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Starbucks Corp. (SBUX)

Q3 2026 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good afternoon, and welcome to Starbucks' Third Quarter Fiscal Year 2026 Earnings Call. All lines have been placed on mute to prevent any background noise.

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

Catherine Park

Vice President-Investor Relations, Starbucks Corp.

Good afternoon, and thank you for joining us today to discuss Starbucks' third 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 our 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. Starbucks assumes no obligation to update any of these forward-looking statements or information.

Revenue, operating margin, and EPS growth metrics referenced on today's call are non-GAAP and measured in constant currency. All other metrics referenced on today's call are non-GAAP. 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, September 11, 2026. And for your calendar planning purposes, please note that our fourth quarter fiscal year 2026 earnings conference call is tentatively scheduled for Thursday, October 29, 2026.

I'll now turn the call over to Brian.

Brian R. Niccol

Chairman & Chief Executive Officer, Starbucks Corp.

Good afternoon, and thanks for joining. Before I begin, I want to acknowledge the devastating earthquake in Japan. We're grateful that all our partners are safe, and our thoughts are with all those affected. For more than 30 years, we've been part of communities across Japan, and we'll be there to support them as they recover.

Now turning to our results for the quarter. In Q3, we delivered our fourth consecutive quarter of positive global comps and our second consecutive quarter of consolidated margin growth. It's clear proof that our Back to Starbucks plan is working. Starbucks' mission was built on a simple belief: an extraordinary cup of coffee, human connection, and a great customer experience matter. Our strong third quarter proves this enduring truth delivers enduring results.

We bring this truth to life in our coffeehouses every day through an experience that engages the senses, celebrates the craft of coffee, and brings people together. It's in the aroma of fresh ground coffee that greets you at the door, the symphony of sounds of a drink being handcrafted, the pride our partners have when they put on the Green Apron.

It's the moment of connection between a barista and a customer. It's the smile on their face after that first sip and the feeling of belonging that follows. It's about every detail coming together to create an experience that feels distinctly Starbucks. That's the magic of the third place. It's a human need only we can fulfill and a community only Starbucks can create.

We're reclaiming it, one customer, one cup, one coffeehouse at a time, and we're on our way to becoming the world's greatest customer service company. This is the Starbucks that's taking shape, one that's true to itself, built to perform consistently year after year, and our third quarter results and performance this year give us the confidence to raise our full-year 2026 guidance.

Let's start with the financial highlights. In Q3, consolidated net revenues were $9.3 billion, led by sequentially improving global comp growth of 7.9%. Consolidated operating margin expanded 430 basis points year-over-year to 14.4%, and earnings per share grew 70% year-over-year to $0.85. North America continued to lead our performance in the quarter. Company-operated comparable sales increased 8.1%, and licensed coffeehouse net revenues were roughly flat despite net closures in the quarter.

We also reached a milestone, with North America operating margin growing year-over-year for the first time since Q1 fiscal 2024. This was driven by operational improvements across both our company-operated and licensed businesses.

Breaking down our performance further, in the US, comps were up 7.9%, driven by balanced transaction and ticket growth. And in Canada, comps were even stronger. International company-operated comparable sales grew 5.7%, driven by continued strength in Japan and the UK. International licensed store revenues grew year-over-year, and in total, our International business posted its sixth consecutive quarter of positive systemwide comps, underscoring our global relevance and the power of our diversified portfolio across 90 markets.

Our operational discipline and cost savings work are making us a more focused, nimble company that prioritizes better, spends smarter, and invests with intent. We're now seeing the benefits of that work, and as our revenues grow, more is flowing through to earnings. We said we would drive sales growth first and earnings would follow. Our results show we're walking the talk. We're on the right path, and we remain ahead of schedule.

Now let me turn to the progress we've made across the business, driven by our Back to Starbucks plan. First, we continue to fine-tune our coffeehouse operations to sustain momentum and perform with more consistency at scale. This August marks one year since we launched Green Apron Service and has become the operating foundation of Back to Starbucks. We gave ownership and accountability back to coffeehouse leaders. We invested in the tools, hours, standards, and coaching our partners need to deliver with consistency, and we made it clear what great looks like.

