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Starbucks Corp. (SBUX)

Q2 2021 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good afternoon. My name is Devin, and I'll be your conference operator today. I would like to welcome everyone to Starbucks Coffee Company's second quarter fiscal year 2021 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 like to turn the call over to Durga Doraisamy, Vice President of Investor Relations. Ms. Doraisamy, 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 second quarter fiscal year 2021 results. Today's discussion will be led by Kevin Johnson, President and CEO; and Rachel Ruggeri, CFO. And for Q&A, we will be joined by John Culver, Group President, International Channel Development and Global Coffee, Tea, & Cocoa; Brady Brewer, Chief Marketing Officer; Rossann Williams, President, North America.

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, May 28, 2021.

Finally, for your calendar planning purposes, please note that our third quarter fiscal year 2021 earnings conference call has been tentatively scheduled for Tuesday, July 27.

I will now turn the call over to Kevin. Kevin?

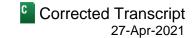
Kevin Johnson

President, Chief Executive Officer & Director, Starbucks Corp.

Good afternoon and thank you for joining us today.

I want to begin this call by recognizing the impressive momentum in our business, evidenced over this past year and further amplified by the Q2 results we released today. While the COVID-19 pandemic is not over, this momentum is giving us confidence to raise our full-year guidance, as Rachel will outline later.

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Starbucks is as well-positioned as it has ever been, as global events have driven us to instill a new level of agility and speed into the business. With our Growth at Scale agenda in place well before the global pandemic emerged, we've quickly set principles and established store protocols to guide us globally. We monitored events in real-time and quickly adapted to changing conditions on a store-by-store basis around the world, working to provide safe, familiar, and convenient experiences for our partners and customers.

Many of us have lived this past year feeling isolated, protecting ourselves and our families from COVID-19. We now share a powerful craving for human connection, a desire to socialize and feel part of a community, and a need to be with others and heal. And with vaccination programs underway, and in turn consumer mobility, we have begun to see what we describe as the great human reconnection. This is evidenced by our Q2 sales in the US, which fully recovered in the quarter, as we had previously communicated, and the forward momentum across our business around the world as the COVID-19 vaccine distribution progresses at varying rates.

It is no secret that consumer behaviors were disrupted as a result of the pandemic. We recognized shifts in behaviors early, and our understanding of those behaviors will guide our strategy well beyond the pandemic as we believe many of these behaviors are here to stay. Our ability to move with speed and agility and to be out in front of these shifts have helped further differentiate Starbucks, positioning us well for the future.

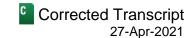
I had previously outlined the five most notable consumer behaviors we are laser focused on, which I will share with you again today. First, customers crave human connection. They have been longing to be together again, face to face, feeling part of a community. This is human nature and has always been central to the Starbucks experience. Second, they are looking for convenient, personalized experiences that effortlessly fit their lifestyle. Third, customers appreciate consistency, knowing what to expect at each visit. Fourth, customers seek out high-quality offerings that support the well-being of the planet and society. And finally, customers are increasingly looking to support brands with strong values, values that are demonstrated by actions.

Not only have we been adapting to and benefiting from these consumer behaviors, but we also see a clear opportunity to further modernize and reinforce our leadership position, leveraging our strength in technology and predictive analytics, as well as the continued transformation of our store portfolio, offering experiences that will drive greater customer loyalty in ways only Starbucks can do.

When we spoke with you last quarter, markets were in the initial stages of gaining access to COVID-19 vaccines, and we were seeing very early signs of friends and families celebrating being together again to heal from a year filled with economic and social hardship that has challenged our overall well-being. Certainly, not all markets are moving at the same speed in terms of vaccine distribution, but we know that this is the key that enables all of us to once again be together as part of humanity. And there is no global brand better positioned than Starbucks. Founded 50 years ago, Starbucks was built for this moment.

Now I want to share with you results from Q2 that reinforce my optimism for our long-term outlook. Let me begin in the US. Building on our very strong Q1 holiday results, our second quarter comparable store sales returned to strong positive growth and a meaningful improvement from last quarter's minus 5%. In Q2, comparable store sales rose to an impressive 9%, at the high end of our 5% to 10% guidance range for the quarter. Once again, the credit for this remarkable resilience and recovery goes to our phenomenal green apron partners who delivered another quarter of stellar performance in Q2, driving steady improvement, culminating in a new record for weekly sales and full US comp recovery as we exited the quarter.

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Importantly, in Q2 we further advanced 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.

Let me share notable highlights from Q2 and our traffic-driving initiatives for the balance of fiscal 2021, starting with the largest contributor for the quarter, expanding digital customer engagement. Digital continues to be a significant driver of our sales recovery in the US. Starbucks Rewards contribution to the business continues to exceed pre-COVID levels and for the second consecutive quarter is displaying all-time highs across key metrics between continued growth in SR member spend, fueled by strength in ticket and frequency, as well as new member acquisition.

52% of our US company-operated sales in Q2 were driven by Starbucks Rewards members, reflecting strong member engagement and resilience. Total 90-day active members grew by over 1 million members in Q2 to a record 22.9 million. Relative to the launch of Stars for Everyone just six months ago, our 90-day active SR member base has expanded by 19%, a clear testament that the program is attracting customers as we had intended. The increase was underpinned by a meaningful uptick in conversions, with more app downloads advancing to member activations. With Stars for Everyone, customers can choose from a range of payment options offering convenience, flexibility, and choice.

Our pioneering digital capabilities not only successfully transform our digital relationships to drive mobile ordering but also amplify convenience and safety, which are both very much top of mind for our customers. We continued to leverage the advantages of our mobile app to elevate the personalization of the customer experience and deepen customer engagement. As a result, mobile orders represented 26% of US company-operated transactions in Q2, up from 18% a year ago. As we have seen each quarter, our digital channel's convenience has proven successful in driving demand.

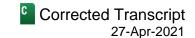
A quick comment on digital that I think is important to highlight: the increasing role that artificial intelligence is playing in the growth and success of our company, an initiative we call Deep Brew. In October 2019, I published an article on LinkedIn entitled, Can Artificial Intelligence Help Nurture Humanity? This article outlined a vision for how Starbucks would leverage artificial intelligence in support of our mission, and that vision has come to life with Deep Brew, our AI engine that is now used today throughout the company.

Deep Brew personalizes the offers and suggestions we make to our customers. It is also at the center of Trade Area Transformation, which I'll provide an update on in a moment. Deep Brew has now automated daily inventory orders across hundreds of US stores as we deploy it broadly. It is supporting partner scheduling and optimizing it in ways that improve both the customer and the partner experience. Deep Brew drives our pandemic dashboard used by our retail leaders across the US, and Deep Brew is now doing predictive analytics to model vaccination progress in key markets around the world.

Our work in AI is providing Starbucks the underlying predictive models enabling us to fuel the great human reconnection by freeing up partners to do what they do best, connect with customers and deliver a world-class customer experience.

Elevating the customer experience is another fundamental business-driving initiative underlying the Growth at Scale agenda and perhaps the most important of all of our priorities. Starbucks has always excelled at meeting our customers where they are, even as transactions in the current environment have migrated from dense metro centers to suburbs and from cafes to drive-thrus.

