29-Apr-2025

Starbucks Corp. (SBUX)

Q2 2025 Earnings Call

CORPORATE PARTICIPANTS

Tiffany Willis
Senior Vice President, Investor Relations, Starbucks Corp.

Brian R. Niccol
Chairman & Chief Executive Officer, Starbucks Corp.

Catherine R. Smith
Chief Financial Officer & Executive Vice President, Starbucks Corp.

OTHER PARTICIPANTS

David Palmer
Analyst, Evercore ISI

Sara H. Senatore
Analyst, BofA Securities, Inc.

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

Brian Harbour
Analyst, Morgan Stanley & Co. LLC

Andrew M. Charles
Analyst, TD Cowen

Christine Cho
Analyst, Goldman Sachs & Co. LLC

Jeffrey A. Bernstein
Analyst, Barclays Capital, Inc.

Jon Tower
Analyst, Citigroup Global Markets, Inc.

John Ivankoe
Analyst, JPMorgan Securities LLC

Chris O'Cull
Analyst, Stifel, Nicolaus & Co., Inc.

Danilo Gargiulo
Analyst, Bernstein Institutional Services LLC

Peter Saleh
Analyst, BTIG LLC

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 Second Quarter Fiscal Year 2025 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, Senior Vice President of Investor Relations. Ms. Willis, you may now begin your conference.

Tiffany Willis

Senior Vice President, Investor Relations, Starbucks Corp.

Good afternoon, and thank you for joining us today to discuss Starbucks second quarter fiscal year 2025 results. Today's discussion will be led by Brian Niccol, Chairman and Chief Executive Officer and Cathy Smith, Executive Vice President and Chief Financial Officer.

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

GAAP results in the second quarter fiscal year 2025 include restructuring charges that are excluded from our non-GAAP results. Revenue, operating margin, and EPS growth metrics on today's call are all measured in constant currency and represent non-GAAP measures. Please refer to our earnings release and our website at investor.starbucks.com to find reconciliations of these non-GAAP measures to the corresponding GAAP measures.

This conference call is being webcast and an archive of the webcast will be available on our website through Friday, June 13, 2025. And for your calendar planning purposes, please note that our third quarter fiscal year 2025 earnings conference call has been tentatively scheduled for Tuesday, July 29, 2025.

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

Brian R. Niccol

Chairman & Chief Executive Officer, Starbucks Corp.

Thank you for joining today. Seven months ago, we began work on our Back to Starbucks strategy. Since then, we've learned a lot and we've moved quickly amid changing market dynamics to reset our business and our team to focus on the customer and our Green Apron partners who serve them.

Learnings to date tell me a few things. First, we now have the right leaders in place to lead a customer-driven culture and to drive our turnaround. Second, my optimism has turned into confidence that our Back to Starbucks plan is the right strategy to turn the business around and to unlock opportunities ahead.

We're relentlessly focused on the customer and we're continuing to invest in a Green Apron service model that enables throughput and connection with our customers. We're also re-establishing our coffee houses as a third place where customers spend time and build community.

Third, we're not just building back our business, we're building back a better business. I know from experience that when you focus relentlessly on the customer, you take care of your people, improve your operations and carefully manage costs, the financial results will follow. We're already seeing tangible progress and positive signs from the work we are doing to test, learn and then quickly scale. Our goal is that every transaction is higher quality and more profitable.

Current market dynamics have given us even more focus and conviction to get Back to Starbucks. We don't know what the state of the consumer will be in the months to come, but I'm confident we're building a globally resilient business rooted in the strength of our brand, focused on the customer and enabled by world-class partners at the local level that can succeed in any economic environment. Our turnaround is on track and I see more opportunity than I imagined.

Turning to performance for the quarter. Total company revenue was $8.8 billion with a global net new store growth of 213 coffee houses, a global comparable store sales decline of 1%, a global operating margin of 8.2% and overall earnings per share of $0.41. These results are far below our capability, but I believe they will be temporary because there is so much opportunity in front of us. I also believe there are better measures than EPS right now to track the progress we're making to turn around the business.

We have started to make disciplined investments across the four pillars of our Back to Starbucks plan, in partners, coffee houses, the customer experience and our marketing and menu. We're also focused on managing costs and improving our financial fundamentals so that as growth returns, we capture more of every dollar spent in our coffee houses. We're already starting to see early indicators of recovery in our North America business.

Partner engagement is up, turnover has dropped to under 50% which is a new recorded low, transaction declines are slowing across every day part, quality transactions are driving more of our sales and the customer experience continues to improve.

And finally, our Canadian business has returned to positive comps with positive transaction growth. Let me walk you through why I'm more confident than ever in our Back to Starbucks plan and the work we're doing.

Number one, our success starts and ends with our customers and our Green Apron partners. Over the past quarter, I've spent a lot of time in our coffee houses meeting with partners and listening to customers. You can feel the excitement.

Our Back to Starbucks plan is the change our partners have been looking for. They're bought in and they're leading a green wave of hospitality. We've put the focus back on our customers and we've centered our work on supporting our Green Apron partners so they can deliver an exceptional customer experience. It's the right thing to do for our partners, our customers and the business.

During the quarter, we launched an update to shift marketplace that lets partners pick up and trade shifts within their district. It's increased the pool of partners to fill last minute shift changes by 10 times and has resulted in record high shift completion with a 0.5 million more shifts filled year-over-year.

This translates into more moments of connection with our customers, higher transaction capture and a better experience for our partners. As a result, turnover is the lowest on record and tenure is on the rise, resulting in more capable, proficient partners. And to help our leaders develop and take ownership of the experiences they create in their coffee houses, we're getting North America store managers together for a leadership conference this June.

Number two, we are the community coffee house. We've moved quickly over the past several months to make small but impactful improvements to the coffee house experience. We're creating moments of connection with handwritten notes on cups and we're making it more enticing to stay in our cafes with ceramic mugs and expanded free refill policy and the return of great seats.

