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# Starbucks Corp. (SBUX)

## Q3 2023 Earnings Call

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# MANAGEMENT DISCUSSION SECTION

**Operator**: Good afternoon. My name is Diego, and I will be your conference operator today. I would like to welcome everyone to Starbucks Third Fiscal Year 2023 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 will now turn the call over to Tiffany Willis, Vice President of Investor Relations. Ms. Willis, you may now begin your conference.

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## Tiffany Willis

*Vice President, Head of Investor Relations, Starbucks Corp.*

Thank you, Diego, and good afternoon, everyone, and thank you for joining us today to discuss Starbucks third quarter fiscal year 2023 results. Today's discussion will be led by Laxman Narasimhan, Chief Executive Officer; Rachel Ruggeri, Executive Vice President and Chief Financial Officer. And for Q&A, we will be joined by Belinda Wong, Chairwoman and Chief Executive Officer of Starbucks China.

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 factors discussed in our filings with the SEC including our latest Annual Report on Form 10-K and Quarterly Report on Form 10-Q. Starbucks assumes no obligation to update any of these forward-looking statements or information.

GAAP results in third quarter fiscal year 2023 and the comparative period include several items related to strategic actions including restructuring and impairment charges, transaction and integration costs and other items. These items are excluded from our non-GAAP results. All numbers referenced on today's call are on a non-GAAP basis unless otherwise noted or there is no non-GAAP adjustment related to the metric. For non-GAAP financial measures mentioned in today's call, please refer to the earnings release and on our website at investor.starbucks.com to find reconciliations of those non-GAAP measures to their corresponding GAAP measures.

This call is being webcast and an archive of the webcast will be available on our website through Friday, September 1 of 2023. Also, for your planning purposes, please note that our fourth quarter and fiscal year 2023 earnings call has been scheduled for Thursday, November 2, 2023.

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

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## Laxman Narasimhan

*Chief Executive Officer & Director, Starbucks Corp.*

Thank you, Tiffany, and thank you all for joining us this afternoon. In a few moments, Rachel Ruggeri will walk you through the detailed results of the third quarter and Belinda Wong will then join us for Q&A.

To start, our strong third quarter results point to all-round momentum in the business. This quarter, we grew consolidated revenue by 12% up 14% when excluding more than a 1% impact in foreign currency translation, to a record $9.2 billion. Importantly, earnings growth of 19% outpaced revenue growth with margin expanding by 50 basis points to 17.4%.

Our strong performance reflects the strengthened foundation of our business resulting from the significant progress we are making against our Reinvention Plan.

Since stepping into the role, I have now traveled to every region working directly with partners. I left each interaction impressed by the differentiated global appeal of the Starbucks brand powered by innovation and anchored in our unique ability to deliver human connection. These experiences give me great confidence in the significant growth and margin opportunities in front of us, positioning us well to strengthen the brand and create outsized long-term shareholder value.

It was this time last year when Howard and the team identified the must-win opportunities and investments for our foundational Reinvention Plan. While Rachel will walk you through the detailed results, I will now outline the momentum we have from the quarter in five key priority areas, while pointing out where we see further headroom.

Our first priority, we will elevate the brand by running great stores. This comes to life in the strengthened execution in North America. Our North America team delivered record revenue in the quarter with a growth of 11% underpinned by 7% comparable same-store sales growth leading to the highest average weekly sales in our history.

Our ticket growth was driven by pricing, customization and food attach. Additionally, we continued to see improvements in items sold per labor hour. Operationally, we are seeing evidence that we are executing better. Barista attrition where we are already industry-leading has improved further by 11% year-over-year. Through scheduling and staffing improvements, we are beginning to increase the number of hours per-partner in-store, critical to running great stores and improving partner engagement, while also improving productivity.

Innovation at beverage and equipment continues to drive our business. In fact, our cold business reached 75% of US beverage sales this past quarter. As the leader in premium coffee, we're particularly encouraged to see cold Espresso beverages were up 13% year-over-year. Additionally, we continue to elevate the premium coffee experience in both cold and hot.

For example, the rollout of our Clover Vertica brewer continues as planned, delivering a larger variety of high-quality hot coffee, including decaffeinated on-demand. Our innovative equipment rollout remains on track. Our faster and easier-to-use portable handheld cold foam blenders continue to have an outsized impact for both the partner and customer experience.

The cold foam blenders are now rolled out to all US company-operated stores in time to meet the summer demand for Starbucks Refreshers frozen Beverages. The new blenders support the additional growth of cold foam, the fastest-growing customization at Starbucks. Modifiers such as cold foam now contribute to over $1 billion in revenue annually.

The Mastrena 2 Espresso machines and new warming ovens are also now in all US company-operated stores. Taken all together, our equipment investments that we began last year are supporting labor efficiencies, allowing us to increase capacity during our busiest dayparts. These investments are both elevating the Starbucks experience and further differentiating us from competitors.

In this past quarter in North America, we once again saw our unit volume outpace pre-COVID levels by double-digits with high attach rates across dayparts, the mornings as well as the afternoons. Also in thinking about dayparts, our Starbucks Refreshers platform, which skews towards an afternoon occasion, has seen double-digit growth this past quarter in every daypart.

With this success, we are leaning in even further with a systematic pipeline of innovation across dayparts. This includes this summer's launch of our Starbucks Refreshers Frozen Beverages, customization in our Oleato beverage platform, as well as with our cold pressed Cold Brew, which enters our testing phase across a few dozen stores this fourth quarter with the rollout across US company-owned stores expected by the end of fiscal year 2024.

Food is also fueling growth. This past quarter, we saw all-time-high food attach and sales of breakfast sandwiches. As an attach business, food drove a higher ticket in the quarter, improving volume growth and contributing to the record average weekly sales. Overall, we are excited about the significant opportunity in food as we explore new, elevated and convenient food offerings. We will share more of this in time.

We also continue to grow and diversify our store portfolio. We see significant headroom for new store growth in under-penetrated areas in the US, including smaller cities as well as new formats in larger metros. New stores and remodels are where we are first prioritizing our Siren system equipment rollout and we plan to move all stores to brand-forward digital menu boards over the next couple of years to further sharpen personalization and daypart activation.

We are seeing strong growth in delivery. In fact, we are close to creating a $1 billion incremental leg in our delivery business from minimal presence a few years ago, and now, we are operationally setting ourselves up for this channel in major markets starting from a position of strength.