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Company-operated sales in our US suburban and rural locations, where drive-thrus are most predominant, continue to gain momentum, more than off-setting the impact from central business districts and metro centers, where the recovery continues to lag. The drive-thru channel has improved quarter over quarter since the onset of the pandemic. We continue to invest in several initiatives to increase the throughput of our drive-thrus, including updated operational standards, handheld order devices, more efficient warming ovens, and accelerated deployment of our more efficient Mastrena espresso machines.

As a result, drive-thru saw a slight improvement in out-the-window times versus the prior year. Out-the-window drove over 50% of net sales in Q2, increasing more than 10% from pre-pandemic levels, unlocking capacity and enhancing the customer experience by reducing wait times, ultimately fueling our business recovery.

Last June, we wrote a letter to all stakeholders, outlining our plan to accelerate strategic initiatives focused on rapidly transforming our store portfolio and optimizing for shifting consumer behaviors. This plan, which we referred to as the Americas Trade Area Transformation, has positioned us extremely well for the future. We called this early, and in just nine months we have already completed 70% of the strategic store closures, clearing the way for the development of new, innovative, and more efficient retail store formats over time.

The plan leverages new store formats like Starbucks pick-up in dense metro areas that complements our traditional Starbucks cafe format in suburban and rural areas and also enables to us balance continued growth in high-volume and high-margin locations, primarily cafes with drive-thrus. We are responding to customers' increased desire for convenience while also improving the overall profitability of every trade area.

As the great human reconnection gains momentum, and in anticipation of behaviors and daily routines continuing to evolve, we are meeting our customers wherever they need us to be with the right store in the right place and at the rate time, yet another key differentiator of the Starbucks brand.

As our sales fully recovered in the quarter, average ticket remains meaningfully higher than pre-pandemic levels. This is true even as transactions have improved significantly quarter-over-quarter, giving the shift in sales mix toward drive-thru where average spend tends to be higher, partially due to a higher incident of group orders.

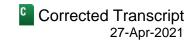
US ticket comp growth of approximately 21% in Q2 was driven by a combination of increased beverage attach, premium beverage mix, increased customization and upsizing, and all-time-high food attach. The popularity of our innovative menu offerings which command a premium price also benefited US ticket growth. Customers have responded extremely well to the new beverage platforms we have introduced with a focus on relevant new hand-crafted beverages that deliver on wellness trends, offer customers choice, and support our sustainability agenda.

Our winter and spring menus resonated and drove momentum. Cold beverages delivered resounding year-over-year growth in Q2, led by Cold Espresso, Starbucks Refreshers, and Cold Brew. Also driving our strength in cold beverages was our spring line-up, which launched in early March. We have seen an overwhelmingly positive response to oat milk with the iced brown sugar oat milk shaken espresso far exceeding expectation to-date. This has helped us push year-over-year growth of 53% in alt-dairy beverage sales, a testament to the relevance of our sustainability agenda.

Plant based-is also resonating in food with the Impossible breakfast sandwich delivering record performance, which alongside other breakfast sandwiches and cake pops pushed food attach to record highs in Q2.

Any way you look at it, our second quarter results were phenomenal in the US and exceeded our expectations.

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Importantly, affinity for Starbucks has strengthened as measured by improvements in our customer connection scores and growth in customer loyalty, which further reinforces the strength and resilience of the Starbucks brand and healthy optimism for the future.

I will now move on to China, our second lead growth market. The strong start to fiscal 2021 continued as we entered Q2, and while a resurgence of COVID-19 restrictions impacted customer mobility as the quarter progressed, our China leadership team, once again, rapidly adapted to the changing conditions and successfully regained momentum as we exited the quarter.

In Q2, we achieved 91% comp growth in China, including VAT favorability of approximately 9 percentage points, which came in slightly below our expectations as unanticipated pandemic-related restrictions were imposed across the market. Nonessential travel was discouraged in Q2, severely impacting our stores located in travel hubs, including during the entirety of the Chinese New Year holiday, the peak domestic travel season, which saw significantly lower number of travelers relative to both pre-pandemic and prior-year levels.

Even as mobility impacted our comps, our ability to expand our digital customer relationships in China through the Starbucks Rewards program reinforces the long-term position of our brand in our fastest-growing market. As we lapped the first anniversary of the pandemic, I am particularly pleased with our ability to dramatically expand digital customer relationships in China through the Starbucks Rewards program. Our progress is evidenced by the number of 90-day active Starbucks Rewards members more than doubling versus prior year to 16.3 million, driving 72% of sales in China, up 5 percentage points from prior year.

In addition, we expanded the Starbucks Now Mobile Order & Pay service to WeChat in Q2, making our mobile ordering services ubiquitously available to customers on both Alibaba and WeChat ecosystems, as well as our Starbucks app. This enables us to acquire new customers in the WeChat ecosystem while enhancing the customer experience by allowing customers to place orders via the app of their choice. In Q2, we also launched our flagship store on JD.com, one of China's leading e-commerce platforms, offering merchandise, stored value cards and seasonal food offerings among other products.

Mobile Order sales mix hit a record 34% of sales in China, up from 30% in Q1 with 15% driven by Starbucks Delivers and 19% from Starbucks Now. Starbucks Rewards customer engagement continues to grow as Mobile Order sales have more than doubled in China over this past year. As COVID-related restrictions subsided late in the quarter, momentum in customer mobility improved, particularly in residential, office, and commercial trade zones.

In addition, as much of our growth in China comes from our continued expansion of the store portfolio, we crossed the 4,900-store milestone with the opening of 110 net new stores in Q2. That equates to 14% growth in net new stores over the past 12 months, which is particularly impressive considering that we suspended new store development activities for a couple of months in China at the onset of the pandemic. This week, we announced our 5,000th store opening in China, underscoring our continued confidence in Starbucks' long-term growth opportunity in China.

And finally, a few comments on the strength of our channel partnerships with Nestlé and Pepsi.

In the US, Starbucks' share of total packaged coffee outpaced the category, growing over 8% in dollar sales in Q2. This is a sharp contrast to the overall coffee category, which declined due to a surge in pantry stocking that occurred last year at the onset of the pandemic. I'm proud to say that Starbucks remained the number one brand

in total coffee in the US and was the top share gainer of the coffee category in Q2, gaining nearly 1.5 points over the prior year.

Internationally, Starbucks products on single-serve platforms including Nespresso and Dolce Gusto continue to exceed our expectations. And with the Q1 launch of Starbucks products on the Nespresso Vertuo line, our outlook is optimistic as we continue to build distribution, amplify the brand, and grow share. The Global Coffee Alliance is now in 71 markets around the world, up from 48 markets in Q2 fiscal year 2020, bringing more customers the opportunity to enjoy Starbucks in many different ways.

Similarly, consumption of our US ready-to-drink coffee products through our North American Coffee Partnership with PepsiCo grew more than 23% in Q2, over a 5% jump from Q1. Q2 also marked the launch of new beverages including the Cold & Crafted platform and new Nitro Cold beverages leveraging last year's Starbucks Nitro ready-to-drink platform launch, which became the number one innovation in the ready-to-drink category.

