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Starbucks Corp. (SBUX)

Q1 2026 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good morning. My name is Daryl, and I will be your conference operator today. I would like to welcome everyone to Starbucks First Quarter Fiscal Year 2026 conference call. All lines have been placed on mute to prevent any background noise. [Operator instructions]

I will now turn the call over to Catherine Park, Vice President of Investor Relations. Miss Park, you may now begin your conference.

Catherine Park

Vice President-Investor Relations, Starbucks Corp.

Good morning, and thank you for joining us today to discuss Starbucks first quarter fiscal year 2026 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 actual results to differ from these statements. Any such statements should be considered in conjunction with cautionary statements in our earnings release and risk factors discussed in our filings with the SEC, including our latest annual report on Form 10-K and Quarterly Report on Form 10-Q.

Starbucks assumes no obligation to update any of these forward looking statements or information. GAAP results in the first quarter fiscal year 2026 include restructuring and impairments and transaction costs that are excluded from our non-GAAP results. Revenue, operating income, operating margin, EPS and EPS growth metrics on today's call represent non-GAAP measures and are measured in constant currency. G&A and effective tax rate metrics also represent non-GAAP measures. Please refer to the earnings release and our website at investor.starbucks.com to find reconciliations of these non-GAAP measures to the corresponding GAAP measures and supplemental financial information.

This conference call is being webcast and an archive of the webcast will be available on our website through Friday, March 13th, 2026. Also, for your calendar planning purposes, please note that our second quarter fiscal year 2026 earnings conference call has been tentatively scheduled for Tuesday, April 28th, 2026. I'll now turn the call over to Brian.

Brian R. Niccol

Chairman & Chief Executive Officer, Starbucks Corp.

Good morning, and thank you for joining. I look forward to seeing many of you tomorrow for Investor Day, where we will lay out our future vision for the company, our path to sustained growth and profitability, and how we plan to deliver the best of Starbucks for our customers, partners and shareholders.

Today, though, I want to focus on the continued progress we've made on our Back to Starbucks plan and the momentum we've built across the business through Q1 fiscal 2026. I'm most excited that our turnaround plan is coming to life in the way we envision. First, turn around the top line and then earnings growth will follow.

And I am delighted to say we are now achieving top line growth driven by transactions. And we have clear plans on how we expect to turn top line growth into margin and earnings growth. We started the fiscal year strong with a focus on disciplined execution at scale.

As a result, in Q1, global revenue grew by 5% to \$9.9 billion and global comparable store sales accelerated to 4% growth. We delivered 128 net new coffeehouses globally, and we delivered operating margins of 10.1% and EPS of \$0.56. Our North America revenue grew 3% in the first quarter to \$7.3 billion. Across North America as a whole, and our US business, company operated sales comps were both 4%, led by 3 percentage points of comp transaction growth.

And across our international business, sales comps grew by a healthy 5%, led by strong performance across our company operated markets in China, Japan and the UK. In the US, where much of our turnaround work has been focused, company-operated transaction comps grew year-over-year for the first time in eight quarters, and we grew transactions across all dayparts in the quarter. Starbucks Rewards 90 day active members reached a record 35.5 million customers during the quarter.

Rewards transactions grew year-over-year for the first time in eight quarters and non-rewards transactions grew even faster. In fact, this was the first quarter we grew both rewards and non-rewards transactions since Q2 of fiscal 2022, that's nearly four years ago. It is clear from our top line results that our Back to Starbucks plan is working, and our turnaround is taking hold. As we return to growth, we can also see more clearly where we will improve further. Over the past several months, we have surfaced legacy models and processes in our business that we are now fixing.

For example, transaction growth has shown us continued opportunities to strengthen our supply chain and reevaluate menu offerings to ensure product availability while reducing future waste. We will keep moving with speed to identify and implement practical changes like these that we know are good for our customers and for our business.

We're also continuing to refine our labor model because we see some opportunities to fine tune it based on store format and performance. There is also opportunity to better enable efficiencies with technology solutions in our coffeehouses and across our support centers around the world.

We're pleased with our progress and we believe we remain ahead of schedule and we're confident on our path forward. But we also recognize that we're still in our turnaround. And as we expected, the strategic investments we're making to fix our operating foundations will take time to flow through to sustainable earnings growth.

A key piece of our path forward is technology, and I'm excited to share that Anand Varadarajan recently joined Starbucks as our new Chief Technology Officer. Anand joins us following a successful 19 year career at Amazon, where he most recently served as President of Worldwide Grocery Technology.

I am confident his leadership and knowledge will result in step change improvements across all our technology platforms. I want to use the remainder of my time today to share with you what we've done to drive top line growth through Q1, and why I'm confident we're on the right track to deliver improved growth in fiscal 2026 and beyond.

First, our Green Apron Service standard continued to improve our coffeehouse experience, creating value for our customers and underscoring our growth potential in North America. Through the quarter, we leveraged bigger rosters, new customer service standards, continued low hourly partner turnover, and our Smart Queue algorithm to deliver more consistent, timely and personal service.

As a result, across our US company operated coffeehouses, positive customer comments grew in the quarter. All day and peak throughput steadily increased. We addressed throughput challenges during peak with average café and drive-thru service times, both below our four minute targets, even with meaningful transaction growth, and we brought order to mobile orders, ensuring they remained accurate and on time. To instill more ownership of the coffeehouse experience and the results they deliver, we rolled out new expectations for coffeehouse leaders to stay, enroll at least three years, that's because we know leadership continuity strongly correlates to a better culture and improved coffeehouse performance.