As a second strategic priority, we're looking ahead at how we will further strengthen and differentiate our leadership position in digital. In the third quarter, we continued to grow our digital universe. Our 90-day active Starbucks Rewards customers grew to nearly 75 million globally, growing more than 25% in the quarter. This was driven by a record 90-day active user base of 31.4 million Starbucks Rewards customers in the US, an approximate 15% growth, or 4 million new customers from the previous year.

Starbucks Rewards members in the US drove 57% of tender for the second consecutive quarter, up over 3 percentage points from the prior year. In China, we hit the highest number of 90-day active users we have ever had at over 20 million Starbucks Rewards customers. This is further evidence of our brand strength relevance and customer engagement in the market.

Starbucks has had a long track record of industry-leading digital innovation. As we approach the fundamental platform transformation under way with AI, we intend to invest to lead in this area, using our foundational Deep Brew capability as the launching pad. Our focus on these investments will remain on improving the partner experience, while elevating the customer experience and delivering productivity gains.

We are revamping our approach to further accelerate digital innovation, including order, including payment and delivery enhancements in terms of speed and personalization, which we believe leads to greater habituation by our customers. This includes developments in the US mobile app user experience as well. Additionally, we plan to make significant investments in China to further enhance our digital capabilities in the market.

Our third priority is global growth. As a company with over 100 million customer occasions each week, more than 37,000 stores and operating in 86 markets around the world, the runway for global growth is limitless.

For the quarter, we again saw double-digit top-line growth across the International segment. The segment delivered record system sales for the second consecutive quarter, as well as the highest revenue and operating margin since the fourth quarter of fiscal year 2021. Excluding the negative impact of foreign-exchange, we continue to see double-digit growth in the company-owned markets of Japan and the UK, while our geographic license partners across the rest of the world all reported very strong performance.

Our international store growth was 10% year-over-year. New stores are bringing attractive unit economics for the business, while we benefit from strong growth in returns and invested capital in these markets.

Turning to China. I am encouraged by our performance in the quarter. I had the opportunity to spend time in the market recently. I can now fully appreciate the extraordinary strength and resilience of the Starbucks brand, which is known as xīng bā kè locally.

Looking at our third quarter results, our China revenue grew 51% from the prior-year, or up 60% when excluding a 9% impact of foreign currency translation. Additionally, we sequentially grew our revenue 8% from the prior quarter or up 10% when excluding a 2% impact of foreign currency translation, underscoring the robust long-term health of our business.

Despite these being early days in our recovery journey, stores that opened in fiscal year 2019 or earlier achieved full sales recovery in the routine morning daypart, while other dayparts reported sequential monthly improvement. Our strong recovery in the third quarter was amplified by the many distinctive competitive advantage that set us apart in China.

The first and foremost advantage is our incomparable partners, who honor the heritage of our company, bring sophisticated appreciation for our high-quality coffee and passion for delivering the Starbucks experience in ways that are relevant to our Chinese customers.

Our second advantage is our vertically integrated operations. We start with a locally relevant and increasingly greener store footprint. Our distinctively designed stores, across formats, celebrate the Chinese culture in a unique xīng bā kè manner reflecting local arts, crafts and calligraphy. In the fall we plan to open our Coffee Innovation Park, our single largest and most sustainable manufacturing investment outside of the US. This next-generation facility, with state-of-the-art supply chain operations, will also include a unique customer immersion center.

Third, our locally relevant innovation in China for over 20 years has won over customers in what has historically been a tea-drinking culture. Today, we have nearly 6,500 stores and another nearly 2,400 points of customer connection through our We Proudly Serve program in China, and yet, there is so much more opportunity ahead in under-penetrated areas within this market.

Some growth facts to think about. The average person in China drinks 12 cups of coffee each year. That's significantly lower coffee consumption than in tier one cities like Shanghai where we first entered the market and now, have nearly 1,100 stores and we still have more room to grow in Shanghai.

Compare this also to Japan where our per capita is 200 cups, versus the 12 cups in China, and the US where the per capita is closer to 380. We are still in our early days in China, one of the largest consumer markets.

With our locally based investments in R&D and locally relevant offerings like our Dragon Dumplings, we had an amazing quarter. We have built a brand that is highly relevant for China in China, and we believe our unique approach has us well-positioned to play the long game and win.

Finally, another advantage in China is digital. This will be further demonstrated with highly digital supply chains we run and in the way we engage our customers. We are reshaping our business models, leaning into the remarkable loyalty of our Starbucks Rewards members, as well as convenience offerings, including delivery and curbside for our on-the-go business.

A comment on our International business beyond the US and China. We are seeing very strong growth and strong unit economics in these markets. It is becoming an important third leg for us.

Looking outside the stores in the third quarter, our Channel Development segment revenue was $449 million down 6% year-over-year while delivering operating margin of 46.3% up 630 basis points year-over-year reflecting SKU rationalization as well as the shifts taking place with a more on-the-go customer.

We've continued to see the opportunity for growth in channel through innovation as evidenced by the highly successful ready-to-drink Starbucks Pink Drink and Starbucks Paradise Drink, introduced last quarter, and the grab-and-go series launched in Japan in partnership with Suntory. We saw unprecedented sales during the first month of the launch in Japan, just as we did with our cream cheese lattes in China.

Our fourth strategic priority is fueling productivity. We think of our business as a theater in the front and a factory in the back. We have a clear opportunity to maximize efficiencies and effectiveness, while reducing waste by focusing on the vast opportunity in stores and also above stores. We are focused on meaningful improvements in staffing and scheduling to ensure that we meet the right combination of the right partners in the right roles with the right hours to fuel both engagement and productivity. We also closed the third quarter on-target with our waste reduction goals as we strive to make operations as efficient as possible while preserving the Starbucks experience.

This is just the beginning of the productivity journey at Starbucks. We have broadened the areas beyond our initial Reinvention Plan to include our end-to-end supply chain, direct and indirect procurement, how we design and build stores, as well as opportunities across technology and our supporting processes.

Arthur Valdez Jr. who joined us recently as the Chief Supply Chain Officer, brings three decades of supply chain and logistics leadership to Starbucks and will be critical in these efforts. Along with sales leverage what I can see in opportunities with future productivity gains gives me real confidence in long-term progressive margin expansion.

Finally, the DNA of Starbucks is nothing without our culture. This is inherent to the company and something I was quick to learn through my immersion and experience working in stores.

Our fifth strategic priority is reinvigorating our culture of human connection. We will measure our success on our business performance through the lens of humanity just as we always have and that requires us to reinvigorate our culture.