In summary, as you can see, there are many reasons to be confident and optimistic about the future for Starbucks. Personally, I am optimistic about the back-half of this fiscal year. But even more importantly, it is clear to me that the actions we're taking, the customer and partner response we are seeing, and the focus and discipline we have brought to the business have clearly positioned Starbucks for the next several years of growth. The Growth at Scale algorithm we shared at our December Investor Day is solid. The Starbucks brand is stronger and more resilient than ever. We have more opportunities to reach customers than ever before. And we are continuing to personalize and enhance those interactions by always delivering for our customers a unique and innovative food and beverage experience in a safe environment with a personal touch where and when they want.

As we celebrate our 50th anniversary throughout this year, we do so knowing that Starbucks Third Place experience is well established and core to the great human reconnection that has begun. We are a destination for human connection, a warm and welcoming place for all, and a place that brings entire communities together. And that is exactly what the world needs: a place that inspires and nurtures the human spirit; one person, one cup, and one neighborhood at a time.

And I want to thank our over 400,000 green apron partners in 83 markets around the world who have been navigating through this complex environment. Partners, it is you who exemplify what Starbucks has always stood for: a company with a purpose that goes beyond the pursuit of profit, a culture that demonstrates care for our partners, creates uplifting experiences for our customers, and plays a positive role in our communities and throughout society.

And with that, I'm pleased to turn the call over to Rachel who will walk you through our Q2 results.

Rachel?

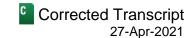
Rachel Ruggeri

Executive Vice President and Chief Financial Officer, Starbucks Corp.

Thank you, Kevin, and good afternoon, everyone.

As Kevin shared, we are very pleased with the continued momentum in our business with meaningful sequential improvements in quarterly financial results demonstrating the overall strength and resilience of the Starbucks brand, as well as the effectiveness of our strategies, our innovation, and our agility.

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Starbucks reported global revenue of \$6.7 billion in Q2, up 11% from the prior year, inclusive of approximately 2% foreign currency favorability with growth driven by our company-operated retail markets, particularly in the US. And with these better than expected results, we are confidently raising our outlook for the full year, as I will explain later.

Q2 EPS exceeded our expectations, primarily driven by better than expected margin recovery. Q2 GAAP EPS of \$0.56 increased from \$0.28 in the prior year and was \$0.15 higher than the upper end of our guidance range, inclusive of lower than expected restructuring and impairment costs of about \$0.04, largely attributable to our more favorable lease exit costs. Q2 non-GAAP EPS was \$0.62, up from \$0.32 in the prior year and \$0.12 above the upper end of our guidance range, primarily driven by continued core business recovery fueled by strong US performance.

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

Our Americas segment delivered revenue of \$4.7 billion in Q2, 8% higher than the prior year, driven by a 9% increase in comparable store sales, partially offset by 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 5% in the prior quarter to a very strong positive 9% in Q2. Transaction comp improved from minus 21% in Q1 to minus 10% in Q2 with continued strength in average ticket which remains significantly above pre-pandemic levels.

On an cumulative two-year basis which measures our growth relative to pre-pandemic levels, US comp sales in the month of March grew 11%, implying annual average growth above our long-term algorithm of 4% to 5% and a full sales recovery by the end of Q2 as we previously communicated.

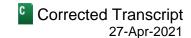
Americas Q2 non-GAAP operating margin expanded 550 basis points from the prior year to 19.9% primarily driven by lapping of COVID-19-related costs incurred in the prior year, sales leverage from business recovery, pricing, temporary government subsidies, and the benefits of Trade Area Transformation, partially offset by growth in investments and wages and benefits for our store partners. Notably, this represented a meaningful improvement from the prior quarter's non-GAAP operating margin of 18.8%.

Moving on to International; the International segment delivered revenue of \$1.6 billion in Q2. Excluding an 8% favorable impact of foreign currency translation, the segment's revenue in the quarter was 34% higher than the prior year, reflecting a 35% increase in comparable store sales, inclusive of a 4% VAT benefit and an 8% net new store growth over the past 12 months, partially offset by lower product sales to and [royalty] revenues from our international licensees.

In China, we lapped the first anniversary of widespread COVID-related store closures, and as Kevin mentioned, comparable store sales grew 91% in Q2 including VAT favorability of approximately 9 percentage points. The VAT benefit was reinstated for the entire quarter to mitigate the impact of government-mandated restrictions across the Mainland following flair-ups of COVID-19 in several key cities significantly limiting customer mobility. On a cumulative two-year basis, China comp sales growth in March was minus 5% including 4% of VAT benefit.

International's non-GAAP operating margin rose to 19.6% from 3.9% in the prior year and surpassed Q2 FY 2019 margin by 30 basis points, mainly driven by sales leverage reflecting the lapping of severe impacts in the prior year attributable to the COVID-19 outbreak and favorability from temporary government subsidies in Japan.

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On to Channel Development, revenue was \$370 million in Q2, a decline of 29% from the prior year, primarily driven by Global Coffee Alliance transition-related activities, including a structural change in our single-serve business and lapping additional product sales in the prior year to Nestlé to transition food service order fulfillment. When excluding the approximately 30% adverse impact of these transition-related activities, Channel Development's revenue grew by nearly 2% in Q2, mainly driven by growth in our ready-to-drink business.

The segment's non-GAAP operating margin expanded to 46.7% in Q2 from 37.8% in the prior year. Normalizing for the 770 basis point impact of Global Coffee Alliance transition-related activities I just mentioned, Channel Development's operating margin expanded 120 basis points in Q2, driven primarily by the strength of our ready-to-drink business.

Finally, at the consolidated level, non-GAAP operating margin was 16.1% in Q2, up 690 basis points from 9.2% in the prior year, up 30 basis points from Q2 of fiscal 2019, and an improvement from 15.5% in Q1. The year-over-year increase in our operating margin through Q2 was primarily driven by lapping of COVID-19 impacts but also included stronger than expected sales leverage and favorability from temporary government subsidies. The margin expansion in Q2 was partially offset by both growth and investments in wages and benefits for store partners.

Moving on to our guidance for fiscal 2021, now that we're at the midpoint of our fiscal year, we have better visibility to anticipated full-year results, and therefore we are raising our full-year fiscal 2021 EPS guidance as well as updating a few other metrics. The increase is predominantly driven by better than expected operating results in the first half of the year, and anticipated benefit attributable to certain discrete tax items in Q4 and a slight tailwind from foreign currency translation, barring of course any new significant and sustained waves of COVID-19 infections and any major economic disruptions.

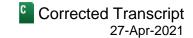
Our new fiscal 2021 GAAP EPS guidance range is \$2.65 to \$2.75, up from \$2.42 to \$2.62 previously. Our fiscal 2021 non-GAAP EPS is now expected to be in the range of \$2.90 to \$3.00, up from our prior range of \$2.70 to \$2.90. We continue to drive leverage in all areas of our business, giving us confidence in our full-year earnings guidance. As a reminder, our fiscal 2021 GAAP and non-GAAP EPS guidance ranges are inclusive of approximately \$0.10 for the 53rd week.

