Chief Executive Officer & Director, Starbucks Corp.

A

Sara, thanks for the questions. Maybe, John, I'll have you talk a little bit about what's happening in China new store growth and how we continue to drive China. And then let's go to Pat. Pat can reinforce kind of our view on the long-term growth model for China that we outlined at the Investor Day in December.

John Culver
Group President-International, Channel Development and Global Coffee, Tea & Cocoa, Starbucks Corp.

A

Okay. Thanks for the question, Sara. Clearly, we're very proud of the work the team in China has done to navigate the COVID situation and the current surge that we're seeing in the market to basically substantially recover in line with our expectations for the quarter and deliver a 5% comp, a top line growth rate of 15%, and an acceleration of new stores to 160 in the quarter is really remarkable given the current environment that we're operating in.

We continue to be very optimistic about the long-term growth opportunity and the continued recovery that is going to take place throughout this fiscal year. Our new stores continue to perform very well. As I said, we opened 160 stores, 13% growth over the last 12 months, and that includes a time period where we slowed down or halted all store growth as we navigated the COVID crisis beginning last year at this time.

We're seeing really strong performance and uptick with the Starbucks Now expansion. We're opened in 24 cities – I'm sorry, opened 24 stores in nine different cities in the quarter and we have a total of 40 stores and we'll continue to expand that concept.

And then the last piece beyond the store piece is the acceleration of digital and the digital footprint. And Kevin hit on this a little bit in his comments, but this is also fueling the growth during the pandemic as we navigate. Our 90-day actives increased to 15.4 million members. That's 56% increase over the previous year. And that's 14% increase over the previous quarter, which is great. And then, clearly, mobile order sales mix at 30% with MOP at 16% and Deliver at 14% is strong growth.

So our total mobile order sales are now two times what they were last year at this time. So clearly we have put in place a model that has been able to navigate the pandemic environment, and we feel very optimistic in delivering the guidance that Pat put forward of achieving the 100% comp for the second quarter and relatively flat growth on a two-year basis for the market.

Patrick J. Grismer
Executive Vice President & Chief Financial Officer, Starbucks Corp.

A

Thanks, John. And Sara, to build on what John has said, to put into perspective how we're thinking about comp growth in China long-term, you may recall at our December 2018 investor conference we guided China comp growth of 1% to 3%. In recent quarters, we had delivered in the low single-digits. And we acknowledged at that time that as a consequence of a more tempered pace of growth in the broader economy, intensified competition, and the sales transfer that comes from an aggressive pace of new unit development that 1% to 3% was a reasonable expectation.

Fast-forward to our Investor Day just a couple of months ago where we updated that to a new range of 2% to 4%. I would say in relation to the factors I mentioned, no material change to the economy, competition, or sales transfer, but importantly as John mentioned, significant improvements in our digital capability and how that has all resonated with our customers in China, which underpins our confidence in raising that long-term comp guidance range for China to this 2% to 4%, which we believe is quite powerful in the context of very aggressive unit development given the strong appeal of our brand and the outstanding unit-level economics that deliver superior returns for us in China.

John Culver
Group President-International, Channel Development and Global Coffee, Tea & Cocoa, Starbucks Corp.

A

Hey, Sara, just one other thing that I would just add as well is, and Kevin hit on this a little bit in terms of the strength of the Starbucks brand in the market, and we are the clear leader in terms of brand affinity and visitation across all coffee houses. We're the first choice in away from home hand-crafted coffee beverages for customers. And as a matter of fact, one in two consumers prefer Starbucks versus anybody else's coffee in the marketplace. So we feel we're in a very strong position from a consumer standpoint and a customer perspective to really emerge out of the challenges that we're facing in a very strong way, and that gives us confidence for the future.

Operator: The next question comes from the line of Jeffrey Bernstein with Barclays. Please proceed with your question.

Jeffrey A. Bernstein
Analyst, Barclays Capital, Inc.

Q

Great. Thank you. Pat, congrats on the retirement. And Rachel, congrats on your new role. And Roz, based on the headlines coming out now, I guess, I look forward to seeing you at Walgreens hopefully selling lots of Starbucks coffee.