Our partners are the heart of our business for me. We will continue to invest in the overall partner experience through compensation and benefits as well as through in-store improvements. At Starbucks, we strive to be a different kind of company but we do recognize that we are operating in a different kind of world. It is through that lens we have spent the last several months rolling out a new unifying mission for the company, new promises for all our stakeholders and soon a new set of values that will reground the culture of Starbucks in our heritage and a more modernized workplace.

Before I turn the call over to Rachel, I want to leave you with this. It is an honor to be driving such a stellar branded company into one of its best chapters. While we continue to navigate an environment with a heightened level of macro uncertainty around the world, we will execute with discipline and rigor on our priorities. After all, Starbucks is a strong, resilient brand, delivering to customers what the world needs most right now, human connection.

As I look at the runway in front of us, the possibilities to deliver that connection are truly limitless. What I see is a durable, iconic business, with multiple paths available for us to deliver on our long-term revenue growth of 10% to 12% and earnings growth of 15% to 20%.

I look forward to discussing our strategies and plans for fiscal year 2024 and beyond in greater details in November in an extended investor call organized in a hybrid meeting format. We will share more details in the coming weeks.

And with that, I'll now turn the call over to Rachel to talk more about our remarkable third quarter financial performance of the quarter. Rachel?

## Rachel Ruggeri

*Chief Financial Officer and Executive Vice President, Starbucks Corp.*

Thank you, Laxman, and good afternoon, everyone. I'm very pleased to discuss our Q3 performance which beat our expectations, as our innovation and our brand continues to resonate with our customers around the world, fueling demand across our stores and digitally. Our US business delivered record-breaking performance on many fronts and our China business continued to recover in-line with our expectations. It is clear we have abundant opportunity ahead.

Our overall performance was bolstered by the progress we're making against our strategies, specifically our Reinvention Plan, and it's unfolding into tangible, financial results.

As a reminder, when we set guidance at the beginning of the year, we said that the benefits from our Reinvention Plan would amplify at the back half of this fiscal year and that is exactly what we're seeing, highlighting our ability to effectively reinvest in our business for the benefit of all stakeholders.

Our Q3 consolidated revenue reached a record $9.2 billion, up 12% from the prior-year, or up 14% when excluding more than 1% impact of foreign currency translation. The strength of the brand, loyalty of our customers and innovative products fueled strong sales resulting in double-digit consolidated comparable store sales growth of 10%.

In addition to the 10% comparable store sales growth, revenue also benefited from 7% net new company-operated store growth globally year-over-year, as well as continued momentum in our global licensed markets. Q3 consolidated operating margin expanded 50 basis points from the prior year to 17.4% exceeding our expectations, primarily driven by sales leverage, pricing and productivity improvement from increased efficiency in our US stores.

Margin expansion was partially offset by investments in store partners as well as higher G&A costs in support of Reinvention. Q3 EPS was $1 up 19% from the prior-year driven by strong performance across our business segments, demonstrating the power of a broad, global portfolio. I'll now provide segment highlights for Q3.

North America delivered another record quarter of revenue with $6.7 billion in Q3 up 11% from the prior-year primarily driven by a 7% increase in comparable store sales, consisting of 6% and 1% growth in average ticket and transactions respectively as well as net new company-operated store growth of 4% year-over-year. Our results were further strengthened by the continued momentum from our licensed store business.

Our US business delivered 7% comparable store sales growth in Q3 primarily driven by solid ticket performance with 6% growth, which benefited from a combination of pricing, food attach and customization. Our customers have readily adopted the practice of customizing their beverages allowing for a more personalized and differentiated experience, while contributing to a growing, higher-margin ticket with abundant opportunity ahead.

In Q3, over 60% of beverages were customized, representing a 9% growth when compared to just five years ago. Cold foam for example, continues to be a customization favorite. This quarter's all-time high food attach was driven by two of every five customers attaching food with their orders, up over 25% from just five years ago driven by our delicious breakfast sandwiches leading to an all-time high ticket in the quarter.

Transaction comparable sales growth in the quarter was 1%, which combined with record ticket drove the highest average weekly sales in our company's history, surpassing the all-time high set during holiday in the first quarter of fiscal year 2023. We are seeing more customers come into our stores, with customer counts [ph] up 5% (00:27:20) year-over-year in line with the record high set in Q1 of this fiscal year.

Our growing tech-enabled convenience capabilities are driving our customers to engage more deeply with Starbucks, as evidenced by the growth in customization, attach and mix shift towards more premium beverages leading to record demand and incremental higher-margin revenue.

Another proof point of our continued demand is the ongoing success of our Starbucks Rewards program which ended the quarter achieving records on many fronts: our record number of active members, spend per member and total member spend. These records alone reflect the stickiness of our business but we are most pleased by the consistency of our customer connection scores, which highlights customer satisfaction and the delivery of the Starbucks experience.

US licensed stores revenue continued its momentum this quarter up 21% from the prior-year with strength across the portfolio and benefiting from increases in post-COVID travel especially return of business travel which benefits from Starbucks Connect our digital offering, now rolled out across all major US airports.

North America's operating margin was 21.8% in Q3, contracting 40 basis points from the prior-year as expected, primarily driven by the timing of productivity-focused labor investments as part of our Reinvention Plan. For color, the Reinvention investments included partner wages and benefits as well as an increase in targeted partner training. The contraction was partially offset by favorable impacts of pricing, coupled with labor productivity and sales leverage, largely from the ramping benefits of the Reinvention Plan.

Moving on to International. In the quarter the segment delivered $2 billion in revenue, the highest revenue since Q4 of fiscal year 2021, up 24% from the prior-year, or up 30% when excluding a more than 5% impact from foreign currency translation. Our revenue growth reflects double-digit growth in all major markets including China, which benefited from lapping prior-year mobility restrictions. The growth is attributable to a 24% increase in comparable store sales, which was driven by 21% transaction growth as customers continued returning to our stores, largely in China, as well as remarkable digital engagements through the increasing Starbucks Rewards member base.

In addition, the International segment delivered 11% net new company-operated store growth year-over-year with China contributing a significant portion of store growth as we continue to invest ahead of the curve in China supporting our long-term ambitions for the market.

Excluding China, our international markets combined continued their strong momentum with revenue growing 11% year-over-year in Q3, or up 14% when excluding a 3-percentage impact from foreign currency translation. The meaningful growth was a byproduct of our successful innovation and digital engagement across various markets.

Excluding China, International had 8% store growth year-over-year and approximately 35% of our new stores year-to-date were drive-through, resulting in approximately 15% of total store count having the drive-through channel, furthering our ability to create new occasions and serve new customers globally.