We also launched the Grow program, a simplified reporting system to evaluate, rank, and improve coffeehouse performance. We're measuring five key metrics that closely tie to comp growth and are within coffeehouse leaders' control.

While it's only been a few months, leaders across our North America operations are already using the new report to help them better run their coffeehouses and take ownership of their action plans to improve performance. To better support our Green Apron partners, we fully scaled Green Dot Assist across our North American coffeehouses this past November.

This new AI-powered knowledge search tool provides a real time resource to look up beverage builds, troubleshoot operational issues, and adjust deployment plans. It also provides a strong foundation to test and learn, then develop and scale thoughtful AI solutions that reduce friction for partners and help them focus on craft and connection with our customers.

Second, our overhauled approach to marketing and menu innovations putting Starbucks back in the cultural conversation and back into a leadership position. Our holiday offering featured an exciting menu and new merchandise, including our Bearista Mug, which created real energy and buzz that drove more customers into our coffeehouses.

Our partners also showed up with enthusiasm and a desire to connect with our customers, delivering a record revenue holiday launch week for our US company operated business and driving sustained performance through the quarter. We also saw brand performance improve. Brand affinity in the US remained strong during the quarter, with continued improvements in visit consideration and Starbucks ranking as a customers' first choice.

Connection scores improved with more customers saying our partners make an effort to get to know them. Convenience scores improved significantly as customers responded to our Green Apron service standard and improved in-stock levels and more customers said Starbucks offers great tasting food and healthy menu choices.

Value perception scores also held strong in Q1, and when paired with average ticket growth, it clearly shows that we're delivering greater value through menu innovation and customer connection, not through discounts.

These are all clear signs that we are creating a more valuable brand for more customers. Going forward, we will continue to build on Starbucks proven seasonal strengths with engaging marketing, on trend menu innovation and seamless digital experiences that work together to create moments our partners can deliver with excellence and our customers want to be a part of and share.

Third, we continue to scale our Coffeehouse Uplift program, bringing more warmth and great seats back into our coffeehouses. To-date, we've completed approximately 200 uplifts, primarily in Southern California and New York City, and we're on track to complete more than 1,000 by the end of fiscal 2026.

We believe these investments in our cafés and the customer experience will continue to have a positive impact on our business as we reclaim the third place. Within our international segment, we grew revenue by 10% to \$2.1 billion, and we grew comps in nine of our ten largest international markets underscoring the strength and resilience of the Starbucks brand globally.

China was a standout. Comps accelerated to 7%, marking our third consecutive quarter of comp sales growth, led by transactions. This performance reflects the progress we are making to strengthen our competitive position as the leading premium coffee brand in the market.

Looking ahead, we are sharpening our focus for our long-term future in the region. During the quarter, we identified Boyu as our partner to maximize Starbucks potential in China. This partnership will help us expand into more cities, deliver exceptional coffee experiences, create new career opportunities for partners, and strengthen Starbucks position as a global brand for long-term growth.

We continue to expand our footprint with discipline and pace. In the first quarter, we opened 79 net new international coffeehouses, reflecting a 130 net new licensed coffeehouses and 51 net closures in our company operated business.

India crossed 500 coffeehouses and we announced expansion into six new cities in our Latin American and Caribbean markets, along with plans to surpass 1,000 coffeehouses in Mexico this year.

International remains a powerful growth engine for amplifying the Starbucks brand, and we are confident in our ability to deliver consistent, profitable growth in this business longer term.

So to conclude, we've continued to build momentum across our business through Q1, and we are clear on our long-term vision. We will be the world's greatest customer service company, we will offer the best job in retail, we will be the community coffeehouse, our brand will be visible, relevant and loved everywhere and we will accelerate growth around the world. And finally, we will deliver on our commitments to create shareholder value.

As a result of our disciplined work over the past 18 months, we are now delivering the top line results we set out to achieve and we're creating the room we need to invest thoughtfully in our future. As I said last quarter, we have a plan, we have been working the plan, and the plan is working.

Our work is not done and we are clearly in the early stages of our turnaround, and we have clear plans to maintain our top line performance while improving the foundations of our business. I don't expect path forward to be linear, but we will continue to test, learn and refine our approach to deliver the best of Starbucks and drive durable, profitable long-term growth.

Before I turn it over to Cathy, I want to thank our partners across our coffeehouses and support centers around the world for their continued focus and relentless effort to execute with excellence.

Our Back to Starbucks plan is the strategic currency of our turnaround, and their work is the foundation of our progress and our performance. Together, we've grown comps and transactions, brand affinity and customer connection is strong. Our innovation pipeline is stacked with breakthrough menu items and new digital experiences, and the shine is back on our brand, both in the US and around the world.

With that, I'll turn it over to Cathy to walk us through our Q1 financial results and to share our fiscal 2026 guidance.

Catherine R. Smith

Chief Financial Officer & Executive Vice President, Starbucks Corp.

Thank you, Brian, and thank you all for joining us this morning. We made meaningful progress in the first quarter as we executed our growth priorities to build long-term strength in the business. I'm incredibly proud of how our partners showed up for our customers throughout the holiday season, and I want to thank them for their dedication and hard work.

I'll now share our Q1 results and then provide additional insight into how we're setting up for the months ahead. Our Q1 consolidated revenue was \$9.9 billion, up 5% to the prior year, reflecting 1% net new company operated store growth and a 4% increase in global comparable store sales, driven by strong performance across both our North America and International segments.

Our North America segment revenue grew 3% in the first quarter to \$7.3 billion, with comparable store sales growing 4%. In the US, our comparable store sales growth also accelerated to 4%, with transactions up 3%, fueled by the first full quarter of Green Apron Service embedded in the daily operations of our company operated coffeehouses. Average ticket grew 1%, driven by a growing mix of espresso and tea based beverages, alongside the continued rise in the popularity of our cold foam platform.