Given the momentum we've seen in the US business to date, we are raising our guidance for full-year fiscal 2021 consolidated revenue to a new range of \$28.5 billion to \$29.3 billion, up from \$28 billion to \$29 billion. As a reminder, our fiscal 2021 consolidated revenue guidance range is inclusive of approximately \$500 million for the 53rd week.

Additionally, we are raising our consolidated operating margin to a range of 16.5% to 17.5%, up from our previous guidance of 16% to 17%, even as we continue to make meaningful investments in our key growth drivers. We continue to expect our operating margin recovery to lag sales recovery by two quarters, improving as the year progresses and approaching our ongoing target range of 18% to 19% at the consolidated level as we exit fiscal 2021.

As I mentioned earlier, we currently expect certain discrete tax items to favorably impact Q4's tax rate in fiscal 2021. Based on current expectations, Q4's tax rate is forecasted to decline to the high teens level. But given the nature of discrete tax items, the timing and magnitude of the favorability are subject to change. In contrast, Q3's tax rate is expected to be slightly higher than our Q2 tax rate. As a result, we now expect our fiscal 2021 effective GAAP and non-GAAP tax rates to be in the low to mid-20% range.

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Moving on to comp sales growth, as sales in our two lead growth markets have returned to roughly pre-pandemic levels, albeit with different customer patterns than before the pandemic, we are reverting to our quarterly sales reporting convention at this time and do not anticipate providing monthly comps going forward. And while we continue to see strength in average ticket, we expect it to moderate as customer mobility improves, and we anticipate store visitation frequency will start to normalize in the latter half of fiscal 2021. Therefore, we expect a corresponding shift between the mix of traffic and ticket comp as we lap the depth of fiscal 2020's pandemic impacts in Q3.

As a reminder, our usual one-year reported comps are expected to be outsized as we lap the significant negative comps from the effects of COVID-19 in fiscal 2020, which began in late January in China followed by the US as we exited Q2. Consequently, until we lap fiscal 2020's COVID-19-related impacts, we believe that our fiscal 2021 comps should be assessed relative to pre-pandemic levels. Therefore, the two-year comp growth rate will be more indicative of our underlying performance.

I want to underscore that the two-year comps we are monitoring are not calculated on an additive basis, which yield distorted results when lapping large negative comps, as the second-year comp base is not comparable to the first year. Instead, we are calculating our two-year comps on a multiplicative basis as described in today's earnings release.

Finally, to be clear, except for the updates on revenue, EPS, margin and tax rates that I just provided, the remainder of our full year fiscal 2021 guidance metrics are unchanged from what we communicated with our Q1 fiscal 2021 guarterly earnings report.

To summarize, we are delighted that our US business has fully recovered sales as we expected. While we may experience pandemic-related volatility until global herd immunity is attained, we have the protocols in place to respond in real time to ensure the health and safety of our customers and partners while continuing to operate the business. Our performance in Q2 demonstrates the relevance and success of our strategies with operating margins above the levels of two years ago. Our cash position remains strong, and we have meaningfully deleveraged our balance sheet this year by paying off debt maturities totaling nearly \$1.7 billion, keeping us on track to approach our 3 times leverage target by the end of this fiscal year.

Going forward, I want to underscore that we have a clear set of actions underway to continue to drive comp growth and profitability as we move through the year. Importantly though, we will continue to invest in our business strategically with a long-game mentality, taking decisive actions to ensure that we continue to drive shareholder value long into the future.

Now more than ever, we remain confident in the strength of our brand and the durability of our growth model, giving us continued confidence in the model shared at our 2020 Investor Day of delivering long-term double-digit EPS Growth at Scale with another year of outsized EPS growth expected in fiscal 2022 as we lap this year's recovery curve.

Once again, the real credit for our success goes to our more than 400,000 green apron partners worldwide, who continue to go above and beyond to deliver an elevated Starbucks experience. That experience above all fueled our growth this past quarter and will continue to be a competitive advantage in the future.

Thank you. And with that, Kevin and I are happy to take your questions, joined by Rossann Williams, Brady Brewer, and John Culver, as Durga outlined at the top of the call. Thank you. Operator?

QUESTION AND ANSWER SECTION

Operator: [Operator Instructions] Our first question comes from the line of John Glass with Morgan Stanley. Please proceed with your question.

John Glass

Analyst, Morgan Stanley & Co. LLC

Q

Hi. Good afternoon. I hope you all are well. Could you just maybe provide a little more color on the US comps or the Americas comps? I suspect it's a tale of two formats, the suburban drive-thrus doing really well, the central business districts lagging as you indicated. Has that gap begun to close? Have you seen any changes? Maybe you could just amplify or sort of be more specific about the two comps and the components of it. Have you seen any change in the morning daypart? I know people had shifted to later in the day. Are you starting to see that more traditional morning rush come back in the business? Thanks.

Kevin Johnson

President, Chief Executive Officer & Director, Starbucks Corp.



John, let me comment, then I'll hand it over to Rachel for more specifics on the numbers. But on your last part of the question, in terms of dayparts, we saw our two-year comp growth in all dayparts. So we've seen that morning ritual return, and we've seen positive two-year comps across those dayparts, which is a very, very positive sign.

One of the things that I've been monitoring is when you look at when the FDA announced emergency approval for the Pfizer vaccine on December 11 and then followed with Moderna on December 18 and then J&J on February 27, sort of mapping the actions taken by the FDA to announce availability of vaccines, and correlated that back to watch what's happening in our stores day to day, and that action alone created this wave of optimism of, I think, consumers customers being more mobile. Now, they're still being cautious, but then certainly as we saw the rate of vaccinations start to hit a 3 to 4 million vaccinations a day, you really start to see how this great human reconnection unfolds.

And so we saw it unfold in all dayparts, and we still see stores in our dense metropolitan areas recovering slower. But I'll tell you the cafes with drive-thrus that we have are comping to more than make up for that. We are seeing recovery, though, in those metropolitan areas. It's just I think that's going to take a little longer for businesses to bring employees back to work and sort of re-shift those traffic patterns. But I think very, very positive progress on dayparts and continued progress in terms of both in dense metropolitan located stores. But I actually think the Trade Area Transformation is unlocking a significantly positive upside for us.

And so maybe, Rachel, why don't you hit on the numbers? And then, Rossann, I'll let you add other observations that you see from the US perspective.

Rachel Ruggeri

A

Executive Vice President and Chief Financial Officer, Starbucks Corp.

Sure. Thank you, Kevin. What I would say is when you look at the comp in the US business in the quarter at 9%, to be able to achieve a 9% comp it really took growth across our overall portfolio. So the overall portfolio grew. Certainly, our stores in the more metro urban areas are still slower to recover, but they improved greatly quarter-over-quarter. And, of course, the outperformance in our drive-thru. So we saw that across the board and across all dayparts, which gave us confidence.

And to Kevin's point, what helped fuel that particularly in our more metro areas and urban markets was the Trade Area Transformation where we're about 71% – about 70% complete with that effort today. As you might remember, we communicated we would close around 800 stores across Americas. And so as we've gone through that, we've been able to overall strengthen the portfolio as part of that effort. So that's playing into some of the recovery as well, as well as the overall mobility that's increased throughout the United States.