Our focus on Green Apron Service has been a real game changer for our business. It's given us a platform to fix the operational issues we faced, it's helped us reset expectations, refocus on the customer, and remove barriers to growth. That progress is evident in our simplified GROW coffeehouse reporting and ranking system. Across North America, two-thirds of our company-operated coffeehouses are now at four or more shots, up more than 5 points quarter-over-quarter, and more than 40 points since it launched last October.

We're also getting sharper in how our coffeehouse is run. Smart Queue is getting smarter as we optimize for greater accuracy and speed. On average, we achieve target service times across every access point in Q3, even with transaction growth across dayparts. Our supply chain work is creating a better and more predictable experience for our customers. More coffeehouse ownership, better customer-focused ordering guidance, improved reporting, and expanded daily delivery are all working together to get the right product to the right coffeehouse at the right time. It's improving our food availability rate, which is close to 99% today. That's about 10 points better than it was just a year ago.

Our coffeehouse leadership is more stable, too. In the third quarter, the percentage of North America coffeehouse leaders who have been enrolled for two years or more improved by about 7 points year-over-year. That's important because we've seen coffeehouse leader stability is highly correlated to store performance. Internal hiring for retail leadership, including coffeehouse coaches, is up year-over-year as well. That creates more development pathways for partners and gives our coffeehouse teams the continuity they need to execute consistently.

We also built on our long-standing efforts to ensure partners share in our success, launching the Best of Starbucks Reward at the close of the quarter. This new incentive allows eligible Green Apron partners the opportunity to earn up to $300 per quarter for meeting coffeehouse performance goals across sales, operations, and customer service.

Looking forward, we're focused on delivering exceptional service with speed. When we get it right, customers feel it in their experience. We earn trust with every cup served, and we become more than just a great coffee company. We become the place where people connect and the gold standard for customer service.

Second, our brand continues to become more visible, relevant, and loved. Brand affinity, consideration, and purchase intent were all at five-year highs in the quarter, and customer connection improved significantly year-over-year.

Customers continue to see worth and value in their Starbucks purchase. And we see it in how they behave. Sales growth in Q3 was broad-based across generations and income groups, and across both Starbucks Rewards members and non-members, even with the continued pressure on US consumer sentiment.

Marketing and innovation helped drive that resilience. We built a strong innovation pipeline anchored in customer rituals and amplified by cultural moments. Refreshers remained a standout platform for us in Q3, delivering double-digit year-over-year revenue growth in the US, and customizable energy refreshers, blue coconut, and mango kept customers engaged, expanded the platform to new occasions, and gave them more reasons to visit throughout the day.

Our marketing team has done a great job putting us back in front of culture, from Coachella and soccer captain cup sleeves to a Miffy merch drop and our viral Pink Bearistas. We're creating moments that people notice, talk about, and want to be a part of. Starbucks Rewards is reinforcing the daily ritual and building more connection with customers. We now have 35.8 million 90-day active members in the US. It's only been four months since we launched our new program, and we're already seeing members leveling up from green to gold and gold to reserve.

The program also gives us more ways to directly engage with customers and turn a visit into a routine. Free Mod Mondays is a great example. One in three members who tried a new modification through this benefit reordered it in subsequent weeks. In the US, we also provided Starbucks Rewards members early access to our S'mores coffee lineup, highlighting the value of being a member.

S'mores beverages are resonating particularly well with Gen Z customers and are tracking as our strongest summer coffee LTO launch in the past several years. Taken together, our brand flywheel is working. We're creating experiences people are excited about, turning engagement into rituals, and deepening customer connection that fuels long-term growth.

Third, we continue to improve the third place experience with coffeehouse uplifts, adding back warmth, texture, and great seats at a fraction of the cost of earlier remodels. In Q3, we surpassed 1,000 total uplifts across North America, reaching our fiscal 2026 goal ahead of plan. Early data from uplifted coffeehouses show transaction lift across access points, dayparts, formats, and customer segments. In short, we like what we're seeing and they're proving to be a strong brand halo. That's why we're accelerating our pace with the intention of completing at least 1,500 uplifts by fiscal year-end 2026 and accelerating further in fiscal 2027.