Our US comp performance is a compelling proof point for our Green Apron Service standard, menu innovation and marketing efforts. This combination drove broader reach and deeper engagement with customers, as evidenced by our 90-day active Starbucks Reward member base growing 3% year-over-year to an all-time high of 35.5 million members.

And as Brian mentioned, our Starbucks Rewards member transactions grew year-over-year in Q1 for the first time in eight quarters and non-Starbucks Rewards customer transactions grew even faster.

Our US licensed store portfolio revenue declined in Q1, primarily due to ongoing trends within the grocery and retail channels. Steady growth across other areas of our portfolio, including business and offices, college and universities, and healthcare, continued to serve as partial offsets. Overall, our North America portfolio increased by 49 net new coffeehouses to reach 18,360 at the end of the quarter.

Moving on to International, the segment reported \$2.1 billion of net revenue in the first quarter, growing 10% year-over-year. International's comp growth of 5% was led by transactions, as customers celebrated the holiday season with Starbucks around the world.

Most of our largest international markets, including our company, operated businesses in China, Japan and the UK, contributed to our comp sales performance in the quarter. China continues to showcase strong momentum.

Starbucks China's comparable store sales grew 7% in Q1, with a 5% improvement in comparable transactions powered by product innovation, effective marketing and continued growth in delivery.

In our Channel Development segment, our Q1 net revenues grew 19% year-over-year, due to higher revenue from the Global Coffee Alliance, as well as our ready-to-drink business.

In the first quarter, we launched our new multi-serve refreshers concentrate in our North America market, which was met with incredible demand. We will continue to work with our partners to innovate, to maintain our leadership position in the North America at-home and ready-to-drink coffee categories.

Shifting to margin, our Q1 consolidated operating margin was 10.1%, contracting 180 basis points from the prior year. This was led by North America's operating margins, which declined by approximately 420 basis points year-over-year, primarily as our investments in support of Back to Starbucks, continue to annualize.

Approximately a third of North America's margin contraction was also driven by our product and distribution cost inflation, led by tariffs and elevated coffee pricing. As our fiscal year progresses, we are expecting these pressures will begin to abate.

Consolidated G&A in the quarter decreased 7%, as our work to streamline the business last year begins to actualize this fiscal year. Our Q1 effective tax rate of 26.8% was higher year-over-year, primarily driven by lapping some discrete tax items from last year.

All-in, our Q1 EPS was \$0.56, down 19% from the prior year. I look forward to providing our longer term targets at our Investor Day tomorrow, but today I'll focus on fiscal 2026. But before I do, let's spend a few moments on China.

In November, we announced an agreement to form a joint venture with Boyu Capital to more strategically capture the significant whitespace we continue to see in China. Under the agreement, Boyu will acquire up to a 60% interest in Starbucks retail operations in China, and Starbucks will retain a 40% interest in the joint venture.

We will also continue to own and license the Starbucks brand and intellectual property to the JV. We currently expect to close in the spring of this year, subject to regulatory approvals.

For your modeling purposes, here are some considerations for how this impacts our financials in the near-term. In Q1, we classified the assets and liabilities of Starbucks China's retail operations as held for sale.

This required us to cease property, plant and equipment depreciation and right of use asset amortization, resulting in reduced D&A and store operating expenses. This means starting in December, we are recording approximately \$39 million less in monthly expenses than we otherwise would have recognized prior to announcement. We expect these dynamics will likely continue through the transaction close date.

Upon closing, we expect Starbucks China's retail operations will fully deconsolidate from our consolidated financials, and we expect to convert our 8,011 company operated coffeehouses to licensed stores within our international segment.

Under the equity method of accounting, Starbucks will record our 40% share of income from the joint venture recognized as income from equity investees. We will also collect revenues from the joint venture for sales of coffee and other products, as well as royalty revenues. Our proportionate share of gross profit resulting from these revenues will also be included in income from equity investees.

Turning to our outlook for the year, as we assess our Q1 results, we're seeing exactly what we want to see in our top line at this point in our turnaround, and we are pleased with our continued comp strength in January as well.

Our strategy is working and gaining traction, we have always said that we expect the top line to come first and then earnings will follow. As such, our guidance reflects strategic flexibility to leverage our growing top line as we uncover opportunities to further strengthen the business longer term.

For fiscal 2026, we expect 3% or better global comp sales growth led by 3% or better comp sales in the US as well. In fiscal 2026, we expect approximately 600 to 650 net new coffeehouses as we work to rebuild our development pipeline. This includes 150 to 175 net new US company operated coffeehouses, a slight decrease in North America licensed coffeehouses and 450 to 500 net new international coffeehouses, of which China comprises close to half.

We plan on providing more details of our accelerating pace of growth beyond this year at our Investor Day.

We expect our consolidated net revenues to grow at a similar rate to global comp growth for the full fiscal 2026, as our portfolio repositioning at the end of fiscal 2025 offsets our new store openings. We expect consolidated operating margins to grow slightly year-over-year, driven by improvements in the back half of the year.

Remember that our quarterly margin rates follow natural seasonality in the business and our second quarters are usually the lowest margin quarters of the year.

Our expectations for margin improvement are driven by the following. First, we will anniversary our Green Apron Service investments in Q4. Second, we expect sales leverage builds as we continue to refine and execute our Back to Starbucks initiatives and improve our supply chain. And third, while market dynamics can change, we continue to expect coffee prices and tariff pressures to peak in Q2 and find some relief in the back half of the fiscal year.