As a result, we've seen more customers choose to sit and stay in our cafes and we continue to receive overwhelmingly positive feedback from customers demonstrating that small details and hospitality drive satisfaction. The third place is our heritage. It's needed more than ever and we're reclaiming it.

That's why we're evolving our coffee house design standards to provide customers a welcoming space to connect and build community. We'll begin to bring reworked coffee houses online soon and we think they will truly deliver an exceptional experience. The uplifts feel premium but keep renovation costs down and minimize closure days.

They're warm and invite customers in. They create a sense of craft and they have great seats for different occasions. Expect to see these uplifts begin to open in New York City and Southern California in the months ahead.

While we still see long-term potential to double our overall US footprint, we have to improve the health of our portfolio. As a first step, we're taking a critical look at our current portfolio to ensure every coffee house we operate provides a great customer experience and we're beginning the work to build a stronger long-term development pipeline that is better mapped to growth markets and delivers improved unit economics.

Number three, delivering the customer experience to win the peaks. Using a test and scale approach to win the peaks, we're shifting our focus from beverage production to craft and connection. We're finding through our work that investments in labor rather than equipment are more effective at improving throughput and driving transaction growth.

Learnings last quarter came from a 700-coffee house staffing and deployment pilot. It confirmed that the right staffing combined with the right deployment improved speed of service and connection while growing transactions. We also began testing a new order sequencing algorithm. It proved effective in reducing in-cafe and drive-thru service times without impacting the mobile order experience.

In test locations, average cafe wait times dropped by an average of two minutes, bringing 75% of cafe order wait times under four minutes at peak. Building on feedback from partners and these learnings, we're investing strategically in labor to optimize our operations, bring back a premium experience, and better support our partners throughout the peak and the balance of the day.

Beginning in May, we'll scale a new Green Apron service model to more than 2,000 of our US company-operated locations and to more than a-third of our US coffee houses by the end of this fiscal year. This new model combines and unifies new service standards and expectations, changes to partner plays and deployment, streamlined routines, and our order sequencing algorithm.

I'm confident, based on our pilot work and spending time with store managers and Green Apron partners across the country, that this new model will create more flexibility within our operation, improve peak throughput, better capture demand, deliver a more premium customer experience, and accelerate transaction growth.

As we improve partner deployment and the technology supporting them, we're also rethinking our approach to equipment development and deployment. We've paused the continued rollout of our CapEx-heavy siren cold and food equipment, and have chosen not to move forward with the deployment of cold press cold brew equipment. We believe this evolved, labor-focused approach has more potential to improve throughput and connection while minimizing future capital expenditures on equipment.

Looking forward, we're on track to fully roll out Clover Vertica brewers in the US, with equipment already installed in 70% of our company-operated coffee houses. And this summer, we'll begin to push an update to the Starbucks app that lets customers schedule their mobile order pickup and improves price transparency throughout the order process.

Number four, reintroduce the Starbucks experience to the world. We're reintroducing the Starbucks experience to the world through a focus on brand and coffee storytelling, and an overhauled approach to product innovation. We kicked off Q2 with a new US brand campaign, and tied the launch to Starbucks Monday, invited customers into our coffee houses for a free brewed coffee after the big game. It generated record-breaking customer engagement and drove our second highest Monday growth sales day ever.

Customers are also responding to our new ads. Within the quarter, our data shows that the percentage of customers ranking Starbucks as their first choice is the highest it's been in two years. On social media too, our new fan-focused approach has increased engagement on TikTok by nearly three times quarter over quarter.

Turning to our menu, we've continued to rationalize and update our product lineup to focus on coffee and craft, and to create room for relevant innovation that drives demand. In response to customer feedback, we recently removed sugar from our Matcha, lifting Matcha sales by nearly 40% versus last year. We launched a new coffee-forward Cortado platform, which has quickly become a popular core offering, and we continue to educate customers on the range of premium coffee we serve, building on the strength of our Clover Vertica brewer.

In the near term, we're making the most out of our beverage pipeline. This summer, we're bringing back the best-selling Summer-Berry Refreshers with Pearls, launching the new limited-time Iced Horchata Oatmilk Shaken Espresso, and bringing new innovation to our Frappuccino platform. In the longer term, we're using an agile test-and-learn approach to build a culturally relevant innovation pipeline across beverage and food.

To do this, we're developing enduring platforms that reshape the business and create long-term potential for the brand. In the coming months, we'll begin to pilot innovations that are sales-driving, brand-building, and can be executed consistently. Work is underway to craft artisanal food, including the exploration of ways to freshly bake, assemble, and serve certain items in our cafes at scale. We're using learnings from the launch of freshly baked and prepared items in the UK and other international markets to inform our test-and-scale approach in the US.

Next, we're exploring how to lead in health and wellness with a new platform that resonates across demographics, which we expect to launch later this year. And we're looking at new beverages that create an entry point to our craft coffee and drink experiences. To help reclaim the third place and boost the afternoon day part, we're also exploring an aperitivo menu that includes sparkling beverages, sippable coffee drinks, and snackable bites.

Lastly, we're beginning to move towards a more regular cadence of limited-time flavor launches inspired by baristas and our biggest fans. It's early days, but we're moving quickly to improve the appeal of our product pipeline and to support real-time, culturally relevant menu innovation.

Finally, we remain on track with the rollout of digital menu boards, which are already in more than 25% of our US company-operated coffee houses. They're a key unlock to market day parts differently and to introduce innovation that isn't tied to our seasonal product cycles.

Turning to International, Starbucks has built a globally beloved brand, supported by a business that is executed locally in every country and every community where we operate. In a fast-changing environment, this model, underpinned by our Back to Starbucks plan, improves our resiliency and has proven effective in both challenging and good times.

In the second quarter, eight of our top 10 international markets returned to flat comp or comp growth. In the UK, we posted positive comps and have started gaining market share with great feedback on our fresh baked launch. In the Middle East, our regional business partner returned to positive transaction comps for the quarter, and in Japan, the business posted their 16th consecutive quarter of comp growth and has increased both brewed coffee and espresso comps through a focus on the coffee house experience.