Turning to International, we continue to position Starbucks as a world-class global licensor. With our China business now operating under the new joint venture, about 90% of our International portfolio is now managed through a licensed structure. This gives us a capital-light model that lets us scale our brand with discipline through strong local partnerships.

We're taking learnings from our North America license business to evolve how our International model works. These changes allow us to better reinforce brand standards, financial discipline, and shared accountability through our GROW system and create a more consistent, unified performance management lens across our coffeehouse portfolio.

We're also reshaping our International support organization around our vision. We see International as a capital-efficient way to build our brand around the world, and we're building the structure to support that opportunity and help our licensed business partners grow with us.

Looking ahead, as the business continues to strengthen, we have a clear view of where we're performing well, where we can move even faster, and where there are outliers that require our focus. In our coffeehouses, we'll keep raising the bar by unlocking more throughput, driving a better customer experience, and supporting our Green Apron partners who bring it to life.

Across brand and menu, we will keep showing up in ways that are true to Starbucks. We're finishing the summer season with a strong menu lineup that includes blended refreshers, our legendary Unicorn Frappuccino, and new orange cream beverages. And we'll begin testing sparkling beverages in select markets.

We'll mark the return of fall with our iconic Pumpkin Spice Latte and kick off the holidays with our fan favorite Peppermint Mocha. And we'll keep driving fandom with a steady pace of buzz-worthy merch launches and continued innovation season after season.

In supply chain, we will continue scaling daily delivery and testing a 24-hour operating clock to improve speed, availability, and reliability. And in technology, fiscal 2027 will be an important modernization year with new inventory ordering, staffing, and scheduling, and point-of-sale systems to improve execution and make our coffeehouses easier to run.

Finally, we're applying more discipline to how we grow our global footprint. We remain excited about the white space for new coffeehouses in the US and around the world, and we're making sure every new coffeehouse we open earns its place.

We've developed and globally tested new coffeehouse prototypes that meet our expectations for accelerating International unit growth, and we're applying those learnings to shape our development approach in the US. As a result, the composition of US and International new store growth may evolve as we build a stronger US development pipeline and redirect near-term resources to accelerate the pace of our uplift program, where results are already tangible.

We remain confident in our global growth ambitions and our long-term opportunity in North America. While net new company-operated unit growth in North America may remain modest through fiscal 2027, we expect International to be a meaningful contributor to unit growth.

To conclude, our Back to Starbucks plan was built on the belief that human connection and a great customer experience win the day every day. And our Q3 results prove they do. Our investments are paying off. More customers are choosing Starbucks more often. Partners are creating more moments of connection. Our brand is more visible, relevant, and loved. Our coffeehouses are more warm and welcoming. And our business is delivering on its commitments.

I want to thank our partners around the world. Your craft, care, and focus are making our coffeehouses better every day. Customers feel it. And it is showing up in our results. We still have work to do, but the opportunity is significant and clear. We're focused on finishing the fiscal year strong, and we will be relentless in our efforts to reclaim the third place, become the world's greatest customer service company, and deliver durable long-term growth.

With that, I'll turn it over to Cathy.

Catherine R. Smith

Chief Financial Officer & Executive Vice President, Starbucks Corp.

Thank you, Brian, and thank you all for joining today. Our third quarter results demonstrate the progress we continue to make on both the top and bottom line and the growing durability of our performance. I want to thank our partners across our coffeehouses, supply chain, and support centers, whose execution is helping us advance our Back to Starbucks plan and reclaim the third place.

Let me now take you through our Q3 results. And then I'll share how we're thinking about the balance of the year. Consolidated net revenues were $9.3 billion, down 1% from the prior year, largely driven by the transition of the China retail business to our new joint venture license structure in the third quarter. Global comps grew 7.9%, improving sequentially from the second quarter and led by transaction growth of more than 4%.