Following our structural reorganization last fiscal year, we expect fiscal 2026 consolidated G&A dollars to run below fiscal 2023 levels, providing partial offsets to our investments. We also expect continued discipline on costs more broadly, and to find more efficient ways of working across our broader organization around the world.

Our EPS guidance of \$2.15 to \$2.40 reflects our measured approach, investing strategically in the first half to establish momentum, then building on our work for growth in the second half.

Note that our guidance contemplates business as usual, China operations in the second half of fiscal 2026. We have taken this approach as we believe it provides the cleanest view of our expectations for the underlying business.

Furthermore, the timing of close and our use of proceeds from the transaction can influence certain P&L line items, increasing variability in our results. That said, if we assumed a joint venture structure for the second half of fiscal 2026, we expect slightly lower consolidated revenues and comps partially offset by slightly better consolidated operating margins relative to our original guidance. And on an annualized basis, we believe that the new structure could be approximately 40 basis points accretive to our consolidated margins.

While subject to change, we currently plan to use our transaction proceeds for debt reduction, strengthening our balance sheet and allowing us to execute our long term growth strategy with greater financial flexibility. Collectively, we expect the transaction to have a \$0.02 to \$0.03 dilutive effect relative to our current EPS guidance.

In summary, our Q1 performance demonstrates the momentum that we're building in our business and gives us confidence we're on the right path. It's also clear that our work isn't done. We remain focused on driving top line performance and managing our costs to deliver sustainable, profitable long term growth. And we look forward to speaking further about our future vision tomorrow at our Investor Day.

And with that, we are ready to take your questions. Thank you. Operator?

QUESTION AND ANSWER SECTION

Operator: Thank you. [Operator Instructions] Our first questions come from the line of David Tarantino with Baird. Please proceed with your questions.

David E. Tarantino

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



Hi. Good morning and congratulations on the progress you're seeing. I had a question about the North America traffic performance. Maybe first, if you could perhaps clarify how much benefit you might have seen from the transfer of the sales from the stores that you closed during I guess late September? And then, just kind of give us some sense of kind of what the underlying improvement was in the business. And then secondly, I guess, Brian, could you maybe frame up what you're seeing in some of the earliest stores that got the Green Apron Service model and whether those are continuing to ramp in terms of the traffic benefit from that service model? Thanks.

Brian R. Niccol

Chairman & Chief Executive Officer, Starbucks Corp.



Yeah. Good morning. Thanks, David. And so to answer your first question, what we're really delighted about is the North American comp result is driven by transactions. And specifically the fact that both non-rewards customers grew transactions and rewards customers grew transactions. So two things happen. People came back to the brand and we also drove engagement or more frequency with our existing customers. So that's a really strong foundation.

To answer your specific question, about 0.5 point was driven by, call it the sales transfer in the comp is what we're seeing. So, the strength really is broad-based. The other thing that I love is we said from the beginning we wanted to win the morning and that is exactly what we're seeing. Our partners have done a terrific job of staffing, executing the Green Apron Service experience in the morning and frankly, balance of the day, because we're growing transactions throughout the entire day. But the place where we saw the biggest move was in the morning.

And then in regard to your question about the pilot stores, this is actually something that we're really excited about. Our 650 pilot stores continue to outperform the fleet by about 200 basis points in comp. And we're seeing most of that is – well, it is all pretty much driven by transactions. So what we continue to see is a great customer service experience in a great place with our partners doing their craft continually resonates with customers.

And then I think you heard me talk about this, too. I think we're just getting the brand back on its front foot, both in its marketing communication and also the innovation that we're bringing forward. So I'm really delighted by where we are in this phase of the turnaround.

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

Great. Thank you.

Operator: Thank you. Our next questions come from the line of Brian Harbour with Morgan Stanley. Please proceed with your question.

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

Yeah. Thanks. Good morning, guys. I think sort of inherent in what you talked about was some additional cost opportunities, and it sounded like that's this year, but also over the next couple. Could you elaborate on what some of those will be and what you expect the timing to be?

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

Yeah. So I'm sure you guys probably saw this in some of our materials that have been released of late. We've got a clear plan in place to basically track down about \$2 billion of costs. We really started that work in 2025. And I think it's going to unfold over the next two years in front of us. And so it really is across the entire P&L. So obviously, we've made some progress on G&A. We're going to continue to make progress in our procurement efforts. We think there's tremendous opportunity with using technology to drive efficiency in the work that we're doing.

And the thing that I love is – and this is really to Cathy's credit and the team is it's not just one project that we're counting on, okay? We've got a list of projects with people's names next to it, clear deliverables. And the thing I love about the power of our organization is when one idea doesn't work, we get another idea that's up. And so that's what gives us confidence to be able to deliver on the cost side of things while we continue to drive the top line.

So it's going to be an ongoing program. We've identified the \$2 billion over the next couple years here. But I will tell you, it's something that we're going to be unrelenting, and it's going to be a consistent piece of our program going forward.

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

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

Thanks. Good morning. I wanted to ask a little bit about the earnings guidance for fiscal 2026. Perhaps if you think there's some elements that you would like us to appreciate that might not be so obvious, I'd love to hear about that. And relatedly, the earnings guidance seems just a little wide – a little wider than I would have thought. What scenarios do you think would get you to the high end and the low end? What do those two scenarios look like? And thanks.

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

Yeah, sure. Thanks, David. So the thing that gets us to the higher end is maintaining the performance on comp, first and foremost. And that's why we're really excited about the underlying strength that we're seeing that's driving the comp. And then obviously, we're going to continue to do the work on the cost side of things. But really here in the near term, it is going to be driven by comp, which is going to be supported by terrific execution on Green Apron Service model, the marketing menu innovation.