Shifting to China. China had a strong quarter, delivering their highest beverage sales for Q3 over the last five years underpinned by comparable store sales growth of 46% in Q3 in-line with our expectations. Comp growth was driven by strong transactions which benefited from the lapping prior-year Q3 mobility restrictions. As the market continues to recover, we're pleased with the consistency of demand fueled by new product innovation, increasing digital capability, record sales of our Dragon Dumpling festival food and an acceleration of new store openings amounting to nearly three stores per day.

Average weekly sales in China grew quarter-over-quarter and we expect this to continue into Q4 with average weekly sales growth of low-to-mid single-digits resulting in similar size comp growth for the quarter. With the current demand, and the long-term opportunity we see in China, we continue to invest in our stores, partners, and communities, and we'll have our largest roasting plant outside of the US, the Coffee Innovation Park, opening this fall. Our unwavering investments have contributed to our healthy recovery and performance positioning us well for the long term.

Operating margin for the International segment was 19% in Q3 expanding an impressive 660 basis points from the prior-year, mainly driven by sales leverage from lapping prior-year mobility restrictions in China, partially offset by investments in digital and partner wages, as well as inflationary pressures.

Shifting to Channel Development. The segment's revenue contracted 6% year-over-year to $449 million in Q3 driven largely by at-home coffee, while proudly holding the number-one share position at 15.1%. Despite the softening of revenue, the segment remains strong due to the breadth and depth of the portfolio.

We are particularly proud of our North American Coffee Partnership which continued to see category-leading sales and share growth outpacing the total category. Our innovation continues to distinguish us while benefiting the segment overall with strong performance. A perfect example of this is the award-winning ready-to-drink Starbucks Pink Drink and Starbucks Paradise drinks that Laxman mentioned earlier.

The segment's operating margin was 46.3% in Q3, up a resounding 630 basis points from prior-year, driven by strength in the North America Coffee Partnership and sales mix shift. As previously shared, operating margin has returned to the segments normal mid-40s range, a testament of our strong partnerships and the benefits of a diversified portfolio.

Now moving to guidance for the balance of fiscal year 2023. Given we're in the final quarter of our fiscal year, with clear visibility into full year results, combined with the momentum we've built, the pace of Reinvention Plan unfolding and the strength of our global portfolio, we have the confidence to move our full year earnings growth from the plans we shared in November of the low-end of the 15% to 20% growth range to a growth of 16% to 17% for full year fiscal year 2023.

Despite the macroeconomic environment variables, we are poised to move our earnings growth guidance, as it reflects the strength of our brand globally and the long-term durability that we are building through our Reinvention Plan. As it relates to our remaining guidance, we are pleased to reaffirm full year guidance on all other measures. As a reminder that includes revenue growth of 10% to 12%, global comp growth near the high-end of 7% to 9% and solid margin expansion. Store growth, capital spend and tax rate guidance also remains unchanged from what we shared previously.

As a reminder, we expect an unfavorable impact from foreign currency translation of approximately 2 percentage points to 3 percentage points on fiscal year 2023 revenue and earnings respectively. With that, let me provide further detail around our Q4.

First, in regard to International. Looking ahead to the balance of the year, we expect our International segment Q4 margin to expand year-over-year, but to be meaningfully lower than Q3 due to seasonality along with accelerated digital and store renovation investments.

Second, in regard to China. As I noted earlier, we expect China's average weekly sales to continue to sustain the growth quarter-over-quarter resulting in average weekly sales growth of low-to-mid single-digits in Q4, with similar sized comp growth as the market's lapping government stimulus for customers and favorable discounting from prior-year, coupled with the timing of difference of the Mid-Autumn Festival which all contributed to prior-year transaction growth.

We continue to expect a low-to-mid single-digit comp on a full year basis, consistent with our prior guidance as well as record-breaking year of net new store developments.

Finally as it relates to Channel Development, we expect revenue pressures to continue in Q4, driven largely by the At-Home Coffee business as customer behaviors shift, with revenue expected to be largely flat to prior-year. However, we expect margins will continue to be above the mid-40s range driven by seasonality, leveling to a strong, mid-40s margin business for the full year.

In summary, here are my key takeaways from my discussion today. Our momentum is in full swing and our strong brand, successful product innovation and financial and operational performance across the globe is a testament to our focus and our discipline. Our Reinvention Plan investments are unfolding and providing tangible returns throughout our business.

As a result of our solid performance, our full year fiscal year 2023 guidance, including revenue, has been reiterated and we are confident to move our earnings growth to 16% to 17% for full year fiscal 2023.

Finally, I want to say thank you to our partners around the globe for showing up every day and making customers' day brighter by extending an act of kindness. It's because of you that the future is truly limitless.

With that, we'll open the call to Q&A. Operator?

# QUESTION AND ANSWER SECTION

**Operator**: Thank you. [Operator Instructions] Your first question comes from Jeffrey Bernstein, Barclays. Please state your question.

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

Q

Great. Thank you very much. I had one question and just one clarification to Laxman's comments.

The question is just on the US comp and traffic. Looks like the traffic was modestly positive this quarter, slowing a little bit from last quarter. And I think it's safe to say that there's going to be some slowing in the menu pricing in forward quarters and therefore the average ticket. So, with the comp slowing and the average ticket likely to slow, I'm just wondering your confidence in the current algorithm for that 7% to 9% comp looking into next year?

And the clarification is just Laxman, I think you mentioned that you'd update long-term guidance when you report the fiscal fourth quarter. But with that said, I think you did mention the 10% to 12% revenue growth long-term and 15% to 20% EPS growth so is it safe to say that those are levels you're comfortable with as we look out into future years or all things are on the table as you offer your initial guidance next quarter? Thank you.

**Laxman Narasimhan**
*Chief Executive Officer & Director, Starbucks Corp.*

A

Well, there were several questions in there, so let me just break this up. There was a question on the third quarter, there was a question about our expectations for the balance of the year, and then there was a question about the – what I've said earlier about my confidence in the multiple paths to achieving the 10% to 12% growth as well as the 15% to 20% earnings growth and I'll comment on all three.

So let me first start with Q3. Q3 for us was a very strong quarter, as Rachel mentioned as well. It's aligned with our expectations. Our comps were consistent every month. We came off a lap in Q2 which was the impact of Omicron and so we had a 7% comp, very consistent month-over-month. The comp in Q3 was lapping a 9% comp from last year, so it's a 16% comp on a two-year basis. And so if we look at this, it's really the strength of the brand, the actions and pricing we took, but also the growing levels of customization and the levels of food attach that Rachel mentioned as well, and that is what lead to the average weekly sales in Q3 continuing to break records.