Our North America segment revenues were $7.4 billion, with comparable store sales up 8.1%. And in the US, comps grew 7.9%, led by transactions up 4.2% and average ticket up 3.6%. We're pleased with the healthy composition of transaction and ticket growth, which we believe reflects the strengthening fundamentals of our business.

As Brian mentioned, our growth was broad-based across dayparts, income levels, and access points. Average ticket increases were led by sustained strength in our delivery business, as well as innovation-led modifications and attach. In fact, food attach reached a Q3 record across our US company-operated business, with growth across all dayparts and the strongest gains in the afternoon. Pricing contributed less than a point of ticket growth in the quarter. 90-day active Starbucks Rewards members grew both quarter-over-quarter and year-over-year to 35.8 million.

Our new program is exceeding our expectations on multiple fronts, including engagement and average stored value card reload amounts, which continue to grow. Overall, our North America store base was 18,371 coffeehouses at the end of the quarter. This included 27 net new openings across our company-operated business and 41 net closures within our licensed portfolio. North America licensed revenues were roughly flat year-over-year, reflecting these net store closures in the quarter. US licensed coffeehouses delivered another quarter of positive system-wide comps, led by continued strength in our travel and leisure segments.

Moving to International, company-operated comparable store sales grew 5.7%, led by a healthy mix of ticket and transactions. Japan, now our largest international company-operated market, was a key driver of that strength, delivering compelling innovation tied to its 30th anniversary celebration and supported by both nostalgic beverages and effective marketing. Performance was also helped by a favorable prior year comparison. The segment delivered $1.3 billion of Q3 net revenues, positive system-wide comps across a diversified portfolio, and $300.9 million of Q3 operating income.

Beginning this quarter, Starbucks retail operations in China were deconsolidated from our financials and reported as a licensed business with our 40% joint venture economics reflected as part of income from equity investees. This transition is the main driver of the year-over-year changes in our International segment reporting.

To help with your models, here are a few data points detailing China's contribution to our Q3 International segment P&L and our current view of how the economics to Starbucks will evolve. In the third quarter, we reported $53 million of net revenues attributable to China within our International P&L and operating margin above 100%, reflecting the structure's margin accretive nature. As the joint venture moves beyond this transitional period and scales, we expect our economics to build over time.

The operating landscape in China continues to evolve and the end market team is working to drive higher quality growth and local relevance. It is still early, but we remain confident in the joint venture's ability to reinvigorate sustainable growth in China and to reach up to 20,000 coffeehouses over time.

Our International portfolio ended the quarter at 22,933 coffeehouses, including 189 net new openings in the quarter. In channel development, net revenues grew 22% year-over-year to $587.9 million, helped by coffee inflation. Our multi-serve Refreshers concentrate and sweet cream are generating strong engagement with trial and repeat rates more than twice what we typically see in the business.

In North America, we also recently launched a zero-sugar option to extend our Starbucks Doubleshot energy beverage platform. We continue to work with our partners to innovate and extend our brand to more customers and more places around the world.

Moving to margin. Our third quarter consolidated operating margin was 14.4%, expanding approximately 430 basis points from the prior year, our second consecutive quarter of consolidated margin expansion. This was largely driven by sales leverage, supported by our cost savings efforts, as well as lower inflation paired with reciprocal tariff refunds. The refunds we received in Q3 largely offset related tariffs incurred in the first three quarters of fiscal 2026. As such, we believe the year-to-date view provides a more normalized perspective.

More precisely, in the quarter, our consolidated product and distribution costs were 30.3% as a percentage of net revenues. We believe the better proxy for a more normalized Q3 COGS rate is the year-to-date metric of 32.3%. Crucially, both consolidated and North America operating margins expanded year-over-year, even without the impact of tariff refunds, underscoring the strengthening fundamentals of our operating model.

In North America, our third quarter operating margin expanded approximately 280 basis points year-over-year. When excluding the impact of tariff refunds, Q3 North America margin improved more than 100 basis points year-over-year. Stronger sales leverage, operational focus, and cost savings are helping offset our investments in Green Apron Service and menu innovation. As we expected, coffee remained a cost headwind in the quarter, but the impact was lower than the first two quarters of the fiscal year.