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

Rossann Williams

Executive Vice President, President North America, Starbucks Corp.

Yeah. Thank you. The only thing I would add is the interruption of our customers' mobility really impacted our AM morning daypart, and that was daypart that we were most concerned about recovery. Given that it is a morning daypart sales mix percent is largely recovered compared to pre-COVID levels, this means that as a percent of tender by daypart, we are seeing the morning percent relatively in line with our pre-COVID trends. We expect this morning trend to sustain as things open back up and people return to the central business districts and the urban trade areas.

Interestingly, though, we have seen that the peak daypart is actually moved slightly later in the morning from a pre-COVID time of 7:30 AM to 9:30 AM to current times of around 8:00 AM to 10:00 AM.

John Glass

Analyst, Morgan Stanley & Co. LLC

Thank you.

Operator: Our next question comes from the line of Sharon Zackfia with William Blair. Please proceed with your question.

Sharon Zackfia

Analyst, William Blair & Co. LLC

Hi. Good afternoon. I guess I'm curious about the reiteration of the comp ranges for both the Americas and International. It kind of seems like you're ahead in the Americas year-to-date and just maybe a little bit on the lower end of International. Are you seeing something in the International business that gives you comfort that, that full year comp range is achievable?

Kevin Johnson

President, Chief Executive Officer & Director, Starbucks Corp.

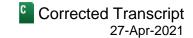
Rachel, why don't you take that? And then I'll add to it.

Rachel Ruggeri

Executive Vice President and Chief Financial Officer, Starbucks Corp.

Sure. Sharon, thanks for the question. What I would say is China was seeing good momentum before we entered into Q2, and then there was a resurgence of COVID that caused restrictions across travel, across actually our international markets, impacting China. Given this was an important period for market in terms of holidays and the Chinese New Year, and so as a result we saw that cause mobility issues in the quarter which impacted

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performance and impacted comp. As we saw some of the restrictions start to lift at the end of the quarter, we started to see momentum build, particularly in our key trade zones and key trade areas.

For those reasons, we believe in the overall momentum in the market, and the brand continues to be strong. And we're continuing to see great growth in our digital platforms. We're connecting with customers in new and different ways. We continue to open a significant amount of new stores, so our confidence in the market continues. And because of that, we felt the comp range was appropriate.

There's a lot of volatility in our comps overall, and so for that reason we kept comp guidance in line with the ranges we had provided previously. That allows us to be able to keep that level of volatility and certainty within that range as we find our customers continue to return to our business. And until our customers have a more routine activity overall and we see a more return to normal partners, we think that range is appropriate.

Kevin Johnson

President, Chief Executive Officer & Director, Starbucks Corp.

Yeah. And I'll just add, Sharon, I think clearly the key is vaccination progress in every country around the world. And one of the things that we've done is we saw vaccination progress, progress very well across the United States and the strong performance we had in the United States. We're now using our Deep Brew AI technology to start to monitor and look at the vaccination progress of every country around the world and use predictive analytics to give us a view and correlation to how that's going to pace the recovery and the acceleration of our growth in International business.

Clearly, this quarter we had some COVID-related restrictions in many countries in Europe, certainly in Japan and China, and so that had an impact there. But when you look at the progress we're making on vaccinations, certainly, in the US, that's a proxy for what's going to happen around the world. And with vaccine manufacturing ramping up and more vaccines available to international markets, I think we're going to see a good result. John Culver?

John Culver

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

Yeah. And, Sharon, what I would just add is, first and foremost, is the optimism that we have that as these restrictions are lifted and customers become more mobile that our business quickly returns to normal operating levels. We saw that in China in the first quarter and early into the second quarter. We saw that in Japan as restrictions were lifted last year. We're seeing that now in Mexico as restrictions have been lifted and vaccinations have improved. We're also optimistic for the UK as openings occur in the UK and vaccination levels approach over 50%.

So all indications are that we're very confident with the comp guidance that we provided from an international perspective. And add further to that we continue to make major investments in our digital footprint and in new stores so that when these markets open back up to full mobility that we are in a position to accelerate our growth and move much faster.

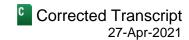
Sharon Zackfia

Analyst, William Blair & Co. LLC

Great. That's great context.



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Kevin Johnson

President, Chief Executive Officer & Director, Starbucks Corp.

Thanks, Sharon.

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

John Ivankoe

Analyst, JPMorgan Securities LLC

Hi. Thank you so much. There's, obviously, a lot of discussion about the labor market in general in the United States. There seems to be increased mobility in 2021 in terms of the workforce and also paying higher prices for the workforce. Could you comment just in terms of anything on the partners that would be insightful? Anything that you're doing new over the next, I guess, 9 or 12 months in terms of attracting, retaining? And just what your overall retention is at this point? Thank you.

Kevin Johnson

President, Chief Executive Officer & Director, Starbucks Corp.

Yeah. Thanks for the question. Let me sort of summarize kind of my view at a high level, and then I'll hand over to Rossann. Yeah. First of all, it's important to ground ourselves in what we've done for our partners over this last year. Keep in mind, a year ago, the extreme lockdowns that we had in the US, we decided to give our partners economic certainty through that period. We did not do any involuntary lay-offs or furloughs. We paid our partners whether they came to work or stayed home. We increased the benefits that we gave them for COVID-related health benefits, mental wellness benefits, parental care benefits, childcare benefits. We took care of our partners through this pandemic, and as a result, our partners have risen to the occasion.

Certainly, as we came out of this pandemic, we made a significant investment in increased of wage that went into effect in December, and partners have applauded that. And so we're at a position right now where I think our partners appreciate what we've done. And we have great respect and appreciation for our partners. So unlike what I've read about from other companies, our retention numbers are good. Our partners' energy and spirit is high, and so I don't anticipate us having challenges when it comes to having our partners show up and be in a position to create a great customer experience in every store around the world.

Now, before I hand it over to Rossann, I do want to comment, though, in some areas in supply chain, let's take a distribution where store deliveries. Now, some of our partners who run the store deliveries or from our customer distribution centers to stores, they've struggled a bit being able to hire and staff to meet the demand that we have and to get enough people. So we are working with them. So I do anticipate we'll do a little bit more to invest and help our supply chain partners, whether it's staff that they need in manufacturing or staffing they need for distribution and transportation.

But when it comes to Starbucks I think we're in a very solid position.

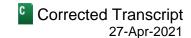
Rossann?

Rossann Williams

Executive Vice President, President North America, Starbucks Corp.

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What I would add to that is currently in certain markets at certain times we are experiencing some labor shortages, but it is not a widespread issue at this time. And as Kevin said, we've invested ahead of the curve with our industry-leading benefits and total pay approach, and I feel confident that we will continue to make the necessary investments required to remain a premium employer of choice.

Now we have, obviously, continued to watch this very closely over the next few months unfolds to ensure that we are continuing but operating stores in a way that team keep up with customer demand.

Rachel Ruggeri

Executive Vice President and Chief Financial Officer, Starbucks Corp.