To support our continued recovery and future growth, we're using learnings from international markets to inform our test and scale approach across our global footprint, and we're building on the success of our US brand campaign to localize and extend our marketing across key international markets.

In China, we've also seen indicators of progress following near-term changes to our product offerings, including the introduction of True Taste Sugar-Free beverages, and new price points on select products. We've got more work to do in the market, but our brand remains strong.

Our business is supported by a supply chain and roasting operation that is almost entirely local, and our team continues to make progress on a market-specific Back to Starbucks plan. As we see signs of progress, I want to be clear that we remain committed to China for the long term. We see great potential for our business there in the years ahead and remain open to how we achieve that growth.

Lastly, we continue to extend the reach of our brand beyond the walls of our coffee houses with our global channel business. During the quarter, we delivered relevant innovation to customers at home and on the move, including a new line of Iced Energy and frappuccino-like beverages in partnership with PepsiCo.

In summary, our Q2 results are disappointing, especially as measured by EPS, but behind the scenes, we made a lot of progress and have real momentum with our Back to Starbucks plan. I've led other turnarounds, and everything I've seen tells me we're on the right track. I believe we have incredible opportunity in front of us that will create tremendous value for all stakeholders.

At this stage in our turnaround, EPS shouldn't be used as a measure of our success. We're testing and learning with speed, and where we're seeing real change is in our coffee houses. As we scale this work across our full footprint, combined with the strength of our brand, we know we can return the business to strong, profitable growth. If you take away anything from today's call, let it be this.

We are putting the customer back at the center of all we do. We're setting our Green Apron partners up for success with the best job in retail. We've got the right team in place to lead. We're confident we have the right strategy and are making the right investments to unlock opportunities ahead. And we see evidence of progress from the work we're testing and scaling, which we believe will lead to improvements in our financial results.

Some of the investments we're making now will take some time to create material returns, and some elements of our plan will move faster than others. As we continue to build and invest in our Back to Starbucks plan, we'll keep looking for material offsets, learning from our customers and partners, and adjusting our tactics to return the business to growth. There is important work ahead, and I look forward to bringing you along.

With that, I'd like to introduce and welcome Cathy Smith, our new Chief Financial Officer, to share some detail on our results for the quarter.

Catherine R. Smith

Chief Financial Officer & Executive Vice President, Starbucks Corp.

Thank you, Brian, and good afternoon, everyone. I have been a huge Starbucks fan for many years and am super excited to be here. Starbucks has been my third place for countless meetings and interviews and a landing spot when I had time to reflect. Somewhere I could go and know I'd find a welcoming barista, delicious beverages, and a warm coffeehouse experience.

In my short time in this role, it is clear there are substantial opportunities for growth and value creation. Like Brian, I am confident the four pillars of the Back to Starbucks strategy are right. I have seen this pattern before. Develop the right focus strategy. Test, learn, iterate. Focus on the leading indicators. Look for signs of progress. Work on cost per transaction. Then move to scale.

The desired financial results will take a while, but I have started to see the leading indicators and early evidence that precede all turnarounds. We'll maintain the discipline to ensure small investments yield expected outcomes before scaling in service of long-term durable growth and strong returns on invested capital. I also know that the turnaround is going to take some time. We are committed to providing transparency along the journey.

I'll now cover our Q2 results. Our Q2 consolidated revenue was $8.8 billion, up 3% in constant currency to the prior year, reflecting 7% net new company-operated store growth over the past 12 months, partially offset by a 1% decline in comparable store sales. Our global comparable store sales decline was primarily due to a 2% decline in the US, with our US transaction decline improving this quarter to negative 4%. While transactions are not where we expect them to be, we are seeing several indicators that our Back to Starbucks strategy is positioning the business on the right track.

In the US, market share, brand sentiment, and customer contacts regarding wait times are all improving. We saw stabilization in our non-Starbucks Rewards member traffic, indicating our broad-based marketing campaign to reintroduce Starbucks to the world is resonating with our customers.

Additionally, transaction recovery in our comparable stores was strongest in our morning-day part, and we saw improvement quarter-over-quarter as we have invested in staffing and deployment, demonstrating that the deliver-the-customer-experience-to-win-the-peaks pillar of our Back to Starbucks strategy is effective.

Our ticket growth in the US for the quarter was 3%, reflecting annualization of prior-year pricing and fewer discount-driven offers in the current year. We are driving more durable growth by moving away from highly-discounted offers, building the foundation of a healthier-based business to grow from.

Outside the US, Canada experienced both positive comparable store sales and transaction comp in the quarter. Our Canadian market has benefited from food innovation that has resonated with customers, fueling 12.5% higher food sales.

Shifting to China, China's comparable store sales were flat for the quarter, with positive transactions and expanding margins, driven by their focus on delivering great product innovation and improving value perception. Additionally, customer and partner engagement scores improved year-over-year.

In our International segment, we're seeing faster improvement, as evidenced by eight of the top 10 markets with flat or positive comps. Our International cafes are starting their Back to Starbucks plan from a more consistent brand experience. It's early, but it's encouraging to see positive signs.

Turning to store growth. We opened 213 net new stores globally in Q2, primarily consisting of company-operated growth in the US and China. While we have solid new store economics, we have room for improvement and are evaluating our global store portfolio and new store pipeline, as Brian mentioned. Our cafes will have authentic, coffeehouse vibes with customers in mind.

Our core model will have both cafe and drive-thru, with welcoming environments and efficient workflow behind the bar. We are also committed to reducing our new store build costs to drive greater new store returns.

Shifting to margin. Our Q2 consolidated operating margin was 8.2%, contracting 450 basis points from the prior year, primarily driven by de-leverage and additional labor in support of our Back to Starbucks strategy. Our strategic and surgical addition of labor into our stores is critical for us to deliver the customer connection and experience our customers expect.