Consolidated G&A decreased by approximately 20% in the quarter, driven by a combination of our cost savings efforts, deconsolidation of our China business, and lapping expenses related to our leadership experience in fiscal 2025.

Our effective tax rate of 21.8% moderated versus the prior year, reflecting favorable updates to full-year tax estimates and a cumulative catch-up adjustment in the quarter. All in, Q3 earnings per share grew approximately 70% year-over-year to $0.85, a meaningful step towards earnings recovery.

We also made solid progress on our balance sheet during the quarter. Using a portion of the China transaction proceeds, we repaid approximately $1.8 billion of our debt and further reduced our leverage to 2.9 times, supporting our investment-grade profile and strengthening our financial flexibility. This allows us to continue investing in the business, maintain our competitive dividend, and create longer-term value for shareholders.

Turning to our outlook. We believe our top-line momentum is becoming more durable. Margin expansion is taking hold, and our balance sheet is stronger. While the current operating environment remains dynamic, these factors support our confidence in the trajectory of our business. As a result, we are raising our guidance for fiscal year 2026.

With one quarter left in the year, we expect our fourth quarter comp growth in the US to be 6.5% or better. We are encouraged by our strong start to the quarter, but also recognize the year-over-year traffic comparisons we will lap and the continued variability in the broader consumer landscape. This implies full fiscal year 2026 US comp growth of a little more than 6%, and global comp growth nearing 6%.

We expect full fiscal year 2026 consolidated net revenues to be flat to slightly higher year-over-year, as we continue to account for the impact of our new China structure. We are also raising our full fiscal year 2026 consolidated margin guidance to greater than 11%. We expect the same fundamental drivers that supported margin expansion in Q3 to continue in Q4.

Sales leverage, disciplined execution, and continued progress against our cost savings initiatives should help offset investments in our Back to Starbucks priorities, particularly as we anniversary the launch of Green Apron Service in August.

In coffee, we expect coffee price pressures to continue easing in Q4 and become largely immaterial to the year-over-year margin comparisons. It is also worth noting that our channel development revenues can move with coffee price trends, given the structure of our CPG business.

We remain on track with our $2 billion cost savings plan. As a reminder, these are gross savings, which we expect to realize through fiscal 2028 and are balanced across product and distribution costs, OpEx, and G&A. This year, the impact of our efforts are most visible in G&A and our other operating expenses line. We continue to expect our fiscal 2026 consolidated G&A dollars to run below fiscal 2023 levels.

For tax, we assume our effective tax rate in Q4 returns to a more normal level in the mid-20s. Putting this all together, we are raising our EPS guidance at both ends of the range to between $2.55 and $2.65.

Finally, from a unit count perspective, our expectation for approximately 600 to 650 net new coffeehouse openings in fiscal 2026 remains unchanged. This continues to be supported by strong contribution from our International business. And in North America, while overall performance has strengthened, we are gaining deeper visibility into some underperforming coffeehouses, which could result in some closures.

As always, we will continue to assess our North America portfolio to ensure we have a healthy foundation of coffeehouses on which to build for the future, a future which we believe has a long runway of new coffeehouse growth in both North America and around the world.

In conclusion, we are encouraged by the momentum we are building through continued work on our Back to Starbucks plan. Our third quarter results validate our belief that human connection and a great customer experience can drive durable, profitable growth. We still have more to do. We're moving at pace, and we are focused on the work ahead.

And with that, we are now ready to take your questions.

QUESTION AND ANSWER SECTION

Operator: We will now begin our question-and-answer session. [Operator Instructions] And your first question comes from David Tarantino with Baird. Please state your question.

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

Hi. Good afternoon, and congratulations on further progress on the plan here. Brian, my question relates to a question I've been getting from a lot of investors which is, how long can you keep up the same store sales momentum that you're seeing currently? And I know the long-term plan calls for 3% annually, but I suspect you're aiming for something higher. So I guess could you just give us your thoughts on where you are in the journey of recovering the sales volumes and what are the building blocks to keep this type of momentum or something above the 3% level going for the next few years?