My question is on the labor side of things, which seems to be very topical. I'm happy to hear you guys talk about ongoing efficiencies, but when people talk about labor lately, it seems like there's lots of opposing forces. Obviously, you have the national minimum wage potentially going up [ph] on one (58:27) but then you have the elevated unemployment, which historically implies ample labor and therefore managing your cost better. So I'm just wondering if you can provide any thoughts in terms of your labor cost and maybe employee availability outlook. I know you guys are an employer of choice, but your ability to offset the pressure, whether it's through cost saves, technology, menu pricing, how you kind of think about those offsetting forces from a labor cost perspective. Thank you.

Kevin Johnson
President, Chief Executive Officer & Director, Starbucks Corp.
A

Yeah, Jeffrey, thanks for your questions. Let me kind of lead off with a perspective and then I'll hand it over to Pat to put some numbers around it.

But fundamentally, look, we believe in investing in our partners. It is our green apron partners who create that experience for our customers. And so, we know when we invest in our partners and put them in the position to do the best job they can in serving our customers that our customer connection scores go up and our traffic goes up and our sales go up.

There is a direct correlation between investment in partners, customer connection scores, and traffic increase. And I think that's the first thing to note. So that's why you saw us make a fairly significant increase in wage and benefits here in the US as we went into this fiscal year.

Second, then, we find ways to help offset some of that in two ways. Number one is just productivity and throughput. We have a 20,000 square foot Tryer center. We call it our Tryer center. Think of it as a Silicon Valley incubation lab right downstairs here in Seattle. And we have some of the world's best human-centered design engineers that work down there with our partners to find ways to help them improve that productivity. Oftentimes it has to do with the store layout. Oftentimes it has to do with the equipment, what kinds of ovens, what's the – how can we make things easier for partners to do their jobs? And so that helps offset some of that increase in wage.

And then the other is automating administrative tasks. Things that whether it's, we've got Deep Brew helping automate inventory management in stores, helping reduce the amount of time that partners have to count inventory and fill out forms, and now technology is playing a role doing that.

Other examples. Our Mastrena II machines that we're putting in our stores have – are instrumented with Internet of Things sensors in them and those sensors, every shot of espresso it sends telemetry data back to our data center and through machine learning we can predict when one of our Mastrena machines needs to be maintained or needs to be cleaned or calibrated. And by doing that, we prevent a situation where perhaps a partner comes to open the store in the morning and one of the Mastrena machines is down. So technology to automate administrative tasks that help provide the best environment for our partners to do what they do best, which is handcrafted beverages and connecting with our customers. And then the way that we get productivity by just thinking about the human-centered design experience we create for partners in the stores. That helps offset the increase.

And Pat, I'll hand to you to help add a little bit more numerics around that.

Patrick J. Grismer
Executive Vice President & Chief Financial Officer, Starbucks Corp.
A

Thank you, Kevin. What I would add is that much the same way I talked about China is how we're thinking about the US in relation to improved comps on the back of investments we're making in the brand with investments in our store partners being a critically important investment.

And to put that in numerical terms, a couple of years ago when we guided at our Investor Day at the time a 3% to 4% comp expectation for our US business, more recently at our Investor Day, we raised that to a range of 4% to 5%. And that is entirely the result of our confidence in the returns that we will get on these investments led by investments in our partners, but also significant investments in our digital platforms. And what that does to unlock the full sales potential of the Starbucks brand, yielding significant sales leverage that not only pays for these investments but enables what we continue to expect by way of modest annual margin expansion which is a fundamental part of our ability to convert revenue growth long-term of 8% to 10% to operating income growth of 9% to 11%.

So as Kevin mentioned, all of these things work together, investment combined with productivity, to combine further with sales leverage to land the ongoing margin expansion that forms the fundamental part of our overall earnings growth model.

Operator: Your next question comes from the line of Andrew Charles with Cowen. Please proceed with your question.