Now your question on transactions. Transactions in Q3 grew year-over-year across all dayparts. Traffic is below 2019 levels but units per store are above the 2019 average, coming from higher food attach. So the food growth along with more customization and judicious price increases lead to this record weekly sales that you saw in the quarter. So transactions, as I said, have grown year-over-year across all dayparts.

We also had a strong increase in ticket. This is sort of balanced between the pricing which is very judicious, but also customization and increase in the number of units. Delivery sales doubled in Q3 compared to a year-ago, most of which is incremental occasions for our customers. So that's Q3.

Let me just highlight something about our loyal customers because that in some ways gives you a sense of the strength of the brand. Our 90-day active Starbucks Rewards members have grown 4 million in number year-over-year. They come in more frequently. They buy more, and interestingly enough, as we've seen our sizes, we actually see the growth of our larger sizes over our smaller sizes, so we're not seeing the down-trading in our customer base. Our stored value credit, the balance of the card, is also growing sequentially. That's how we exit Q3.

As you look at the balance of year, we feel that first of all the annualization of the pricing actions will continue. We don't have any lagging significant comp impacts from the previous year, and we do expect pricing strengths to moderate as you go into the final quarter as you said, but we do expect to end the year-in line with the comp expectations of 7% to 9% growth that we had set.

Now in terms of answering your question about the long-term, what I have seen in both top-line as well as in the earnings growth gives me real confidence in the fact that what we've guided to previously, the 10% to 12% revenue growth and the earnings growth of 15% to 20%, we have multiple paths to getting to that. So that just really signals the resilience of the business, the durability of the brand and the multiple paths we see both in terms of top-line as well as earnings growth which I'm happy to elaborate on.

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**Operator**: Thank you. Your next question comes from Sharon Zackfia with William Blair. Please state your question.

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**Sharon Zackfia**
*Analyst, William Blair & Co. LLC*

Q

Hi. Good afternoon. I was curious about the comments on the number of hours per partner. Can you give us kind of some color around where that is now and where you'd like that to be in the US, how long you think it takes to get there and kind of what the associated productivity improvements would be? I assume that's throughput-related but would love some color on that.

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**Laxman Narasimhan**
*Chief Executive Officer & Director, Starbucks Corp.*

A

So we're feeling very good about the progress we're making in this area. Our foundational Reinvention Plan that we announced last year is essential to the improvements that we're seeing now. We're making very good progress on it. There are meaningful improvements to the store environment as well as the productivity gains that we're making, our equipment rollout is on track, our peaks are growing faster than the rest of the dayparts, and we're making strong progress on a scheduling and staffing basis.

If you look at the – on the retail team, Barista total was down, as I said, 9% reduction previous year, a 2% reduction versus just the second quarter. And what you see, the combination of investments as well as the scheduling improvements that we're making, the economic proposition, the take-home pay to our Barista's, has improved by 20% year-over-year and we have more improvements coming and you're going to see us make improvements month-over-month in terms of the improvements that we're making.

I mean, we're going to ensure that we continue to increase these average hours through better staffing and scheduling, but also, work to accommodate their preferences, including the many that we attract who are keen on a part-time schedule. So this is progress that we're making week-over-week, month-over-month, and there's more to come next year.

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**Operator**: Thank you. Your next question comes from Andrew Charles, TD Cowen. Please state your question.

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**Andrew M. Charles**
*Analyst, TD Cowen*

Q

Great. Thanks. It's a two-part question on China. Belinda, it's hard to ignore the amount of discount activity in China by competitive coffee shops that one competitor indicated earlier today will persist for a number of years. And so, curious if you can talk about new strategies in place for Starbucks to help protect traffic without degrading the brand's premium status?

And then my other question is either for Rachel or Laxman, but you mentioned margin headroom a couple of times. Amid that volatile China macro what are the offsets if the model China's performance weakens? The 10-Q, I know, called out a sequential increase in North America productivity improvements from 2Q, so maybe that's perhaps an area where there's more room to grow or perhaps there's another area that I'm not thinking about that allows for some cushion in the model if we were to see China macro become a little bit more uncertain.

**Laxman Narasimhan**
*Chief Executive Officer & Director, Starbucks Corp.*

A

Got it. I'll get Belinda to take the first question, Rachel to take the second, and then I'll come in with some summary comments at the end. Belinda?

**Belinda Wong**
*Chairwoman and Chief Executive Officer, Starbucks China, Starbucks Corp.*

A

Great. Thank you for your question, Andrew. First of all I want to say that there's no noticeable impact to our sales performance in Q3. In fact, we're very – I'm very happy with our Q3 performance and the sequential improvement that we achieved. We have been and will continue to stay focused and disciplined in our discount investment to optimize and deliver incremental return.

On the competition topic, we welcome competition. They actually expand the coffee market and accelerate adoption and frequency of coffee consumption. Different brands bring in different value propositions and occasions. And I just want to talk about our value propositions.

We're in the human connection business. Since day one, 24 years ago when we entered China, we have been focusing on delivering a premium experience, defined by the quality of our coffee and the emotional experience we've built with our customers and our partners. That can't be replicated anywhere else. And our China business is strategically built to serve a diverse range of customer needs and occasions, physical and digital, fast and slow, and the unique business model and capabilities we have built that Laxman has mentioned gives us distinctive competitive advantages

So, we'll double-down on investment in our product innovation, store experience, digitalization and our people to create even more distinctive advantages to capture the limitless opportunities in China in the future. Thank you. We're playing the long game.

**Laxman Narasimhan**
*Chief Executive Officer & Director, Starbucks Corp.*

A

Rachel?

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

A

Yeah. And, Andrew, I would just follow that up with – as we look at the performance in China, we're encouraged by the healthy margins that we're seeing today and even as we see a shift more towards digital, which does have a lower margin percentage overall, it's driving more revenue and that's no better way to drive margin expansion than through sales leverage so we're encouraged by what we're seeing today.

In addition to that the team's been very judicious about creating operational efficiencies, so the margins opportunity in China continues to be healthy. That said, if we do see that there are challenges in the future we've structured our guidance such that it allows us room which is one of the reasons why we're very intentional in being more directive around qualitative language on margins saying this year would be solid margin expansion and the future it would be progressive which will allow us to continue to navigate the business and continue to invest where needed so that we can deliver on that 15% to 20% earnings growth that we've guided to.

**Laxman Narasimhan**
*Chief Executive Officer & Director, Starbucks Corp.*
A

Let me just close with a couple of observations. I was in the China market for an extended period in this quarter, and I got to actually work with our partners in stores, I got to spend time in our supply chain, I got to spend time in our support centers including looking at our teams that are leading what we do in digital. And I have to tell you, I've been going to China, studying China, advising on China, running business with China for 20 years and this is a very unique business. It's been a business that's been built with love, and it's remarkable in terms of the passion our partners have.