And I would just add to that, too, is as we've invested meaningfully in our partners, we've still been able to drive our margin. As we look at the back half of the year, we've indicated that our margin will lag our sales recovery by about two quarters. And a key component of that is that we're going to continue to invest in our partners as well as equipment and other things to be able to unlock the demand that we have.

And that's an important note to remind. It means we're still going to see strengthening in our business. We'll strengthen as we move throughout the quarters, but I just want to highlight that, that investment continues to be part of why we're guiding our margin the way we are. And it does include inflationary components as we open up the economy and as we move through some of these stages as well.

John Ivankoe

Analyst, JPMorgan Securities LLC

Thank you.

Operator: Our 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.

Hi. Good afternoon. Rachel, I have a couple of questions about your guidance commentary. The first is, I think the first half's performance over-performed your ranges on the order of something like \$0.20 in EPS, and that is the amount of the guidance raised. But it sounds like there's also some tax benefit towards the end of the year that's in there. So I was just wondering if you could clarify if there's any offsets we should consider on why the guidance range didn't go up by more than it did. I think that's my first question.

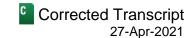
And then the second question is, at the Investor Day in December, I think the company laid out plans for 20%-type EPS growth, or 20%-plus off of the 2021 base. And I was wondering if that type of growth is still in play as you think about next year given the over-performance that you're seeing this year?

Rachel Ruggeri

Executive Vice President and Chief Financial Officer, Starbucks Corp.

Sure. Thank you, David. Thanks for the question. What I would say is we felt confident in being able to raise our guidance on EPS for the full year. And of course a big driver of that is our over-delivery and our outperformance in the first two quarters, but as I've mentioned, we expect that our margin is going to lag our sales recovery over the next couple of quarters. So we'll lag our sales recovery, and some drivers of that are we won't see the one-time benefit that we had from the government subsidies that we had in Q2. So we won't have that.

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We'll start to see our ticket moderate. We still believe that we'll have a slightly elevated ticket as we continue to drive food attach and premiumization of our products as well as shifting customers into cold platforms, but we will see our ticket moderate, which will impact our margin.

In addition to that, as I mentioned, we're going to continue to invest in our business. It's critically important as we think about how we unlock the back half of the year, and we continue to grow and meet the demand. So we're going to have to continue to invest in partners, continue to invest in technology and equipment in our stores. And finally, there is an inflationary component in there as well. So when you put that together, that's what really drives our guidance.

Now, what I would say is we would expect to exit Q4, so we'll strengthen from a margin perspective throughout the quarters, but we would expect to exit Q4 approaching the 18% to 19% guidance range that we gave at Investor Day for the long term. So that will show you how our EPS will essentially strengthen with that margin.

And what I can say in terms of next year, we don't provide guidance for next year above what we've already provided, but I would say you can still expect outsized performance in line with that approximately 20% as we had previously guided.

David E. Tarantino

Analyst, Robert W. Baird & Co., Inc.

Great, thank you. And, Rachel, the government subsidies. Forgive me if I missed this, but what was the magnitude of that? And where did that fall in the P&L?

Rachel Ruggeri

Executive Vice President and Chief Financial Officer, Starbucks Corp.

What I would say is when you think about our over-performance in Q2, so if you think about versus guidance the fact that we over-performed Q2, the two drivers of that in the Americas segment, and it's the government subsidies, so one-time government subsidies, as well as the better than expected recovery. And I would say they're fairly equal in nature.

David E. Tarantino

Analyst, Robert W. Baird & Co., Inc.

Great. Thank you.

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

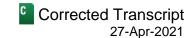
Sara Harkavy Senatore

Analyst, Sanford C Bernstein & Co., LLC

Great, thank you very much. Just I guess a question about the closures on the store, how you're shifting it. One is, do you have any sense of what the sales transfer might have been from closed stores to the ones that have remained open? I know there are lots of puts and takes now, but I'm just trying to figure out if there was any benefit to the system in terms of same-store sales from closing some of these underperforming stores.

And likewise, you've given a lot of color on investments in the business and that lag between top line and margin, but my sense is that the restaurant-level margins at drive-thrus is actually higher than sort of some of the traditional stores, so I would have thought that might be a tailwind as well as the store-based transformation. So

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just those two kind of questions on the face of the store-based sales transfer and then margin differentials. Thank you.

Kevin Johnson

President, Chief Executive Officer & Director, Starbucks Corp.

Sara, thanks for the question. Let me comment, then I'll hand it over to Rachel.

As you recall, we sort of outlined the fact that we're going to reposition 800 stores in North America this year. We're about 70% through the closures of that, but it's also important to note that approximately 200 of those new stores have been built and reopened. So we're also in the process of fulfilling the repositioning aspect of that. And I think that's boding very well for us because it's actually helping us improve the customer experience by having the right store in the right location with the right format for customers.

And we're on track to complete that as we go through the fiscal year. And I think that's one of the things that's going to set us up and help us in fiscal year 2022, kind of going back to David's question about the outsized EPS growth that we look for in fiscal 2022. Rachel, do you want to add some more for Sara in terms of sales transfer? Yeah.

Rachel Ruggeri

Executive Vice President and Chief Financial Officer, Starbucks Corp.

Thank you, Kevin. And thank you, Sara, for the question.

What I would say is from a Trade Area Transformation perspective, if you think about the Americas segment, in my prepared remarks I talked about the fact that Americas saw about a 550 basis point improvement on margin in the quarter. A driver of that was Trade Area Transformation. And so what we've seen is, what we I think outlined in Q1 of this year, is that on a full-year basis at the enterprise level, Trade Area Transformation would be a benefit to margin of about 40 basis points. We saw significant improvement in Q2, and that will still align with approximately 40 basis points on the full year at the enterprise level. But that Trade Area Transformation was a contributing factor to part of the success of the Americas segment in the quarter.

And then in terms of the investments that I talked about, certainly the investments that I've been talking about are across all stores, largely our drive-thrus as we're trying to, as we're focusing on unlocking capacity and being able to accommodate the demand. But it also relates to our cafes as well, but of course more predominantly drive-thrus since that's where we're seeing the majority of our demand currently.

And as you might recall, at our Investor Day we actually increased our comp guidance based on what we have seen from the investments we've been doing. So our comp guidance previously had been in the 3% to 4% range. We increased it to 4% to 5% based on these investments that we're making. And so the fact that these investments are starting to unlock productivity and we're seeing the margin benefit from those, we were able to show on a long-term basis that will increase comp and then subsequently increase our margin and allow us to continue to expand our margin and support our EPS growth for the longer term. So that's where you're seeing some of the tailwinds as we make these investments in the near term.

Sara Harkavy Senatore

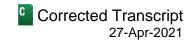
Analyst, Sanford C Bernstein & Co., LLC

Thank you.





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

Kevin Johnson

President, Chief Executive Officer & Director, Starbucks Corp.

You're on mute, David.

Operator: David, your line is live.

All right. At this time, there is no response from Mr. Palmer. Their question has been withdrawn, and we'll proceed to the next person in queue. Our next question comes from the line of Jeffrey Bernstein with Barclays. Please proceed with your question.

Jeffrey A. Bernstein

Analyst, Barclays Capital, Inc.