While we prioritize delivering on our customer promise, we are optimizing workflow, driving efficiencies with new algorithms, simplifying our menu, and improving the layout. Although our labor investments drove margin compression in the quarter, the investment in labor allows us to capture additional demand and transactions, which will accelerate our return to growth.

Shifting from margin to G&A. In Q2, G&A declined by 3% versus the prior year, driven by the lapping of certain proxy solicitation and advisory costs, and cost savings from the corporate restructuring we completed towards the end of the quarter.

Last quarter, we shared our intention to include these restructuring costs in our non-GAAP results. Considering the stage of our turnaround, we may have additional restructuring costs in the near term as we evaluate our store portfolio and operations. However, we still expect that any additional restructuring initiatives will be completed within a finite period of time and therefore, have elected to exclude the corporate restructuring charges from our non-GAAP results.

As Brian stated, our EPS performance in the quarter was poor. Q2 EPS was $0.41, down 38% from the prior year, primarily reflecting the impact of expense deleverage and heightened store investments. That said, our considerable progress against our Back to Starbucks strategy might be more telling at this stage of our turnaround than EPS. We've made tangible progress on all four of our Back to Starbucks pillars, and while the strategy will take time to be fully implemented and produce financial returns, we are laying the foundation for profitable, durable growth.

To conclude my remarks on our Q2 results, we remain committed to our capital allocation strategy and continue to invest in our business for high returns, maintain our strong balance sheet, targeting a BBB+ Baa1 credit rating, and return cash to shareholders via dividends.

Shifting to broader topics. While I know you would like to have some insight into our financial outlook, I'm still learning the business, and it would be premature for me to provide such insight. Although I expect our third quarter FY 2025 top line to follow normal seasonality, I recognize our US business drives our results, and it will take time for our Back to Starbucks strategies to be fully implemented in our over 17,000 stores nationally.

I know that our shareholders have many questions top of mind, so I will address two topics in detail, tariffs and coffee prices. Starting with tariffs, although the tariff environment continues to be dynamic, we mobilized a cross-functional team and are actively managing and mitigating risks where possible.

As it relates to coffee, I'd like to first remind everyone that we source high-quality Arabica coffee from 28 countries, with the majority of our supply coming from Latin America. Our coffee team is leveraging our global footprint to further diversify and redirect coffee shipments as appropriate.

Excluding coffee, our largest areas of tariff exposure include merchandise currently sourced from China and some imported beverage components. For these impacted areas, we are actively working on strengthening our supply chain, including localizing and moving production as needed. For example, for the upcoming holiday season, we have made progress mitigating our tariff exposure by shifting production to alternate sites.

Now, shifting to coffee prices, the market continues to be volatile, and our coffee team has done a fantastic job opportunistically building our supply and securing favorable pricing. Due to our purchasing and hedging practices, our moving average cost of coffee lags the market.

As a reminder, our total cost of green coffee is typically limited to 10% to 15% of our product and distribution costs, and we continue to actively manage and balance coffee inventory with related coffee costs.

In closing, while our financial results are far from Starbucks potential, I am confident we have the right strategy and are starting to see early evidence and leading indicators. We are building new muscles to test, iterate, and scale quickly, all while focused on customers and listening to partners.

I want to thank our partners who are dedicated to bringing our Back to Starbucks strategy to life. Working alongside you, I have confidence that we will deliver the experience customers crave and value creation our shareholders deserve.

And with that, Brian and I are happy to take your questions. Thank you. Operator?

QUESTION AND ANSWER SECTION

Operator: Thank you. [Operator Instructions] Our first question comes from David Palmer with Evercore ISI. You may proceed.

David Palmer
Analyst, Evercore ISI

Q

Thanks. I just want to follow-up on some of those points that you made in the opening comments. You mentioned investments in labor and order sequencing, perhaps over equipment in terms of solving speed and throughput.

And so I'm just thinking this through. It sounds like maybe more OpEx and less CapEx than what you might have thought originally. And perhaps this is going to be more of a rapid pace to the improvement that you want to get to. It's going to be more easily deployed.

Are there any numbers that we can think about in terms of labor investment, maybe per store, CapEx thinking that you would be associated with this, maybe less than before? And then anything else that you can think of like that would be important from a staging perspective, because it sounds like a lot of changes are happening? Thank you.

Brian R. Niccol
Chairman & Chief Executive Officer, Starbucks Corp.

A

Yeah. Hey, David. It's Brian. Yeah. Thanks for the question. And look, I think your instincts are right. What we've learned over the last couple months, specifically behind both the algorithm pilot and the labor pilot, is the combination of staffing, deployment, and technology gets us the outcomes of a great customer connection experience, as well as the right speed and throughput associated with what we want to achieve both in-cafe, mobile order, and drive-thru. And so we're not seeing the need for the equipment in order to get to the customer experience that we want to provide, both on the level of speed and connection.

And then, look, I think what we're doing as far as taking from pilot to scale, I can share with you the journey we've been on so far, right. I started with three stores on the algorithm, started in five stores with the labor pilot, and now we'll be in roughly 1,500 stores, close to 2,000 stores by, I think, May. And then hopefully by the end of this fiscal year, we'll be over 3,000 stores with the labor program and the algorithm program.

And so this just allows us to get to, I think, the service experience that we want to provide across the stores at a pace that we think makes sense, so that we train, we staff, meaning we hire, and then we're able to deploy correctly and then put in the technology behind it.

The other thing that's nice to see is we're seeing transactions respond with the improved speed of service and the better, I call it, deployment slash staffing, to enable the connection and the speed that we want. So I think that gives you a highlight on it. It's probably too early to say what will be the actual speed and the cost associated with it.

But the one thing I would say is, and I think you heard this in Cathy's comments and my comments, is we're going to be also looking to make sure that we are very judicious in the cost that continue to go forward in the business. Because as we make these investments into the store, we're going to see where we can find material offsets in the business.

And then obviously, we're banking on some growth to come with the investment in the labor and the store experience. And I highly, highly believe margin then ultimately responds to and the financial results grow with the growth of the business.