I was very impressed. I think it's still early days and when you start looking at the headroom you have and as Belinda said the headroom is large, so as people come into the market, they're essentially driving a conversion of tea to coffee which of course remember, for 20 years, we've been doing and we've got to 12 cups per capita. The number's by the way significantly higher in Shanghai, but it's still much lower than a tea-drinking country like Japan where they've had a history of coffeehouse culture over time, so the headroom is really large.

If you look at what we also do with our brand, don't forget, we have these We Proudly Serve Starbucks points of customer connection. In addition, our ready-to-drink partnership with Tingyi is also growing significantly and we're also available for coffee at home so our brand is being built across multiple channels and the investments we're making in digital are very strong.

With the investments we're making to more vertically integrate our supply chain it gives a greater flexibility in China and also greater productivity. So I think in addition to that your other question of productivity as I look at what I see with regard to the opportunities we have both in the stores and above stores, and that by the way cuts across all the whole business, we have further productivity opportunities which just gave us confidence on margin in terms of the progressive margin improvement that we have made, so early days in China, market going to expand and further opportunities for us to get productivity.

**Operator**: Thank you. Your next question comes from Brian Harbour with Morgan Stanley. State your question, please. Thank you.

**Brian Harbour**
*Analyst, Morgan Stanley & Co. LLC*
Q

Yeah. Thank you. Good afternoon. I wanted to ask just about the point on kind of supply chain and procurement. I think you guys have been pretty clear on the labor side what the opportunity is there, what you're doing. Could you elaborate though just more on the supply chain side and where you see the most opportunity there, how that factors into where you think margins can go?

**Laxman Narasimhan**
*Chief Executive Officer & Director, Starbucks Corp.*
A

Great. I'll take that. As I look at what we've been working on over the last six months or so, it's very clear that the investments we're making in our stores is yielding the kind of productivity that you would see, the efficiency as well as the throughput that we get.

But what is interesting is if you look end-to-end we have opportunities pretty much everywhere, both in terms of what we buy, how we buy it, how we flow products to stores, the services that we provide to our business, the technology investments that we're making. We have opportunities everywhere, and I think that's part of the reason why you see we've added Arthur Valdez to the team.

And just an example. The availability of breakfast sandwiches went up over the course of the last quarter, and what you see as a consequence of that is the attach rates went up as a result of it. And so I think that those are just examples of the kind of improvements that we're seeing. Clearly, we're seeing benefits as you know with regard to freight and the costs of it, and the ability for us to rethink how we do what we do is large, and so there is opportunity there for us in terms of bringing automation in, flowing products better, buying better, and frankly developing a supply base that can also keep up with the kind of scale and growth plans that we have.

**Operator**: Thank you. Your next question comes from David Palmer with Evercore ISI. Please state your question.

**David Palmer**
*Analyst, Evercore ISI*
Q

Thanks. I had a question on transaction growth and what you've seen in your Rewards membership, and I'm wondering if there's an insight there. Over time since 2019 you've had over 80% increase in your active Rewards membership, it's 15% higher than a year-ago, and you noted that transactions were up 1% in the quarter and down versus four years ago, so it looks like maybe frequency is down, maybe the consumers using you differently consolidating more orders, certainly bolstering the check by having more items per order.

But are you seeing any sort of solves from a marketing standpoint? You have very good visibility into what your consumers are doing. You have over half of your orders you know with your consumer and you see what they're doing and the frequency they're coming. So I'm wondering about the tools you see from a consumer side versus some of the more operational stuff you've been talking about as ways to unlock growth. Thanks.

**Laxman Narasimhan**
*Chief Executive Officer & Director, Starbucks Corp.*
A

I think first of all let me just clarify something. In your question I think you suggested – you made a couple of comments about our Starbucks Rewards members. Let me just give you – let me just address that.

We have more of them, so we have were at 4 million growth year-over-year. It's a 15% growth. Our Starbucks Rewards members come in more frequently. So they're not coming in less frequently. They're coming in more frequently. They buy more after joining the program. Right? And as I said, they're also choosing larger sizes as they come in.

The investments we have made in marketing and what we're doing with digital in particular, what it tells you is that we are even further increasing the pace at which we are bringing innovation and changes in terms of what we do. We have a whole list of benefits that we could bring and we're taking up the agility of the company in terms of the investments we make, which will help us make this even bigger and stronger, so that's the way I would address your question about the Starbucks Rewards members. It's a key area of growth.

The other thing you should be aware of is, as we scale this, we have scaled this to Connect which is all our licensed stores, and I think 40% of our licensed stores today have Connect. And we're seeing growth in our licensed business as well as a consequence of that.

Finally we're scaling this globally. You're seeing us take it to our geographic partners, the Starbucks Digital Solutions. There's very strong adoption and you're seeing the kind of results you see which our geographic license partners are announcing or sharing with us. I mean, very strong results, and Starbucks digital solutions is extremely capable of delivering that.

In China, we're seeing real growth there too, and in fact that is where we're making a big investment as well in digital because we see that as a way not just to strengthen our relationship but also to drive results through what we do with digital, so I think overall this is a big area. It's a big area of focus for me. And it's part of the second big priority for us around strengthening and scaling digital.

I'll make a last comment. We have a fundamentally amazing capability called Deep Brew inside the company. It's where we have made investments in machine learning and artificial intelligence. I think the ability for us to be at the vanguard of this and to early adopt what we do in this area furthermore given all the innovations that are going on and the re-platforming that's going on just gives me greater confidence in what we are doing in digital. This will be a key area of growth for us.

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**Operator**: Thank you. Your next question comes from John Ivankoe with JPMorgan. Please state your question.

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**John Ivankoe**
*Analyst, JPMorgan Securities LLC*

Q

Hi. Thank you. I was hoping that if you could address the biggest opportunities to kind of regrow same-store transactions versus 2019. I mean, what those I guess as you see kind of the bigger opportunities to be, whether in daypart or specific type of customer.

And secondly, with same-store traffic up 1%, do you feel like you are specifically addressing peak hour throughput? In other words, is the factory part of Starbucks as you would call it properly set up? I mean, or is the engine specifically running such that you can achieve all those peak-hour transactions especially where mobile orders might be coming in at a very short amount of time. Thank you.