Andrew Charles
Analyst, Cowen and Company

Q

Great. Thank you. Just to echo everyone else, Pat and Roz, best wishes on your next chapter, and Rachel, good luck in your new role as well.

Kevin, a question for you following the announcement that Roz and Pat will be departing in the coming weeks. While the business will be in the very capable hands of partners that have been with Starbucks for over 15 years, where are you going to be leaning in in the near term to help ensure continuity in the recovery?

Kevin Johnson
President, Chief Executive Officer & Director, Starbucks Corp.

A

Yeah, Andrew, thanks for the question. Certainly on the CFO side, Rachel has been a long-term Starbucks partner in our finance organization and supporting the Americas. She is fully up to speed on Starbucks and all things related to driving this business. And so great confidence there.

And in Roz's organization as I flatten the organization, I'm going to take Rossann Williams and Brady Brewer direct to me. Rossann has been running our US North America business now for over two years doing a great job on that, and Brady is our Chief Marketing Officer. So certainly I think that stability of leaders running North America and the stability of Rachel and her knowledge of the Americas and stepping into the global CFO role gives me great confidence.

And I'll say this. We've got a very strong bench of talent in Starbucks. And what you're seeing is the next generation of leadership stepping into these roles. And I've got great confidence in them, and so certainly I'm going to continue to do what I do which is we work as a leadership team, we work together as a team based on trust, transparency and teamwork. And these leaders, Rossann and Brady have been on the executive leadership team now for over a year. Rachel will join us on the leadership team. But we won't miss a beat. And we're very grateful to both Pat and Roz for their contribution, because not only did they contribute but they also built great successors in their roles, and I'm very grateful.

Operator: Your next question comes from the line of David Tarantino with Robert W. Baird. Please proceed with your question.

David E. Tarantino
Analyst, Robert W. Baird & Co., Inc.

Q

Hi. Good afternoon. My question is for Pat, and it's related to the upside in your Q1 earnings performance relative to the guidance. Pat, could you maybe unpack the factors that drove the upside relative to what you were thinking at the start of the quarter or whenever you gave the guidance?

And then also, can you give us some perspective on whether that upside reflects maybe benefits that are coming in earlier than you anticipated or greater than you anticipated? And I guess the context of that second part is how should we think about this flowing through to the 2022 outlook, for example?

Patrick J. Grismer
Executive Vice President & Chief Financial Officer, Starbucks Corp.

A

Yes, thank you, David. So we were very pleased with our Q1 result with non-GAAP EPS exceeding the midpoint of our guidance range by approximately $0.08. Picking that apart, about $0.05 of that favorability was driven by our business segment performance including better-than-expected margins in both the Americas and International. Another $0.02 we'd attribute to favorable foreign currency translation, and the remaining $0.01 attributable to a lower-than-expected tax rate, which is driven by unplanned discrete tax benefits.

As to the business performance, we do expect that momentum to sustain balance of the year, so as I mentioned in my prepared remarks, we believe that it is possible that we could deliver full year results ahead of the guidance we've given. However, when you consider where we're at in our fiscal year with three quarters to go and when you also consider the continued volatility and the operating environment, it's prudent to hold at this stage. And that's what we've chosen to do. We've decided to hold our full year non-GAAP guidance until we close Q2 and have half the year under our belt. We will then have much better visibility to the back half of the year and can make a more considered call on what guidance update may be appropriate at that point in time.

But we are very encouraged by what we've seen thus far. Even with the recent volatility we've seen in China, we could not be more delighted with the accelerated recovery we've seen in our US business going from a minus 8% comp in December to a minus 2% comp in January, well on our way to achieving the full sales recovery that we outlooked for the US business by the end of our second quarter fully expecting the quarter to come in at 5% to 10% sales growth. That's comparable sales growth for our US business.

So when you add it all up, there's every reason to be optimistic. It's just a matter of prudence, again, given where we're at in our year and the fact that the pandemic is still impacting our business in different ways. But we're really pleased with the resilience we've built into our business and that's reflected in our results.

Operator: Your next question comes from the line of Dennis Geiger with UBS. Please proceed with your question.