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

Yeah. Thanks, David. And to answer your question on the momentum, the good news for us is, I think this is driven by just better operating practices. Thinking about the Green Apron Service model, meaning we now, I think, are staffed better. We think we have the right routines, the right coaching taking place, so that we're giving better customer experiences for all of our customers every single day.

And if you look at where the business was, there's still lots of space to add more transactions both in the morning and in the afternoon. And we've made tremendous progress in both dayparts, but there still is a lot of room for growth. And then as you think about the innovation that we've brought out, our marketing team, I think, has done a great job on bringing out relevant innovation, both in drinks, food, and also merchandise. I think we're just getting started on that front as well.

And so we are operating better on a day-to-day basis. And I think our customers are seeing it, feeling it, experiencing it. And our partners, I think, are becoming more and more consistent with the ability to execute the Green Apron Service experience. And I just know the business has more room for growth. And when you talk to the customers that have experienced it, they're responding positively. And I still think there is more to come on the innovation side of things, whether it's through our digital platforms or more of the traditional work that we've done on menu and marketing.

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

David Palmer
Analyst, Evercore ISI

Q

Great. Thanks, and congrats on these results. It's just really a follow-up on the daypart point that you were just making. I wonder, how has the daypart growth been, if you had to separate morning versus the afternoon, what's happened in the last year? And then also, how are you thinking about it over the next year and maybe beyond? You've talked about the afternoon daypart being the next big opportunity. I would imagine maybe some of the throughput stuff has been an outsized benefit to the more compressed morning daypart. So any sort of ways that you're thinking about the opportunities on both those sides, and if you see maybe the baton being passed to the afternoon in terms of outsized growth, and when? Thanks.

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

A

Yeah. Thanks, David. So obviously, I think we said from the beginning on the Back to Starbucks strategy, we wanted to win the morning and then start creating the afternoon daypart. And what I'm happy to say is our partners in our stores have done just that. They have done a great job of executing great staffing, great deployment, and then ultimately, I think great experiences in the morning so that we win that ritual every morning.

And in absolute transactions, it's probably been our biggest winner, is the morning daypart. And then as you kind of move through the day, we continue to see transaction growth, just not quite at the same level of what we're seeing in the morning. I think that's going to be a combination of two things to get the afternoon going as well, which is going to be a combination of beverage and food, and then also, just getting better at our routines in the afternoon.

So we're doing exactly what we wanted to set out to do from a strategy standpoint. Win the morning, create the afternoon, and break down any barriers we have that's preventing us from getting to great throughput in all the access modes, whether it's drive-thru, cafe, mobile order, pickup, or delivery. And we're seeing great progress in all those access points, and really throughout the day, with the biggest wins coming obviously in the morning, which is where we had the biggest bottleneck initially.

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

A

Maybe I'll add on, David, really quickly. We mentioned it in the prepared remarks, that Refreshers had a really great quarter, which we would expect, but that gives us a great occasion for that afternoon beverage. And so we're seeing people take no caffeine oftentimes in the afternoons. We're still seeing the base Refresher with that minimal amount of caffeine. And then obviously, we're now starting to see some routinization in the morning with the Refreshers that have extra caffeine or the energy.

And so I say that because that gives us a great platform along with our matcha menu for the afternoon. And then you add on some of the tests we've been doing in food, like the wraps, starts to give us a really great occasion to expand that afternoon daypart.

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

Andrew M. Charles
Analyst, TD Securities (USA) LLC

Q

Great. Thank you. Brian, I'm curious what you make of what is going on in the coffee category, where investors may not be thinking about just burger, chicken, pizza. It appears the category is just not zero sum in nature. And just related to that, you guys talked about the opportunity in 2027 to slow development, step-up closures of underperforming stores. And I'm curious kind of why now at a time when the tide is clearly being lifted for Starbucks?

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

A

Yeah. Look, so first of all, really excited about the momentum we have in the business. Even as you look at how we exited the quarter, the thing that was great to see is the business kind of picked up yet again. So we're seeing really good things happen with the Starbucks business, and then obviously the coffee category.