And I think you'll hear at our Investor Day, all the comp drivers that, frankly, we have across digital, rewards, menu. I'm really optimistic about our future. But that's going to be the key piece is we got to continue to drive the top line. And we need to do it in a healthy way so that we maintain the integrity of the experience. And we give our customers access to the food and beverage that they want to experience in Starbucks.

Operator: Thank you. Our next question comes from the line of Lauren Silberman with Deutsche Bank. Please proceed with your question.

Lauren Silberman

Analyst, Deutsche Bank Securities, Inc.

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Thanks so much and congrats on the quarter. I wanted to unpack some of the same-store sales momentum. The non-rewards member growth outpacing rewards member growth, I think over the last several quarters. It's great to see there are more rewards member back to positive. What's driving the differential between the two and what do you see as the biggest opportunities to narrow the gap, if that's how you think about it.

Brian R. Niccol

Chairman & Chief Executive Officer, Starbucks Corp.

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Yeah, yeah. So, thanks for the question. This is something that when I first came into Starbucks, I wanted to address, because I had seen non-rewards customers declining for a consistent trend. And that's never healthy in a business. You have to win both with your rewards customers and call it the light or infrequent customer.

And so when Tressie and I set out to discuss how we get back on our front foot, we knew we had to make sure that we had the marketing that was broad, and we had to have the message about Starbucks that was broadly appealing. And, I think that's what we're seeing happen with customers.

And then, look, the innovation I think has been on trend. We're getting back into culture, leading culture, most recently the Bearista Mug was a, I would call it a Lucky Strike extra. Tressie would say that was intentional. But it is one of those things where you have to be relevant, leading culture so that you get the infrequent customer to hopefully grow with your brand.

And the thing that is exciting to see is our rewards customer user base is getting bigger. So, we surpassed 35 million. And what is great about what's happening in our rewards customer is it's through better engagement that we're getting people to be active, not through discounting and couponing, but rather giving people the Starbucks experience.

And the thing that really makes Starbucks unique, which is our personalization. So when we do that personalization through the rewards program, we get rewarded with more visits from those customers. And then I think you're going to hear really exciting things about the rewards program at our Investor Day on how Tressie and the team are going to make that program feel like it is made for you.

And I think you'll see us have a step up in performance with our rewards program as a result, without letting up on driving our non-rewards customers. Well, I almost hate calling it non-rewards customer, because they're just as valuable. Every customer matters and every transaction matters. And we're going to give that type of experience to everybody so that they know they matter.

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

John Ivankoe

Analyst, JPMorgan Securities LLC



Hi. Thank you very much. The question – and really, this is observation based. Certain coffee chains have kind of separated both in the US and around the world, their morning execution from the afternoon execution. And I'm really wondering what kind of opportunity that might mean for Starbucks, morning that might be faster, more consistent, but afternoon that might be more innovative, specifically around, for example, handcrafted blended energy is just one idea. So if you could, kind of address that theme of AM versus PM daypart execution.

And secondly, and I think this is related, there's a lot of competition in this space that's accelerating in fact in some markets, almost all of it, is drive-thru and takeout focused. I'm wondering if that's something that's really on your competitive radar at this point and if there's anything specific that Starbucks should do or could do to perhaps blunt some of the sales momentum that some of these chains are seeing. Thank you so much.

Brian R. Niccol

Chairman & Chief Executive Officer, Starbucks Corp.



Yeah. Thanks, John. So first, to answer your question on the afternoon daypart versus the morning daypart, I think the way we think about it and the customer thinks about it is, the morning is very much a ritual. There are a lot of habits that people have versus the afternoon is really a reset. And depending on where you are in that reset, you sometimes want to blend a drink, you sometimes want an energy drink, you sometimes want a sparkling drink, okay. And you sometimes want protein. And what you're going to see us do and this is why I'm really excited that we're going to finally be done rolling out digital menu boards. It'll be across our entire system. It will allow us to daypart the menu and drive against these two key insights, right. The afternoon is a reset. The morning is a ritual.

And in the afternoon, you're going to see us and Tressie is going to be talking about this. We will have customized energy. We will have sparkling energy. We will have those indulgent drinks that people want, right. The Frappuccino's that we've made famous. And we will also have food that complements it. That's very much on trend.

So, the good news is we've got a strong base already in the afternoon. I just think there is tremendous opportunity to unlock that afternoon daypart further by having more relevant beverages for how people want to reset in their day. And then also complement it with food. And then we're going to use, I think the traditional tactics you would do in order to market and merchandise that we are the right solution for that afternoon. And frankly, some of these places we've been slow to develop. And so it presents a tremendous opportunity for innovation pipeline to address it.

To your question on drive-thru, mobile order pickup, one of the things that I've been really excited about is, it really is an entire ecosystem, John. When we've got the café, the drive-thru and mobile order pickup all working together, we are unmatched, okay. And when I put that execution on any street corner, I am confident we will win.

And there's an opportunity for us to put a lot more stores with that ecosystem all across the country and be very competitive.

So, Mike and Meredith, they know our goal is to put our entire ecosystem through, I think, cost effective buildings. That ultimately our partners can run with excellence and give our customer the experience that they want because I know customers want those moments in the café, they want those moments in the drive-thru and they want those moments for mobile order pickup and we can do all of it and we can do it with excellence.

And so I really like where we're headed and I'm excited about how our pipeline is being rebuilt. And as we get back to building at the clip that we're capable of because we will have people capability as well to go with that building. So, thank you for the question because it really is areas that I think drive a lot of opportunity in this business, building the drive-thru café, mobile order pickup experience with our cafés and then really building out an afternoon daypart on the strength of our morning daypart, I think is just tremendous upside for us.