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

Thank you. I wanted to, I guess, follow up on your last comment, which is about the margin. Margin was down in North America. It looks like most of that 600 basis points was from labor. I know you talked about that as a headwind, I guess.

I'm trying to understand. It feels like Starbucks has been investing pretty heavily in labor for a few years now. And I'm not sure if this is what we're seeing before you see some of the offsets or if fundamentally the economics of the box maybe looks different than it has historically.

I'm just trying to sort of piece together. It's a little slower in terms of earnings recovery than maybe some of the previous turnarounds we've seen from you, Brian. And so I can't tell if it's a macro issue or if there's something else here that, again, says that the boxes are going to be sort of fundamentally different than they used to be?

Brian R. Niccol
Chairman & Chief Executive Officer, Starbucks Corp.

A

Yeah, look, I think what's been going on in the – kind of, if you look back on the history, we've definitely invested in our – I would call it our employee value proposition or the partner value proposition. But I think along those lines, over the last couple of years, we've actually been removing labor from the stores. I think with the hope that equipment could offset the removal of the labor.

And I think what we're finding is that was just – that wasn't an accurate assumption with what played out. And unfortunately, at the same time, price was being taken up for a myriad of reasons, right? There was an inflationary environment, so on and so forth.

So I think where we find ourselves right now is, what we're discovering is the equipment doesn't solve the customer experience that we need to provide, but rather staffing the stores and deploying with this technology behind it does. And then what we're already starting to see is an impact on that transaction and the number of transactions that are incremental.

And I think the combination of coming over top with marketing as well to talk about the experience of the Starbucks coffee company combined with the in-store experience as it relates to technology and staffing, we're already starting to see some nice improvements.

And just to kind of give you what I talk about there, it's like our non-rewards customers, we've seen a nice clip up in transactions and obviously, our rewards customers where we've removed a lot of the discounting. We're seeing a lot of choppiness there because we, frankly, we're using our rewards program more as a coupon program as opposed to a rewards program. And so you're going to see us evolve that program going forward.

But the quality of the transactions that we're building back look better. It's not discount based. I would say it's kind of the core of what Starbucks is. It's experience based. It's coffee quality based. It's drink based.

So, I like where we're headed. I think we're going to build back with better transactions, which sets us up for, I think, some great growth going forward. And I think margins will be part of that growth story in the longer term.

Operator: Thank you. And your next question comes from David Tarantino with Baird. Please state your question.

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

Q

Hi, good afternoon. My question is about the portfolio comments you made evaluating the portfolio. I was wondering if you could elaborate specifically on what you're evaluating there in terms of the existing base?

And then I guess, Brian, should we think about a slower pace of unit growth in the near term that eventually accelerates later as you do this evaluation? Are you going to continue to grow as you do this evaluation?

Brian R. Niccol
Chairman & Chief Executive Officer, Starbucks Corp.

A

Yeah. So, thanks, Dave, for the question. Yeah. So, to answer the first part of your question, look, we have seen our costs go way up on our new builds as well as our renovations. And it's just not the cost structure we think we should have going forward, nor do I think it's necessary to have a great build and give the customer experience and the partner experience that we need to provide. So, we're working hard on how we reset both renovation costs as well as new build costs.

And with that, it's only logical to say, well, why don't we slow down what we're building right now? And then as we get the new design and build nailed down, we will ramp our way back up. Because as I said in my comments earlier, we still believe there's tremendous opportunity to double the store count from where we are today. I just want to double it with the right build at the right cost so that we can provide the right customer experience and the right partner experience.

And so, that's what we're working on right now. Actually, before I even hopped on this call, I had the opportunity to look at something that I think is pretty exciting for how we're going to have much better costs in what we build. But it takes a little bit of time to move that through the development pipeline so that it shows up in market. But I love where the team is headed on the cost side of this. I also love where the team is headed on the design side of this.

And then when you layer that in with, I think, a great third place, the right labor, staffing, deployment, and some technology behind it to enable the speed and throughput that we want, I have high confidence that we can double the store count, as I've mentioned before.

Operator: Thank you. And your next question comes from Brian Harbour with Morgan Stanley. Please state your question.

Brian Harbour
Analyst, Morgan Stanley & Co. LLC

Q

Yeah, thanks. Good afternoon. Could you comment on just the many simplification you did? I think the thought before was that, that wouldn't have too much of an impact on transactions and people sort of gravitate to other items. Is that, in fact, what you saw? And then, you did sort of tease some other interesting things that could come over time from an innovation perspective. How do you sort of sequence those things? And how will you think about when is the right time for that?

Brian R. Niccol
Chairman & Chief Executive Officer, Starbucks Corp.

A

Yeah, yeah. Well, look, just on the transaction front, we still believe we're making the right decisions by simplifying because it frees us up to do what I believe is more like platform innovation, more compelling and relevant innovation, frankly, versus hanging on to what I would say just slow movers that – I'm sure there's somebody that wishes we didn't remove it, but they were slow movers and we got to open space up so that we can have the big movers.

To your point on transactions, one of the things that gives me a lot of optimism is just if you think about from Q1 to Q2, the percent of stores that had positive transaction comp went up by like 80%. You know, we went from, call it, 13.5% of our stores with transaction comps that were positive to now almost a quarter of our system with positive transaction comps.

So I know we're making progress just by seeing how we are improving our transaction comps as it relates to our existing store base. And the nice thing is that obviously translates into what percent of stores are delivering sales comp, right. And now we're closing in on 42% of the system with positive sales comp. And the thing that's really exciting, too, is the morning we're almost right around 50% of our stores with positive sales comp.

So, again, we're making great progress both across the system with the Back to Starbucks programs just on getting back to being focused on the customer, simplifying the operation for our partner, and then being very crystal clear on what are the things that we need to be spending our time on. And that is all around providing a great coffee house experience. And I think we're starting to see it in the results. And then obviously, as I mentioned earlier in the pilot.