Great, thank you very much. Just one question on the My Starbucks Rewards program. I think you mentioned that it's just over 50% of the US company-operated sales from what I think are now 23 million members. And that 23 million members, it feels like it's, I think, based on what you last commented on maybe a year or so ago, that you have 80 or 90 million total addressable customers that you service. So it seems like 23 million members spending clearly outsized relative to the average. So I'm just wondering, what are the initiatives at this point? It seems like you're still growing that program double digits from a percentage basis, but what are the biggest initiatives to further ramp up that 23 million member base over the next 12 to 24 months?

Kevin Johnson

President, Chief Executive Officer & Director, Starbucks Corp.

Jeffrey, thanks for the question. I'm going to hand it over to Brady Brewer, our Chief Marketing Officer, who leads our program there. Brady?

Brady Brewer

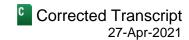
Chief Marketing Officer & Executive Vice President, Starbucks Corp.

Great, thanks for the question, Jeffrey. We see a lot of opportunity with our rewards program. It is 52% of total sales in the US. And as you've heard, we added 1 million new active members just in the last quarter alone. That was on top of the 1 million the quarter before. And there are a few things that we're doing.

One is we want to know as many customers as we possibly can. We want to personalize their experience, and we want to make the experience effortless. And so effortless means things like mobile order, curbside, delivery. And we've looked at things like Stars for Everyone, which you've heard us launch about six months ago, trying to lower the barrier to entry so that customers can get the benefits of the program and experience the incentives and the personalized experience they get through the program. And it's through those efforts that we are attracting more customers into the program.

SFE specifically was a program that we launched to make it easier to join and to make purchases, and this program has a pay-as-you-go option. So lowering those barriers to entry, reaching as many people with the program, and then ensuring that the incentives and the services that are attached to that program to make the experience personalized and effortless, that's how we're growing the program. And we've seen just tremendous results obviously over the last six months with those programs attracting new members and seeing them activate.

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Kevin Johnson

President, Chief Executive Officer & Director, Starbucks Corp.

Thanks, Brady. Jeffrey, I'll just add to Brady's comments. I think Brady and team have done a great job growing. Keep in mind, these are 90-day active rewards members, so they are active members. When we were at about 20 million active, 90-day active reward members, we had this conversation with the team that said look. I believe we have an opportunity to double that number. I'm not going to give a timeframe, it might take a couple years, but double that number.

And in doing that, we've now started to apply some very creative and very thoughtful ways to get under the data that we have about customers so that we can – even if they're non-rewards customers, so that we can better serve them and start to personalize offers and personalize the experience for them. And so working with technology companies that have machine-learning algorithms, companies like Amperity and BRIDGE, they've been able to help us continue to advance this.

So I think we've got a great set of features and initiatives that enhance the customer experience in how they want to use that mobile app to personalize that customer experience in ways that are relevant to them, and for us to find new ways to reach out to non-rewards customers and start to personalize our engagement with them to bring them into becoming rewards customers. And so we're going to think very broadly about this over the long term. And I'm optimistic that we're doing some things that are very creative, and it's just going to take some time.

Jeffrey A. Bernstein	ì
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Analyst, Barclays Capital, Inc.

Doubling that 20 million is an incredible goal, so I look forward to the progress on that.

Kevin Johnson

President, Chief Executive Officer & Director, Starbucks Corp.

All right, write that down.

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

Andrew Charles

Analyst, Cowen and Company

Great, thanks. Just following up on the MSR program. it's just very encouraging that obviously you have 3.5 million more active members today versus pre-COVID-19. Just kind of two questions on the progress of this. First, who are these new members that you're finding? Are they skewing younger, and are they skewing to less penetrated areas of the country like the South?

And then second, I know it's early days, but can you observe that trajectory of their behavior such that they seem likely to visit and spend in line with that 3 times average versus non-members that you historically observed? Thanks.

Kevin Johnson

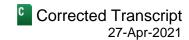
President, Chief Executive Officer & Director, Starbucks Corp.

Great questions. Brady?

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Brady Brewer

Chief Marketing Officer & Executive Vice President, Starbucks Corp.

Yeah, the program has been very strong at attracting our high-frequency customers, and so we have a large proportion of high-frequency customers in the program today. And given the incentives in the program, lowering those barriers to entry, we are seeing a significant number of more occasional or lower-frequency customers joining in the program these days. That's helping continue to support that two to three times average versus the non-SR customer in terms of frequency.

We still see that high frequency overall for the program, but what's great about seeing those occasional customers join is that we also see that significant lift in frequency in spend from those members just as we do from the high-frequency members that join. So we see tremendous opportunity in bringing that occasional customer into the program, providing them with a great experience, great incentives and experiences that drive their frequency over time.

So we see that as a continued opportunity. We see a lot of runway there, as Kevin said, and we'll continue to press on that for the months and years to come.

Andrew Charles

Analyst, Cowen and Company

Thank you.

Operator: Our next question comes from the line of Nicole Miller with Piper Jaffray. Please proceed with your question.

Nicole Miller Regan

Analyst, Piper Sandler & Co.

Thank you. Good afternoon. I know this is going to sound a little out of sequence, and all of this number stuff is super important. But obviously the team and the transition I think is equally important. And, Rachel, I wanted to ask you last time, but we ran out of time. You're just in such a unique perspective in your role. I don't know if I'll get this right, but kind of growing up at Starbucks, going away. I'm so curious. Like, what did you learn? You come back, the impression that you're going to make? And really just curious like how has the first few months in this role been for you? Thank you.

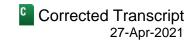
Rachel Ruggeri

Executive Vice President and Chief Financial Officer, Starbucks Corp.

Thank you, Nicole, for the question. I appreciate it. What I would say is Starbucks is such a powerful brand. I think you see that globally. But as a person who's worked at the company, you feel it. And so that's I think, what, for somebody who's been at the company and left and come back, that is the force is really what the brand means. And it's less about the symbol, but it's more about the people behind it. And there's just an incredible group of people that you work with, partners, and it's hard to replicate that. And so from my perspective, that is the draw.

As a customer, because I'm a customer, too, and I always have been, is I feel that when I'm in my store. And I think that resonates when you're part of the company and even in the corporate office. So I think that's a unique advantage of being a part of a company like Starbucks.

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And what I can say is it's incredible to have watched the growth from the company over the years and to be in a position where I get to work with such an incredibly talented group of leaders to help shape the future of this growth. I think it's an enviable position, but it's humbling at the same time. And so I feel grateful for the opportunity. But I appreciate the question.

Nicole Miller Regan

Analyst, Piper Sandler & Co.

And thanks for taking my question. Thank you.

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Kevin Johnson

President, Chief Executive Officer & Director, Starbucks Corp.

Thanks, Nicole.

Operator: Our next question comes from the line of Brian Bittner with Oppenheimer. Please proceed with your question.

Brian Bittner

Analyst, Oppenheimer & Co., Inc.

Hey. Good afternoon. Thanks for taking my question. Kevin, I know that you are bullish on coffee demand trends in general in the US and the ability for the market to grow at a favorable CAGR moving forward. Is there a way to possibly perhaps frame up this market share-grab opportunity that could unfold in the US as we storm out of COVID? I obviously realize you're laser-focused on your own idiosyncratic drivers, but do you have any data or insights to frame up how your market share is trending? Or insights into the competitive supply situation going on around you, particularly maybe in your urban trade areas?