John Ivankoe*Analyst, JPMorgan Securities LLC*

That's great. Thank you so much, Brian. See you tomorrow.

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

Yeah.

Operator: Thank you. Our next question comes from the line of Sara Senatore with Bank of America. Please proceed with your question.

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

Thank you. A question on – another question on same-store sales and then a clarification, I think on Cathy, one of your comments. So just on same-store sales, you mentioned kind of service. I think that it sounds like service Green Apron, maybe a couple hundred basis points if you could disaggregate it. Maybe you could just talk a little bit about as you think about the comp, how much was maybe the service versus innovation, versus marketing? I know that's a hard thing to do. But just as you think about sort of the sustainability of the comp going forward.

And then Cathy, you mentioned, guidance embeds flexibility to – I guess, to identify projects. I interpreted that as perhaps investments as well as savings. So I just wanted to make sure I understood. Is it plausible that you might find additional investments that you want to make this year, in addition to the kind of annualizing the \$500 million in the labor model? Thanks.

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

So I'll take the first part of that, and then I can hand it over to Cathy on the second part. So the first part is where you kind of ended your question. It's hard to separate these out. But what I can tell you is a strong operating foundation makes all the other initiatives that much more effective, right. So, we would not have had the holiday experience that we had with the innovation that we had if we did not have our partners executing Green Apron Service model.

And we heard it in the customer feedback, right? The customer feedback was, hey, something's different and it's different in a good way. I feel the service experience. I love how Mike says this, like, you're going to see our partners with eyes up. You're going to see our partners moving towards customers. You're going to see our partners wanting to make sure that their craft is being experienced the way it's intended to be experienced.

And so, we heard it over and over again. We had the lowest level of customer complaints, we've seen over the last couple of years. We've also seen that customers felt the speed or the convenience. So I think these are all service things. And then we also heard things like, hey, your menu is much more relevant, it seems more health relevant, it seems more flavor relevant. And so that's a sign that the marketing is working, connecting.

And then also, I don't want to walk past the fact we've put seats back into our cafés. We've not put uplifts everywhere, but we've tried everything we can to get at least seats back into all our cafés. And you know what? Every café I walk into, guess what? People are sitting in those seats, enjoying a cup of coffee or a beverage and dwelling. And that's what we want to have happen. Because when you walk into a café and grab a mobile order to go and it's full of seats, you feel better about your purchase decision. You just do.

And if you're driving through the drive-thru and you see through the window a thriving café, I think we all have had these experiences where it's like, well, on Saturday when I'm walking the dog, I'll probably stop by the Starbucks and linger. So it really is working in harmony. It was why it was so important that we get the operating foundation strong, and that then we ultimately dial up the marketing and the menu innovation. So, it's hard to distill it. What I can tell you, though, is the fact that they're both working together is why we're seeing the transaction performance that we're seeing.

And then on your question about the cost side, I'll hand it over to Cathy.

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

Yeah. Good morning, Sara and look forward to seeing you tomorrow. When we talked about having flexibility, it's really about our first objective is to make sure we're supporting the business. And so we're going to continue to do that in our Back to Starbucks strategy and our plan. And so we want to make sure we've got the right flexibility to do that. You'll hear this again tomorrow. But this is not about broad-based cost cutting. We are making sure we invest in what matters most. And so we want to make sure that we've got that flexibility inside the P&L and our guidance.

Obviously we've talked about the Green Apron Service investment we're doing. We'll continue to evolve our supply chain, which will have little bit of investment here and there, but we equally see the opportunities for reduction or savings there as well. And all of that's embedded inside of our guidance.

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

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

Great. Thank you very much. As I think about the US portfolio, comp growth is often volatile, but the unit growth is more stable in terms of a revenue driver over time. Brian, I think you just mentioned putting more restaurants on corners across the US and being able to still win versus the competition. Just wondering if you could talk conceptually about, one, the rate of reacceleration in the US and two, kind of how you think about the opportunity

over time. I think last year, you mentioned talking about doubling the long-term store count. I'm just wondering how you think about that, whether there's some sort of penetration analysis that you've done to give you that level of confidence and kind of the cost versus return analysis.

Any color at least conceptually in terms of the glide path to reacceleration and where you could ultimately get to, would be great. Thank you.

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

Yeah, yeah. Thanks for the question. And obviously, we'll get into a lot more of the details on the new unit growth opportunity, both in the US and around the world tomorrow. What I will say right now, though, is like there are thousands of sites that we've looked at and I've identified right now. So there's no barrier on unit growth. Frankly, the issues we needed to address was making sure that we're building the right unit, and we had the people capability to open up those new units successfully.

And so we put both things in place, right? We're going to have what we're calling now coffeehouse coaches, which are our assistant store managers. That's going to be a pipeline to enable new store openings from a people standpoint, right? Because it also creates, I think, a great career path for our partners on their path to becoming a coffeehouse leader.

And then it also allows us to have more stability in the system while we add new units versus what I saw when I first got here is new units were very disruptive on our people. And we can't have that happen. The other thing that we're addressing is the build cost and the actual, I would say, flow that we're going to build. And so I love the new building. We've called it the Ristretto, right? We've got the tall and grande executions on that Ristretto. And then we also have a Picco version of the Ristretto.

And so I love the fact that we've got flexibility in the size, and we can execute all of our access modes. And then we've got the people capability system set up to also then support the people that you need to open these stores. But we'll get into a lot more of these details tomorrow. I'd just leave you with there's thousands of opportunities in the US, and there are thousands outside the US. And our growth opportunity on new units is exciting.