Dennis Geiger
Analyst, UBS Securities LLC

Q

Great. Thanks for the question, and congrats to all on new opportunities and your new roles. For Kevin and Roz, I think you talked about the strength in food and the higher food attach. I think generally food has been a pretty strong contributor to sales and comp for the last several years now, but it sounds like maybe food has been a little bit de-emphasized over the last couple of years given the increased focus on beverage. I'm wondering if you could based on what you've seen recently in the last few quarters specifically this last quarter, does it change and maybe how you're thinking about customer behaviors changing going forward, does it change at all how you're thinking about the food opportunity going forward from here, whether it's anything different on innovation, potential partnerships, or just leaning in a bit more on that opportunity?

Kevin Johnson
President, Chief Executive Officer & Director, Starbucks Corp.

A

Yeah, Dennis, thanks for your question. Let me share our perspective, and then, Roz, I'll hand it to you to add a bit more from the US perspective.

But Dennis, strategically we are a beverage-first company. We are in the business of handcrafted beverages personalized for each and every customer around coffee and tea and it's that experience we create around handcrafted beverages. And that's why we amplify, we talk about our innovation. It's around customer experience. It's around relevant new beverage innovation, and it's around digital customer relationships.

And by focusing and understanding that we are a beverage-first company, that what we do is create that experience around those handcrafted beverages has been very important in the growth that we've been driving. And so we talk about that a lot. We focus on that a lot because that is at the end of the day what is a significant differentiator for Starbucks.

Now, we then attach food, and so I'm not saying food is not important, but we're very clear strategically the most important thing is to be on the front foot and innovate and drive those relevant beverage platforms and then differentiate through the fact that our Starbucks partners in our stores handcraft those beverages personally for each and every customer. And then we attach food.

Now, when we attach food, our R&D teams have been very thoughtful about how to have the food menu be relevant to the dayparts and to the beverages that we sell. And they've done a phenomenal job with that over the years, and if I were to say what is the – probably the most dominant shift in consumer behavior, it's this whole shift to plant-based. And that is a shift both in beverage and in food.

On the beverage side, this is why we've introduced all the alternative milks whether it's almond milk, soy milk, oat milk, all of that's important. And then on the food side, you see what we've done with things like the Impossible Sausage Breakfast Sandwich and you're seeing more and more plant-based proteins in our food menu. And in fact, we have one Starbucks store here in the Seattle area that we've gone to 100% plant-based food menu. We use that as sort of a test area when we innovate and create things here in our support center, in the Tryer center. We test in that store.

So if I think about both beverage and food, the number one trend that I would highlight there is just the consumer shift in consumer preferences around plant-based.

And Roz, let me hand to you. You might have some additional numbers and color to add to that. But I think at a macro level, those are the two most important points, I think, Dennis.

Rosalind Gates Brewer
Chief Operating Officer, Group President-Americas & Director, Starbucks Corp.

A

Yeah, so, Kevin, I think you hit it pretty strong there in terms of us really aligning with customer preference. I will say that the work that our team has been doing around our digital platform and getting to know our customers better than we've ever known them before, we're understanding how their preferences are trending.

What this is also allowing us to do is to make great coffee as well. Because now we're learning how to match and pair coffee with great food and beverage items so that we bring together both a food and beverage combination. So the work ahead of us by no means minimizes food. Actually, we see it as a golden opportunity for us to just further expand our presence and create quality food, attach items to go along with great coffee.

Operator: Your next question comes from the line of Jon Tower with Wells Fargo. Please proceed with your question.

Jon Tower
Analyst, Wells Fargo Securities LLC

Q

Awesome. Great. Thanks. Just quickly, a clarification, and then a question. First the clarification. On the slower pace of store closures that Pat I think you mentioned earlier in the transcript, is there an expected revenue impact in 2021? And is the 40 basis point margin benefit still stand from those closures?

And then my question is on the China loyalty members and the platform. Obviously very impressive growth here, and I was hoping maybe you could offer some insights into how customers in that market are using the brand now versus the past, perhaps differently you're seeing either daypart changes or ticket growth. And I know obviously COVID might be muddying the visibility here in exactly understanding what the trends are, but if you could offer some insight into daypart usage, ticket growth, obviously frequency changes around the platform, that would be great.