So, the innovation that you talk about that, you guys are going to chuckle about this a little bit, but we're using the stage gate process, right, to make sure that what we bring in truly does provide meaningful innovation, whether it's food, whether it's drinks, or whether it's an afternoon targeted program. I think it's just really smart of us to know how does it impact the business and how does it ultimately perform with the customer and how is it able to be executed consistently with our partners.

So I'm really excited about the pipeline that we're building. To be frank, the pipeline was a little thin, and we're building it back. And I think at the same token, the team's doing a nice job of taking advantage of what news we do have to make it as big and as impactful as possible without getting in the way of what we want to accomplish in the store with the Back to Starbucks program. And I think you'll see that even coming up in the summer months as we start to roll out some new news.

Operator: Your next question comes from Andrew Charles with TD Cowen. Please state your question.

Andrew M. Charles
Analyst, TD Cowen

Q

Great, thank you. Brian, you talked about building a globally resilient business, and with investor concerns surrounding a recessionary macro and Starbucks' underperformance in past periods of economic curation, what levers does the brand have at its disposal to protect US traffic if the macro would deteriorate further? Maybe said differently, what parts of the Back to Starbucks playbook can you accelerate if the macro becomes more challenging in the US?

Brian R. Niccol
Chairman & Chief Executive Officer, Starbucks Corp.

A

Yeah. Hey, thanks for the question. And look, here's what I would tell you is the one thing that we've heard consistently over and over again is getting back to this idea of the third place and the connection and doing it in a way where we're on time with the mobile order and accurate. We're less than four minutes in the cafe, less than four minutes in the drive-thru. And then with a great seat is a real point of difference.

And it is one of those things that people would say, hey, look, this is a simple everyday luxury that, I can still continue to participate in kind of regardless of what some of the economic challenges are around them is what some of the feedback we're getting.

Now, if it's a major step backwards in a macro environment, of course, we'll be impacted. But my experience has been the best way to go after these things is with your best offense. And our best offense is to make a great third place with a great drink, with a great barista, providing that connection. And in the innovation pipeline, we've got some news that I think would cut through in any environment.

So, some of those things you can go a little bit faster on because it doesn't require additional equipment or anything. But we'll recognize what's happening with the customer and we'll adjust accordingly.

Operator: Thank you. And our next question comes from Christine Cho with Goldman Sachs. Please state your question.

Christine Cho
Analyst, Goldman Sachs & Co. LLC

Q

Thank you so much. I think, Brian, you mentioned the under 15-minutes goal on the mobile order delivery in the last call. And I think you've started to test the mobile order sequencing algo as well in a few of your stores. Any early thoughts here and how you size the opportunity? And can you walk us through how the partner and customer experience would change with that? Thank you so much.

Brian R. Niccol
Chairman & Chief Executive Officer, Starbucks Corp.

A

Yeah. So, yeah. So that is a pilot that we've gone from three stores to now we're in over 400 stores. And what I'm happy to report on is really what we're trying to do is figure out how we could continue to be on time with mobile orders while providing better speed of service and customer connection for the drive-thru, the in-cafe and then obviously the handoff as it relates to the mobile order. And the pilot has been proving just that.

We've I think pulled out over two minutes in the in-store time and we've definitely seen the drive-thru exceed the four-minute goal, which is great. So we're averaging less than four minutes in the drive-thru and we pulled out about two-and-a-half minutes in the cafe and we've got about 75% of the stores that are in the pilot now achieving what I would call the 4-4-12 metrics without having anybody be dissatisfied with the time of their mobile order experience.

So all really good stuff happening for the customer. As it relates to the partner, the good news is a lot of this just happens behind the scenes for the partner because what happens is behind the scenes, the technology is figuring out how to route which order to the store and to the certain station so that when they pull out the ticket, it has already done the work so that they're pulling the ticket is the right drink for them to make so that they will be successful hitting those speed times and it enables the partner to have the time to have the connection with our customers as well.

And like one of the things that really is fun to see in these stores is it's just a lot calmer. People move with purpose but it's a lot calmer. There's the opportunity to provide great connection and that's really what we want the technology to do behind the scenes is just be that behind the scenes so that our partners are set up for success to connect and do their craft with our customers on every transaction.

Operator: And your next question comes from Jeffrey Bernstein with Barclays. Please state your question.

Jeffrey A. Bernstein
Analyst, Barclays Capital, Inc.

Q

Great. Thank you very much. I wanted to say hello to Cathy and throw a question your way. You mentioned ROIC and returning to strength. This was not normally a metric highlighted on Starbucks calls. Perhaps it got more attention in your prior roles.

I was wondering if you can share metrics in your first month how you think about the ROIC framework at Starbucks and maybe how it might come into play as you make decisions going forward? Thank you.

Catherine R. Smith
Chief Financial Officer & Executive Vice President, Starbucks Corp.

A

Thank you and good afternoon. I look forward to meeting you soon. Yeah, so I for a very, very long time believe at the end of the day our shareholders want really two things. Give me durable, sustainable growth and give me a good return on invested capital for the risk I'm willing to take for that growth. And so it's very, very simple to me. And so if we focus on those two metrics, I think we'll get to good outcomes for all of us and for our shareholders.

That said, to your point, I think we've got a little bit of work as Brian shared with the portfolio. While they still give us great IRRs by most standards, not by our standards. And so we've historically done better and I think we can do better and we will.

So we'll think about that. All the while though, we're going to make sure we invest in the Back to Starbucks strategy and then we'll find our offsets. I love deploying a few tools like zero-based budgeting, which will come into our vernacular this next year, which will help us get after some of those maybe stranded costs. So all of that though in service of durable growth and a good return on invested capital.

Operator: Thank you. And your next question comes from Jon Tower with Citi. Please state your question. Jon Tower?

Jon Tower
Analyst, Citigroup Global Markets, Inc.

Q

Sorry about that. I got to figure out how to use the mute button. Thanks for taking the question. Just maybe following up to the labor pilot comment that you spoke about earlier, I think you said 1,500 stores and 3,000 stores by the end of fiscal 2025. Do you see that being deployed across the whole US store base over time, or is it more a select number of stores?