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

Thank you.

Operator: Thank you. Our next question comes from the line of Gregory Francfort with Guggenheim Partners. Please proceed with your question.

Gregory Francfort*Analyst, Guggenheim Securities LLC*

Hey. Thanks for the question. Brian, there were some comments, I guess, in the proxy about adding a couple of platforms as part of the turnaround efforts. And I guess I'm wondering where does the menu stand today versus when you got there in terms of either SKU or products? And how much have you cleaned up? And then as you look at holes in the menu, where are you looking to identify opportunities to kind of maybe add back some excitement and some marketing to the customer? Thanks.

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

Yeah, sure. Thanks for the question. Yeah, I believe we've reduced the menu by like 25%. And then if you even go back further, we've reduced it even further than that. But based on my time just here, it's probably been a reduction of like 25%, 30%. And then the platforms that we're after are like a health and wellness platform, which we started with protein. You'll continue to see us push against the health and wellness platform going forward.

I think there's an afternoon platform both in beverage and in food. And not surprising in beverage, I think it is going to be this personalized energy that can be executed as still sparkling and blended. So there's a pipeline for that platform. And then also, just to give you an example on food, I think there's a real opportunity, not surprising to make sure we have food for how people want to eat snackable, protein, fiber, right. These are the things for how people want to eat and reset in their afternoon.

So, most recently you probably saw us talking about another platform area which is making the bake case more artisanal. So you're going to see us have pastries that I think you're going to want to eat with your eyes, okay. And that is really the heritage of Starbucks. Like, it is about craft. It's about artisanal. And I think we can do this in bakery. We can do this in what I would call snackable food. Obviously, we're already doing it in breakfast, right? Our egg bites, I think are iconic, and I think we have the opportunity with these platforms to create more iconic food and beverage. And I think you guys are going to be really excited when you see the customized/personalized energy platform. That really leverages a strength, which is our refreshers platform. So, that's what we mean by we want to be building platforms into the business. It's things that we can then innovate against without having to introduce at the same time.

Q**Gregory Francfort***Analyst, Guggenheim Securities LLC*

Thank you. Thank you very much.

Operator: Thank you. Our next question comes from the line of Peter Saleh with BTIG. Please proceed with your question.

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

Great. Thanks for taking the question and congrats on the quarter. I did want to ask about the throughput initiatives. Brian, I think you mentioned you're now below the four minute promise. Is that where you want to be for Starbucks at this point, or do you feel like there's more opportunities to improve throughput? And if so, where do you think we can get to over the next year or so? Thanks.

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

Yeah, thanks for the question. Look, we've made great progress on throughput at peak. We still have opportunity on the tails though. There are still too many occasions throughout the day where we aren't hitting our metric. So there still is opportunity, frankly to get the entire business, every transaction to be under four minutes. We've not achieved that. But what we have achieved is, I think, great performance during peaks, which is really in my opinion, my experience in this industry, you have excellence at the peaks. You can then win with the shoulders and then ultimately balance of day. That really is kind of what I mean by fine tuning the model.

And I think one of the things that is crystal clear to us is there is demand when we can get the speed and convenience right. As evidenced by getting more standard opening hours, all our stores now are pretty much opening at 5 AM, and you know what? I wouldn't be surprised if 5 AM becomes 4:30 AM because, of the throughput and the experience that we provide, it's just a matter of time. And we'll earn our way into that.

And then the other thing I will tell you too, is our teams are just getting more reps. The more reps they get, the better we perform. And then, you see that in, I think the 650 stores that are part of the lead pilot. And then you also see that, frankly, in our Grow program. And having our teams really focus in on just a couple key metrics that are in their control really is a big unlock. It eliminates a lot of the complexity, eliminates a lot of the noise and it allows them to focus on great craft, great speed and ultimately, great experiences. So there's still lots of upside in our mobile order pickup business, our café business, our drive-thru business.

And I didn't really talk about this much, but we've also got a really nice emerging delivery business. So we just got to get our Green Apron Service labor model dialed in, get our teams the reps that they need with stability and then keep with consistent metrics so they know when they perform, they're recognized for their performance accordingly. So, I think Mike and the team, you'll hear more about this tomorrow at Investor Day, have a great plan for how we unlock the demand that Starbucks has.

Peter Saleh*Analyst, BTIG LLC*

Thank you.

Operator: Thank you. Our next question comes from the line of Zach Fadem with Wells Fargo. Please proceed with your question.

Zachary Fadem*Analyst, Wells Fargo Securities LLC*

Hey, good morning. Brian and Cathy, is there any color you can offer on the magnitude of operating margin performance in the first half of the year versus the second half? And you mentioned about a third of the pressure today related to product and distribution inflation. Is there a glide path in your mind in terms of these pressures rolling off?

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

Yeah, I'll start and maybe I can let Cathy fill in. I think you heard Cathy say some of the inflation, specifically coffee and the tariff headwinds start to peak here in Q2, and we start rolling off of it into the back half as well as we start to roll over the initial big investment into our Green Apron Service model. And then compound that with, we got a very conscious effort on cost, which is this \$2 billion program over the next two or three years. So I obviously envision that earnings will continue to pick up as we maintain the top line momentum that we have. But Cathy, I don't know if you want to add anything.

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

Yeah. Brian hit really the kind of the four big ones. We've got the anniversary of the investment in Green Apron Service, which you talked about. That will – we get anniversarying it by the fourth quarter. The savings program that we got in place, while we've been working hard and at speed, a lot of that starts to come to fruition beyond some of the restructuring we already did come to fruition toward the back half of the year. And then the tariff and

coffee, we do expect to abate in Q3 and Q4. And then the most important one is the sales leverage, just make sure that we continue to drive the top line like we expect. So all of that will weight it a little bit more to the back half of the year.