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**Laxman Narasimhan**
*Chief Executive Officer & Director, Starbucks Corp.*

A

I think, John, thank you for the question. Let me first start with your peak question. We're doing definitely better than what we did before because of the investments that we are making but we still have further headroom and I think as we make more investments, as we sort of further refine how we think about scheduling and staffing, how we ensure that we get the flows right in our store. We will have the ability to take that up even further. So the daypart – the peak dayparts are actually growing and growing really well.

Now to answer your question about opportunities, there's opportunity pretty much across the board. If I look at beverage and beverage innovation, terrific strong innovation coming, more to come. If I look at dayparts, we have opportunities in the afternoon daypart and our Starbucks Refreshers is a way for us to attack that. And as you know we've – it's a big and sizable business but it doesn't yet fully meet the full needs of what we could do in the afternoon.

If I look at food attach, it's at the highest level we've had but we have the ability for us to continue to elevate and innovate in food in order for us to further grab the opportunity that we have there. Delivery is an opportunity that, as I said, it's just early days. I mean, we've almost built $1 billion leg, and that's just the US. If I look at China too it's growing enormously, so we have a leg there too in terms of what we could do with delivery.

And furthermore, I said earlier that we actually have an opportunity with regard to the net store growth in the US. There's real headroom for us to also locate our stores where we see customer growth, smaller towns, different geographies. And we're clearly looking at all of it, not just with our own stores but also with licensed stores. So, John, it's a pretty rich set of areas as I look at growth and what we could get that is available for us, and this is just North America.

**Operator**: Your next question comes from Peter Saleh with BTIG. Please state your question.

**Peter Saleh**
*Analyst, BTIG LLC*

Q

Great. Thanks. I just wanted to come back to North America operating margins. Could you maybe give us a sense of some of the drivers of North America operating margins going forward, maybe in order of magnitude? Do you see a pattern back to if not exceeding pre-pandemic levels?

And then I guess within that, do you feel like the mix of drive-thrus – maybe heavier on drive-thrus these days versus where you were pre-pandemic? Does that help push the operating margins back up and above pre-pandemic levels? Thank you.

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

A

Hi, Peter. This is Rachel. Thank you for the question. We've been encouraged by the performance we've seen in North America, both on the top-line and on the bottom-line. And year-to-date, in North America, we're sitting at about 19.9% margin with about 40 basis points of expansion and that's driven by a combination of sales leverage, pricing, the benefits from the Reinvention plan showing up in productivity, which is helping to offset some of the investments we've made. And we see opportunity to continue to expand margin over the long-term as the benefits of the Reinvention continue to amplify. And so I would look at that as really the Reinvention is a significant driver of our opportunity in terms of margin expansion.

Through Reinvention we're unlocking capacity to be able to serve demand that leads to sales leverage. And in addition to that, we're creating efficiency and resiliency in the middle of the business that's also supporting margin expansion. So I look at it more about what we've already seen progress today with Reinvention, what we would expect to see going forward, and that leads us to solid margin expansion at the company level this year and progressive margin expansion in the future which of course will be driven in large part by North America.

**Laxman Narasimhan**
*Chief Executive Officer & Director, Starbucks Corp.*

A

I just want to say one thing. I think we're at the top of the hour, but there are a few more questions online and so we're going to go over and take those questions.

**Operator**: Thank you. And your next question comes from Sara Senatore with Bank of America. Please state your question.

**Sara H. Senatore**
*Analyst, BofA Securities, Inc.*

Q

Oh, great. Thank you. Question and then maybe a point of clarification. I know, Rachel, you talked about the high-end of the 7% to 9% same-store sales guide for the full year, but there's a lot going on, still some reopening tailwinds, perhaps in China. Certainly I think in the past you've talked about even in other markets with more travel. So kind of being at the high-end of that range, I guess, I'm trying to think through kind of the sustainability especially insofar as the first half in the US which looks like it'll be substantially higher than the second-half. So trying to just make sure I'm understanding how you're thinking about the ongoing comp.

And then the question I have, Laxman, you mentioned unit growth. I think in the past, when Starbucks has accelerated unit growth, there have been periods where it's kind of coincided with slower traffic and ultimately kind of a need to rationalize a store base or reset it. What are the guardrails in place that change that this time around to make sure the unit growth doesn't conflict with continued traffic growth in your existing stores?

**Laxman Narasimhan**
*Chief Executive Officer & Director, Starbucks Corp.*

A

Go for the first one.

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

A

Sure. Thanks, Sara. I'll take the first question around comp. And when we look at the balance of the year related to comp, we just expect the momentum in the business to continue. So when you think about in North America, in this current quarter, we were encouraged by the fact that our growth in comp was a combination of transaction growth. So we saw transactions grow above prior-year in every single daypart and that was coupled with an elevated ticket and that was a combination of not only strategic pricing but a balanced contribution from increased customization as well as record attach.

That drove strong growth in the quarter. That I would say from a revenue standpoint we have fundamentals from a revenue perspective that are broad and we would expect that to continue – that momentum to continue as we look at the balance of the year and going on a full year basis. So that will continue to be fueled through innovation as well as through continued growth in our digital customer, Rewards membership and our increasing capability around convenience including growth in digital. So we see all of that as signs to help support the 7% to 9% comp range that we've guided on a full year basis.

And then when you think about outside of North America, we'd say we expect our recovery to sustain in China and that was through the guidance I gave around low-to-mid single-digit comp on a full year basis, as well as contribution from International and the momentum we're seeing. So we think across-the-board the momentum we're seeing, the recovery in China, coupled with the strong performance we're seeing in North America gives us the confidence to be able to maintain the 7% to 9% comp range on a full year basis for North America and then at the high-end of the range for total company.

**Laxman Narasimhan**
*Chief Executive Officer & Director, Starbucks Corp.*

A

Sara, to your question about our store network and how we see it. I am not concerned. I mean, I think there's very small number of stores that you would normally consider that we'd consider in the normal course of business that we would look at and say we may have a challenge with them, but there's nothing in there that concerns me.

What I'm looking at more from the standpoint of net store growth are the opportunities we have to further enhance our presence in many markets where we are under-penetrated, but also exposing some of our core markets multiple formats. I think we've referenced this before as purpose-driven formats in terms of what we can bring into markets in order to meet various needs that customers have.

**Operator**: Thank you. Your next question comes from Joshua Long with Stephens. Please state your question.

**Joshua C. Long**
*Analyst, Stephens, Inc.*
Q

Great. Thank you for squeezing me in. A couple times in your prepared commentary you referenced what sounded like to be normalizing demand within the at-home coffee channel within Channel Development, so just curious if you could unpack that a little bit and just curious if you're seeing shifts within the portfolio on that side or if that's kind of an ongoing shift back into kind of retail brick-and-mortar as we get back to a kind of return to office or just additionally, any sort of commentary you could provide there in terms of how you're attacking that and capturing share as the shifts continue to unfold.