And then maybe on top of that, do you see any sort of incentive changing for store level labor, maybe at the GM level or at the hourly level? Or do you feel pretty good about where that sits today?

Brian R. Niccol
Chairman & Chief Executive Officer, Starbucks Corp.

A

Yeah. So look, I do. Well, first, thanks for the question. I do see us rolling this across all of our US company stores. It'll be in different forms, right? Because we have some stores that are cafe and very urban. We have some stores that are drive-thru, mobile, cafe that are more suburban.

So what it ultimately looks like as far as being deployed in the store will be contingent upon the business that they run. And I'll just give you an example. I was just in Chicago last week and they have the labor pilot in their stores. And the one store is a downtown Chicago store doing a lot of transactions, big mobile business, nice cafe business. And not surprising, we added a lot of labor against the mobile order side of the business. And for perspective, this store is doing like 250 transactions in 30 minutes.

And so the woman that runs it is Alicia, a fabulous leader. The place is just running like super smooth, no form of chaos. The customers that want to have an in-cafe experience, having a great in-cafe experience. Customers that want to just grab and go, having a great grab and go experience.

And in that place, she increased a lot of the labor towards the peak and then also some of the shoulder hours and primarily in the mobile ordering space. And then the algorithm is going to behind the scenes help us manage how those orders flow.

Versus like a suburban store, one of the things we saw with putting in this additional labor is we committed a person to just be stationed at the drive-thru. And in this case, the woman's name was Jessica, that was the store manager of this store. She's done a fabulous job of taking the labor that we're generating as a result of the peak pickup into our weekend business.

And so I just give this as examples of it's going to be – we're going to need to move both the labor and the deployment to match what the business actually flow looks like. And what's great to see is in both of those scenarios, which are two very different stores, you're seeing transaction growth. You're seeing a team that's highly engaged, highly energized. I think moving with simplicity, moving with connection, and then also just moving to our customer, which is really exciting.

And so, the plan is we will be moving this Green Apron service model across all our stores in the US, and it'll be a rollout that's very focused. And we'll make sure that our managers and our district managers and the whole leadership is dialed into what we are after with this Green Apron service model. And the early signs are very promising.

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

John Ivankoe
Analyst, JPMorgan Securities LLC

Q

Hi. Thank you. The question is on the drive-thru. And really in the context of that, the siren station, particularly around the ice machine and food warming cabinets, at least from my understanding, were really geared at least partially to significantly improving speed of service at the drive-thru, especially where you had a very high blended mix or you had a high food mix.

So, really I'm going to go two-parts with this question is, do you think those components of siren might make sense in the future, or are you just suspending them for now? And the second part of the question, and you've alluded to afternoon a couple of times, does it make sense for Starbucks to actually split its menu to some extent of products that are available in the morning and other products that may be a little bit more time intensive or customized that would only be available in the afternoon? Thank you.

Brian R. Niccol
Chairman & Chief Executive Officer, Starbucks Corp.

A

Yeah. So to answer your first question, obviously there are some stores, to your point, that would warrant putting in the siren system when they've got a very high mix of drive-thru and a very high level of transactions. So it's not that we're not going to ever use the siren system.

It's just not something that we need to be rolling out across all 10,000 stores. So it's going to be very targeted and it's going to be on a very, I would say, use basis as it relates to the store has a need. And then in that case, we will implement it.

But for the bulk of our stores, the majority of our stores, it's just not the necessary solution. We have plenty of capacity. If we deploy, use the technology and execute with excellence the way I know we can.

To your other question about how you think about the menu, look, that's kind of what I'm alluding to is when we do things like an aperitivo menu, right. That would be available in the afternoon from like, say 2:00 pm to 5:00 pm. We definitely want to reinforce the artisanal, the craft aspect that we provide for when people want to have that little snack or that little pick-me-up drink in the afternoon. And it gives us some flexibility to do some different things in the afternoon that maybe we wouldn't be able to do in the morning.

So digital menu boards will help enable that the way we can market it. And then frankly, just being clear in how we market the actual menu and what the experience is will help with that. So, yeah, we're going to – we want to take advantage of what our capabilities are and the fact that we're open from, 5:00 am, 6:00 am in the morning until 7:00 pm, 8:00 pm, 9:00 o'clock at night. And we got to be smart about delivering on beverages and food for the occasions that move throughout the day.

Operator: And your next question comes from Chris O'Cull with Stifel. Please state your question.

Chris O'Cull
Analyst, Stifel, Nicolaus & Co., Inc.

Q

Thanks. Brian, on the last call, you mentioned several near-term changes that could be implemented in China to stabilize the business. They appear to be working, but can you describe some of those changes and whether you believe they have stabilized the transaction declines?

Brian R. Niccol
Chairman & Chief Executive Officer, Starbucks Corp.

A

Yeah. Thanks for the question on China. Molly and the team have done a really nice job of getting after some key things that we need to do to be more competitive in the market.

And they've started to implement, I think, some very relevant marketing. They've also brought forward some very relevant product innovation, both in flavors and now most recently in this sugar and flavor separation program. And then also the dumpling program that they have.

So, they've already started the process of figuring out products at certain prices combined with, I think, very relevant innovation and some additional marketing that's connecting in a very culturally relevant way. And the good news is Molly and the team are just getting started. So a lot of their ideas still are yet to roll out.

But the things that they've rolled out most recently have definitely made a very nice impact. The flat comp with four points of transaction growth is really nice to see. And I think the team is going to build on the momentum that we're starting to create in the China market.

Operator: Thank you. And your next question comes from Danilo Gargiulo with Bernstein. Please state your question.

Danilo Gargiulo
Analyst, Bernstein Institutional Services LLC

Q

Great. Thank you. Brian, this question is on pricing. And earlier you were mentioning that you had intention of not increasing prices in 2025. And arguably with general inflation rising given the tariff, you might have a golden opportunity to be pricing below competitors and perhaps strengthen the value positioning of Starbucks. At the same time, the coffee prices are increasing.