Zachary Fadem*Analyst, Wells Fargo Securities LLC*

Appreciate the time. See you tomorrow.

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

Yeah. Thanks.

Operator: Thank you. Our next question comes from the line of Danilo Gargiulo with Bernstein. Please proceed with your question.

Danilo Gargiulo*Analyst, Bernstein Institutional Services LLC*

Thank you. Exciting to see that you're focusing even more on health and wellness platform. And I was also wondering if you can maybe, Brian, start to dimensionalize a little bit how much of the shift in expansion of your menu could be contributing to your comps going forward. Specifically, if you can comment on how much the protein beverages lineup is mixing today? And what's your expectations as it grows over time and potentially how other platforms could complement that? Thank you.

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

Yeah, thanks for the question. So we launched the protein platform back in early Q1. And what I'm happy to say is here in Q2, as we've, not surprising, revisited the platform in January. We saw a nice recommitment to the platform from customers. So it is one of those examples of being very much on trend with how people want to eat and drink and this is a platform that I think was going to continue to build for us.

As a matter of fact, I might have started my day with a vanilla protein latte. But, look, the thing that is most exciting is customers when they experience it, they really like it. Awareness is still pretty surprisingly low. But the trial and the repeat rates are really, really great.

So meaning when someone tries it, we see a high level of repeat and it is proven to be highly incremental. So this is one we want to keep doing. And as I said, the thing I always love is you don't want to launch and leave things. You want to launch and leverage things. And that's exactly what we saw with our protein platform in January.

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

Maybe I add just two more things really quickly that we're excited about for protein is it's we have seen it's a traffic driver, meaning it's the intention of why the customer is coming in. So that's getting us to access new customers or at least new occasions. And then the other thing is that maybe it's been a little surprising is the popularity of the cold foam and protein in the cold foam. It's a great way to get that extra 15 grams or so of protein for our customers and you can put it pretty much on every single drink. And so I think those have been maybe two of the positives or highlights we found out of the protein launch.

**Danilo Gargiulo***Analyst, Bernstein Institutional Services LLC*

Great. Thank you.

Operator: Thank you. Our last question will come from the line of Chris O'Cull with Stifel. Please proceed with your question.

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

Good morning. Thanks guys for taking the question. Brian, I know you mentioned you aren't taking your foot off the gas in terms of broad-based marketing. Could you just elaborate on how instrumental that's been in turning the tide for non-reward customers?

And then, Cathy, as you look at the 420 basis points margin contraction in North America, how much of this marketing step up should we kind of model as a permanent rebasing of G&A OpEx line versus maybe temporary marketing turnaround costs?

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

Yeah. So I'll start and then I'll hand it over to Cathy. The marketing I think has done a great job of getting the brand back in front of all of our customers. And the metrics that we track, right, are brand, affinity, the trust. And we're seeing all those metrics move up. We're also seeing our brand value scores move up. And what I ultimately say is, like, it's one thing to see what people are claiming. It's another thing to see it in their behavior. And what I'm seeing in their behavior is every age cohort has increased their visitation with Starbucks over the last couple months.

And so that just demonstrates to me that we're doing a great job of making the brand relevant, making the brand a leader, and making the brand one that innovates on the right things at the right time so that people want to engage with Starbucks.

And so I really have to give Tressie and the team a lot of credit, both our digital efforts, our personalization efforts, our menu innovation efforts. And I think just – I don't know if you've seen the most recent ad, the Together ad that we have running, personally, it's one of my favorites.

It makes you feel good about the brand. It makes you start to see the soul of the brand. And I think that's what we're bringing back. And that's what I mean by the shine of Starbucks is back.

The soul, the feeling, the emotion that you get when you get to have a moment to connect with humanity and I think people want it. And when we get it right, people love it. And we're seeing that happen that that's relevant with every age group and every income group.

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

How we think about our investment in marketing is we look at our total spend, looking at discounts as well. And those were not quite as effective. So we've taken some money and repurposed it into marketing.



What I can tell you is this, we believe that that's an ongoing expense. We think it's important and important investment in the brand. So that is something you should continue. But it's all included in our guidance. But we really have just reallocated some of the less effective discounts into more, far more effective marketing dollars.

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

Great. Thanks, guys.

Operator: Thank you. That was our last question. So I'll now turn the call back over to Brian Niccol for closing remarks.

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

Yeah. Thank you. And thanks, everybody, for the questions. And I really do look forward to seeing hopefully everybody at our Investor Day tomorrow.

The long-term plan that we have in place, is one that I am really excited about. And I think you'll see our executive team and our leadership team share the growth story that we have in front of us.

I do want to just leave you with a few things. Obviously, we are very delighted with where we are on the top line. And we believe we're going to continue to drive that momentum. And then the earnings will obviously come behind it.

And I also want to emphasize, in any turnaround the path is never linear. But I do believe we've got the right plans, the right team and the right focus going forward. And our Back to Starbucks plan really is the strategic currency of our turnaround.

And I really do want to thank our partners. Both in the stores and in our support centers, because they really are the foundation of the progress and the performance that we're achieving.

So, I couldn't be more excited for them and the Starbucks Company to be able to have the shine back, and couldn't be more excited to share our story with everyone tomorrow at Investor Day on our long-term plans for continued growth, and just how much opportunity there is for Starbucks, not just in the US, but around the world.

So thank you, and look forward to seeing everybody tomorrow.

Operator: Thank you. This does conclude Starbucks first quarter fiscal year 2026 conference call. You may now disconnect.

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