**Laxman Narasimhan**
*Chief Executive Officer & Director, Starbucks Corp.*
A

Right. We have very strong share in out-of-home coffee. I think we're tied for number one, so we feel good about that. At the same time what you are seeing with the customer is the customer is becoming more on-the-go and what you are seeing with that is if you start looking at channels where we have products like we have with our North American Coffee Partnership, or frankly our stores, or our licensed stores, we are clearly benefiting more from customers on-the-go, so you see some of that shift take place, but at-home coffee, our shares are very strong. Go ahead please.

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

But I would add that we are seeing a balance in the portfolio, so that's one of the things we're encouraged by is that while we are seeing consumer behavior shift some, we're seeing an increase in our ready-to-drink both domestically and internationally and that's helping to support the margin expansion we saw in this quarter and the mid-40s margin that we're guiding to on a full year basis, so I would say in this case, it's the strength of the diversified portfolio that's working to our advantage.

**Operator**: Your next question comes from Danilo Gargiulo with Bernstein. Please state your question.

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

Just a question on the Siren system in United States. How many stores have the Siren system today? And is the number on track with your internal expectations? And what kind of uplift in productivity margin is this initial rollout hinting at?

**Laxman Narasimhan**
*Chief Executive Officer & Director, Starbucks Corp.*

A

Rachel?

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

A

Yes. From a Siren system standpoint we're in the just the testing phase today and we're on track to be able to launch in conjunction with our renovations in new stores next year, and next year we expect to be less than 10% of our stores will have the Siren system reaching about 40% of our stores by the year 2026. And so when we're encouraged by the progress we're seeing, we're seeing good results and we do expect it will help lead to margin expansion in the future.

It will be one of the many, what I'd say, equipment investments we're making as well as the investments we're making in the staffing and scheduling within our stores as well as the overall operational excellence focus that the team has, the combination of all of that in North America will lead to a more stabilized production environment which will help drive margin expansion well into the future. And so we're encouraged by what we're seeing today and we're looking forward to furthering the launch.

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**Laxman Narasimhan**
*Chief Executive Officer & Director, Starbucks Corp.*

A

Just one thing I'd add to is, our pipeline of equipment innovation is very strong, and the way we manage the portfolio, the way we manage the pipeline is very strong, and if you look at some of the commitments that we have made around investments like the portable cold foam blender, it's one of the fastest rollouts in our history in terms of how it's reached all our stores, so when we have them ready, when we do the renovations, when we have new stores built-in automatically, they are actually getting the Siren system, and I feel very good about the way we are managing the portfolio of investments that we are making in this area.

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**Operator**: Your next question comes from David Tarantino with Baird. Please state your question.

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

Q

Hi. Good afternoon. I have a follow-up question on the commentary related to the longer-term targets. I know we're going to get more details in November on this, but I think the comments were that you have multiple paths to deliver both the revenue and the earnings targets, and I wanted to focus in on the revenue part of that.

I guess if you continue to grow at the rate you're growing from a unit growth perspective, I think you would need to maintain that comps outlook that you gave previously to get to the revenue guidance unless I'm missing something. So I guess the question is are you signaling that maybe the unit growth element could change and the comp element could change and you could still get there? I guess maybe any clarification on that front would be helpful.

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**Laxman Narasimhan**
*Chief Executive Officer & Director, Starbucks Corp.*

A

Great. Let me take this point on the top-line. First of all, Starbucks is an iconic brand with a very strong appeal and durability. If you just look in the last year, the affinity of our brand has strengthened. Right? The brand has range across consumer segments, across geographies, across occasions.

So to your question on top-line, we have a historically high number of customers who visit our stores, but it's also in many of the markets around the world even as China recovers. We have a strong pipeline of innovation across beverage, across food and equipment, and there are even more opportunities across the world with purpose-driven formats as I mentioned earlier, with dayparts and a focus on dayparts and how we can bring more innovation, particularly on the dayparts side and with new business models like delivery.

We've built this $1 billion leg, and it's only now that we're getting operationally refocused on that and saying how do we ensure that we continue to support that kind of delivery with an operating model that would actually help. I mentioned earlier that we have terrific capabilities of digital as well as in artificial intelligence and machine learning that we're just unleashing with even more agility in terms of how we strengthen and scale with digital and it's not just our stores but it's also in the Connect stores and it's with Starbucks Digital Solutions across the world.

We have strength in pricing capabilities and as we make these investments, we're going to get even better in terms of revenue management, building on the great work that's already been done in terms of managing mix, in terms of managing sizing and in managing customization. We have a lobby that is further opportunity for us in terms of how we grow. So I think just in terms of that, there's real opportunity.

Now in terms of net store growth, as I mentioned earlier, we do have even more headroom in new store builds both in the US as well as internationally. Our China number is a milestone to even greater penetration, and some of the opportunities we see and the unit economics that we see in Asia, Europe, Latin America and Africa is real. And we have a range of formats where we can deliver this third place experience but also deliver experiential convenience powered by digital in an omni-channel way.

So I look at this brand. I look at its consumer appeal. I look at its durability. I look at its strength. I look at its range. It feels very good to me that we will get to a revenue growth of 10% to 12% and by the way, the earnings growth of 15% to 20% over time.

**Operator**: Your next question comes from Zach Fadem with Wells Fargo. Please state your question.

**Zachary Fadem**
*Analyst, Wells Fargo Securities LLC*

Q

Hey. Good afternoon. So following up on the long-term algo, if your comps were to slow to a mid-single-digit level for whatever reason, would you say that your 15% to 20% EPS is still on the table? And if so, could you talk about what margin and other levers keep you confident?

**Laxman Narasimhan**
*Chief Executive Officer & Director, Starbucks Corp.*

A

So thank you for your question. As I've said earlier, we see significant margin improvement opportunities and work that will come to productivity. We'll set the appropriate details of this at a later point, but I can just tell you this. As I look at the investments we're making in-store but importantly what we see above the store, we have opportunities. So I feel very good about the 15% to 20% earnings growth.

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

### Laxman Narasimhan

*Chief Executive Officer & Director, Starbucks Corp.*

Thank you all for joining us on this third quarter 2023 earnings call. I deeply appreciate it. And I look forward to seeing you all in November. Until then, thank you.

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**Operator**: Thank you. This concludes today's conference. All parties may disconnect. Have a great evening.