Kevin Johnson

President, Chief Executive Officer & Director, Starbucks Corp.

Yeah. Brian, let me just start with kind of how I think about the share position that Starbucks has and how that's unfolding through this pandemic and as we emerge from it. I think a couple of thoughts. The thing that we have that's the most measurable on a quarterly basis is looking at sales of the Starbucks coffee down the aisle at CPG and coffee, whether it's roast and ground coffee, single-serve, or ready-to-drink beverages. And what we've seen is consistent share gains through this pandemic and even into this quarter. I mean, the ready-to-drink share that we gained both in the US and China is significant.

The Global Coffee Alliance with Nestlé has now taken us from fundamentally two markets to over how many markets?

John Culver

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

71.

Kevin Johnson

President, Chief Executive Officer & Director, Starbucks Corp.

71 markets around the world. And just take North America, a big market. North America, our growth, revenue growth was 8% where the category declined.

John, why don't you comment on that? And then let me go back to specialty coffee retail.

John Culver

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

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Yeah. What I would say, Brian, is it's a holistic strategy on how we capture the consumer and attract them into the Starbucks brand, whether that's through our retail stores, through down-the-aisle, through food service, through ready-to-drink. It's a holistic strategy. And I would say that over the course of the last year we are seeing that really come to fruition right now.

We talked about the resurgence of customers coming back to our stores and stores reopened. We've seen the growth of packaged coffee down-the-aisle during this time not only in the US, but also internationally. The growth of single-serve internationally as well, being on the Nespresso platform, Dolce Gusto platform, the Keurig platform. In addition, food service is going to continue to play a very important role. We just opened our 1,000th food service location in China this past month, and we're going to continue to expand in that way.

So it's a holistic strategy. We've been able to in the US now be the number one brand down-the-aisle in terms of share, and we've actually grown that share and expanded that number one position in the quarter versus Q1. So we are seeing our customers who have loved Starbucks continue to consume our coffee and to continue to want to experience it in unique ways, and we're very humbled by that.

Kevin Johnson

President, Chief Executive Officer & Director, Starbucks Corp.

Yeah. Thanks, John.

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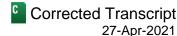
So, Brian, you can see that on our channels business every quarter we get the number, we get the measurement. On our specialty coffee retail, we tend to look at Euromonitor and other longer term data sources to give us a sense. But right now the volume of customer occasions that have returned to our stores in the US is phenomenal, and it's exceeded our forecast and our projections in the US. And Rossann and her team have adapted rapidly to that.

But the theme we're most focused on is how we have rapidly adapted to shifting consumer behaviors that I outlined in sort of my opening comments, how in doing that we extend and enhance the attributes that differentiate Starbucks from everyone else and how we then create a great experience for our customers in the stores. And the way we do that, the Trade Area Transformation is one important initiative. But the work we do to elevate the customer experience, deliver relevant and exciting new beverages, and to extend and enhance digital customer relationships are the three key things. And when you look at what's happening in each one of those areas, there's so much positive activity and initiatives and accomplishments, and then customer response to those things, that I just believe that we're hitting on the right notes.

And at this point I look and say we're going to have a two to three-year tailwind just simply by watching vaccinations progress around the world. This great human reconnection will happen, probability 1.0. And so we are positioned for that, and we're working to enhance and differentiate the brand in ways that are meaningful to us. We're going to take care of our partners. Our partners are the heartbeat of Starbucks. They have risen to the occasion.

And so specialty coffee retail is where we set the brand. Hundred million customers a week come to see us, and that's where we establish the brand. And then we amplify it through our channels. And I think in both specialty coffee retail and channels, it's happening. And so we'll give you more info as we get more data on share gains,

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but I can just feel it and sense it as I look at our data, our numbers, and I'm in our stores and sort of watching what's happening. Brian Bittner Analyst, Oppenheimer & Co., Inc. Thank you. Operator: Our final question comes from the line of Chris Carril with RBC Capital Markets. Please proceed with your question. **Christopher Carril** Analyst, RBC Capital Markets LLC Hi. Thanks for taking my question. So I just wanted to follow up on the commentary earlier around ticket and how moderation there will perhaps affect margins going forward. But are you seeing anything in the current trends that would suggest that some elements of the still strong ticket could remain sticky even as traffic continues to improve such as increasing mix of premium beverages or higher food attach? Kevin Johnson President, Chief Executive Officer & Director, Starbucks Corp. Rachel, do you want to take that? Rachel Ruggeri Executive Vice President and Chief Financial Officer, Starbucks Corp. Sure. Thanks, Kevin. Yes. What I would say is we definitely - I mean as we start to comp the most severe part of the pandemic from last year, we'll definitely see the construct of our comp shift, and it'll return to more of a pre-pandemic level where you see greater transaction and maybe a lower ticket. So we will definitely see our ticket moderate from the high-20s where we've been, but we believe that some of that will sustain. Now, not to the degree that it's been. But if you look at some of the behaviors that have driven that, the behaviors that have driven it today are the fact that we have higher beverage attach from group orders, multiple orders. Some of that will probably moderate as people start to go back into the offices, as we have more single visits and single-item purchases.

But we've had an all-time food attach. This quarter was an all-time record attach on our food, and that's because we're putting forward products that our customers love and enjoy. And so if we continue to innovate in the areas that are relevant for them, we'll continue to see that that will drive food attach.

In addition to that, we're seeing across the board growth in cold, and some of that is from our promotional offerings as well as some of our core offerings. And I think that focus in that area, which is more premium for us in nature, is where our customers are gravitating. And so that will also help us to sustain ticket. I just think the issue will be that it will moderate from where it is today, but we have belief that some of those areas that I just spoke about are indeed sticky.

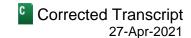
Christopher Carril

Analyst, RBC Capital Markets LLC

Great, thank you.



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Operator: And with that, ladies and gentlemen, this concludes our question-and-answer session. And I would now like to turn the call over to Kevin Johnson for closing remarks.

Kevin Johnson

President, Chief Executive Officer & Director, Starbucks Corp.

Thank you.

I've got to say, Brian got me all like energized about what we are doing. And so as we close today's call, I think it's important to reinforce one key message. And that message is that Starbucks is meeting this moment, this moment of the great human reconnection. And we anticipated the shifts in consumer behaviors. We accelerated our long-range plans, and we are well-positioned to differentiate ourselves even further with a new level of resilience, speed, and agility.

And I've got to say, as Rachel was commenting, the strength of this brand and the increasing opportunities for us to offer convenient, elevated, personalized experiences for our customers around the world, it makes me personally very optimistic for the future. Our long-term growth model is solid.

And so thank you for your questions. Thanks for joining us today, and have a great evening.

Operator: This concludes Starbucks Coffee Company's Second Quarter Fiscal Year 2021 Conference Call. You may now disconnect your lines.

Editors note: Text in brackets have been added at the request of the company to provide further clarity to what was spoken.

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