Kevin Johnson
President, Chief Executive Officer & Director, Starbucks Corp.

A

Jon, thanks for your questions. We'll have Pat take the first clarification that you asked for, and then John Culver will comment on China loyalty member behaviors.

Patrick J. Grismer
Executive Vice President & Chief Financial Officer, Starbucks Corp.

A

Yes, thank you, Kevin. So Jon, with respect to trade area transformation progress, as of the end of Q1, we had completed approximately one-third of the store closures included in our trade area transformation initiative and expect to complete the majority of remaining closures by the end of this fiscal year as originally planned. So there has been a bit of a delay relative to what we had anticipated at the beginning of the year, and that's entirely a function of how thoughtfully the team is continuing to refine the store closure plans based on how we read the impacts we're seeing from stores as they are closed in terms of both sales transfer and margin with a view to continue to optimize as we go.

But we're as committed to that program now as we were at the start of the year and even back to June when we first announced it and then subsequently expanded the program. As to the margin impact, we continue to expect about a 40 basis point improvement to our consolidated margin or our enterprise margin on a full-year basis. So even with a slight delay to some of the closure activity, we continue to expect meaningful margin expansion as a result of this initiative.

John Culver

Group President-International, Channel Development and Global Coffee, Tea & Cocoa, Starbucks Corp.

A

And, Jon, to your question on China and the digital and what we're seeing, a little bit deeper dive on it. First off, the daypart impact, we're really seeing an uptick in the morning daypart. But pretty much the recovery is taking place across all dayparts consistently. But from a digital Mobile Order & Pay perspective, we are seeing an uptick on the morning side.

In terms of the ticket as it relates to digital, we are seeing ticket consistent with what we've seen previously. Generally in China our ticket runs a bit higher than the US under normal circumstances. That is because of group ordering. And I would say our ticket is living up to that historical performance.

The other aspect that we're seeing is social gifting, and social gifting is a big piece of digital in China. We've introduced that as part of the rewards program, and we're seeing a nice uptick of that as well. So very pleased with the progress the team is making there and we're going to continue to invest and double down on our digital footprint in China.

Operator: Your last question comes from Chris O'Cull with Stifel. Please proceed with your question.

Chris O'Cull

Analyst, Stifel, Nicolaus & Co., Inc.

Q

Thanks, and thanks for getting me in. Pat, my question is related to the plant-based beverages. Is the shift to plant-based beverages a positive for margin on the beverage side, or does it compress the profitability relative to milk-based drinks all else equal? And how does continued optimization of the supply chain impact that dynamic over time?

Patrick J. Grismer

Executive Vice President & Chief Financial Officer, Starbucks Corp.

A

Yeah, thank you for the question, Chris. I would say that from a margin perspective, currently the impact is a little bit of a push because while there is incremental cost associated with those alternative milks, we do charge a premium and so that helps to mute the impact to margin.

I would say much longer term it remains to be seen. A lot of it will depend on how consumers increasingly migrate to those alternative milks, not just in our business but broadly, in a way that supports increased production which should over time reduce the cost and then we have the opportunity to reevaluate whether at some stage it makes sense to change our pricing practices.

I would say generally speaking our goal is to maintain if not expand our margins over time.

Operator: And that was our last question today. I will now turn the call over to Mr. Johnson for his closing remarks.

Kevin Johnson

President, Chief Executive Officer & Director, Starbucks Corp.

Well, I want to thank you all for joining us today, and I also wanted to invite you to join us on March 17 for our annual meeting of shareholders. It will be a virtual meeting where we will celebrate Starbucks and reflect on our journey over the last 50 years since the founding of the company in 1971 while at the same time looking forward to a very bright future. And we hope you enjoy – that you join us for that virtual meeting and we look forward to seeing you or participating with you on March 17.

Thank you, everybody.

Operator: This concludes Starbucks Coffee Company's Conference Call. You may now disconnect.