So are you planning to maintain prices in 2026 as well, or will you be prioritizing margin protection? And also, can you help us quantify the impact of rising coffee prices on margin? Thank you.

Brian R. Niccol
Chairman & Chief Executive Officer, Starbucks Corp.

A

Yeah. So I think, as I've stated before, our intention is to not move on pricing for the balance of this fiscal year. And we've also done some other things, I think, to enhance the value proposition, like not charging for all dairy. You're going to be seeing us on the pricing front also roll out in the app here in the next couple of months, easier ways for people to navigate and get pricing transparency into their transaction, which I think is also going to help clarify things for our customers.

And then look, as it relates to 2026, we're going to be working on a lot of things to figure out how we can improve margin. And I think it'd be premature to say we've got to use price as the only way to protect margin. I think we're going to be looking at ways to grow the business and also take really a hard look through the zero-based budgeting approach to understand where else there might be some offsets.

Frankly, price would be the last lever I'd like to pull. But we'll assess as we get closer to 2026 and then do what we believe is the right thing for both the customer and the business and the brand.

And I think your last question was in regard to coffee prices as it relates to the business. The good news for us is it's actually a small piece of the total cost of sales proposition. The team does a great job of buying coffee. And I think you've seen historically how they've done a really nice job on that. And they're currently doing a really nice job on that as well. So, Cathy, I don't know if you wanted to add any more details on it?

Catherine R. Smith
Chief Financial Officer & Executive Vice President, Starbucks Corp.

A

No, just that it's typically 10% to 15% of our product and distribution cost. So, as Brian said, it's small. And maybe the only other thing to layer on is our team has historically for a very long time, had a great sourcing, hedging, and warehousing program that then will mute the prices both on the upside when prices are rising and when they're coming back down. But all of that said, I think the bigger picture is where Brian went, which is it's a smaller piece of our total product and distribution costs.

Operator: Thank you. And your next question comes from Peter Saleh with BTIG. Please state your question.

Peter Saleh
Analyst, BTIG LLC

Q

Great. Thanks for taking the question. Brian, since the fall of 2024, Starbucks has embarked on pretty meaningful change, an investment behind advertising, a lot of linear TV behind sporting events, some radio.

Can you just talk a little bit about the return on that investment that you're seeing, how you're measuring that? And should we continue to expect that this will be the cadence going forward that you'll continue to invest behind linear TV and radio, and maybe even increase that going forward? Thank you.

Brian R. Niccol
Chairman & Chief Executive Officer, Starbucks Corp.

A

Yeah, thanks. Yeah, look, we're feeling really good about how the marketing is taking hold. One of the brand trackers that we do, we just got back that brand first choice is the highest Starbucks has been since 2023.

The other thing that also I'm really delighted to see is the progress that we're making with our non-rewards customers from a transaction standpoint. We were at a really big deficit in kind of that fall when I first got here. And literally every quarter, it has improved from a transaction basis. And even as we enter the third quarter, I'm continuing to see further improvement.

And the other thing that's really nice to see is as we've removed a lot of the discounting, we've seen higher quality transactions show up. So it's showing up in ticket a little bit to the tune of 1 point, roughly. But what I'm most excited about is when you talk to customers, they're giving us feedback that I'm really getting a better experience from Starbucks. And it's interesting, it's just little things like the barista asking me, do I want to stay or is this to go? Writing the little note on the cup, having that connection at handoff, having the condiment bar back.

So I think bringing these things to life in advertising and then having it being reinforced when you're in store is one of those cycles that just build on it. And look, I think Tressie and the team are doing a great job. And I would say it's beyond just the linear TV. It's the social, it's the digital, it's all the different aspects of how we communicate with customers. And I think we're going to continue to just get better from here as it relates to the marketing side of the business.

Operator: Thank you. And that was our last question. I will now turn the call over to Brian Niccol for closing remarks.

Brian R. Niccol
Chairman & Chief Executive Officer, Starbucks Corp.

All right. Well, thank you for your time and all the questions. Obviously, I'd be remiss if I don't first just mention the hard fact in front of us, which is our Q2 2025 financial results were disappointing. But I think the thing I want you to know is behind the scenes, we really are showing a lot of signs of progress.

And I think, as I've said before, our turnaround is going to take a little bit of time and we've got much more work to do as we build back a better business. I can't emphasize enough. It's not just about building back the business. It's about building back a better business. But I'm more confident, frankly, than ever about the opportunities ahead of us.

And frankly, I think there's more opportunity than I even imagined when I first came into the job. So, I've learned a lot over the last seven months. We've got a great team that is in place, that is committed to winning with customers and doing it in a way where we set our partners up for success.

I think I've said this before. I've led turnarounds like this before. And I really do have a lot of confidence as we continue to scale the work underway and we manage costs smartly. Our Starbucks transformation that we're going to lead, I think is going to be both impactful and enduring. And our aim is just that.

We want to build a Starbucks with a clear mission and purpose, need to be loved for its coffee, its warm and welcoming coffee houses, our talented Green Apron partners and the community that we build. And we're focused. I can't emphasize enough. We're focused on moving quickly, but we're also focused on executing with excellence so that we can deliver on all these commitments.

So, look, in doing so, I'm confident we're going to stabilize the business. I think we're starting to show that right now in our results. And then we're going to build resilience so that we frankly create economic opportunity for both our partners. And then, obviously, we want to provide an exceptional experience for the customers. And then we want to clearly generate terrific long-term returns for our shareholders.

So lastly, I just want to say thank you to our partners for supporting the changes that we're making and for the feedback that they continue to provide. I can't emphasize enough how much they are the leading edge of our comeback. And I hope that all of our partners are really proud of the work that we're doing, and they're proud to continue to wear the Green Apron.

So with that, have a great afternoon, and I'm sure we'll be in touch. Take care.

Operator: This concludes Starbucks' second quarter fiscal year 2025 conference call. You may now disconnect.