Your comment on new units, look, unfortunately, we did not have a great development strategy, when you kind of go back two or three years ago. And it is just one of those things where we either did really difficult remodels on stores or we potentially put the wrong store in the wrong place. And so we're having to clean that up and fix that up.

The good news is, as the business responds, it becomes more clear where you have the true problem stores. And I think I said this from the beginning, we're going to fix them, and then we're going to build the pipeline with the right stores that are going to be in the right locations. And as you mentioned, the good news is, the category's strong, the Starbucks business is strong, so that when you have these openings, they'll be really strong openings. So that's really the practice, and I think, as a result, Starbucks will be in a much stronger position going forward.

Operator: Your next question comes from Sara Senatore with Bank of America. Please state your question.

Sara H. Senatore
Analyst, BofA Securities, Inc.

Q

Oh, thank you. I guess maybe a [ph] similar bent (00:35:38). One is on Refreshers. It's a standout platform, but it seems like everybody has Refreshers. So maybe you could talk a little bit about what customers are telling you about what distinguishes Starbucks? And whether when large QSRs, for example, not beverage specialists advertise, if that creates a halo for you?

And I guess the follow on is, does any of that change as you pivot your growth strategy? I think very explicitly, you've talked about markets where maybe there are other coffee specialists, but Starbucks doesn't have a location. Does this competitive dynamic shift at all? Thank you.

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

A

Yeah. So I think you're right. The good news is, I think we're the original when it comes to Refreshers, and I think the craft and the flavors, and now the other ways that you can customize Refreshers really is differentiating our Refresher platform. And you heard me mention it in my prepared remarks, the growth has been really excellent.

And I think it's been a platform, frankly, that we kind of got a little complacent on in the past, and now we are reinvigorating. And we're seeing a really positive response. And I think you heard Cathy mention this. The thing that's great to see is the way people are using Refreshers, whether it's fully decaffeinated or whether it's fully boosted, those are the different occasions that people want Refreshers, whether it's in the morning or the afternoon, and whether you're young or old, the platform is resonating.

I'm really excited that we're getting ready to go test sparkling. We're calling it Spritzers. So Refreshers that have, like, Spritzers. We've got those going in a couple of test markets. And most recently, we just added the opportunity to do blended. So you'll see us experiment with other ways to experience Refreshers. And I think our point of difference, frankly, is the craft that we provide, the customization that we provide behind that craft. And then I think our team does a great job on getting to the delicious flavors that are relevant for the customer. So it's been a really strong platform for us, and over the last quarter, really continued to perform despite all the activity you saw in the space.

I think that was my going in belief, which is, if you're the category leader in the space, when other people start advertising in the space, and you continue to execute really well, our plan is to get not only our fair share, but more than our fair share. And so that's really the mission of the team on this one.

And then your question on how does it rethink the total business. Look, I think what is definitely clear is there's a trend to cold. But cold beverages are still being executed with coffee, espresso, and the customization that you'd expect around those traditional coffee drinks. And then obviously, we're seeing the Refresher business play a really nice role from morning to afternoon. And I think you'll see that continue to be a strong tool for us in the afternoon daypart as we grow that daypart, and you see the competition really heating up in that space as well.

So I love the position we're in. I'm really excited about the innovation we've got coming and the Refreshers platform, our belief was we had a big platform with the opportunity to innovate against it, and you're seeing us do that now.

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. I'm curious how much you think the uplifts are helping you right now in the US, and I guess how you're measuring the success of that on a per store basis? And I guess just relatedly, when you talk about maybe some more closures, I mean what are some of the characteristics of those stores?

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

A

Yeah. So the uplifts have actually been really terrific performers for us. And we're seeing the business respond frankly, which has been our ingoing hypothesis that it would benefit all day long. But it would also benefit all access points because people just feel better about even doing their mobile order pickup when they go to a coffeehouse versus a place that maybe wasn't up to our Starbucks standard.

So we're seeing them delivering transactions. We're just seeing them deliver on being a positive on the brand, just perception and how people feel about the brand. And so we're going to continue to accelerate that uplift program and really get all our coffeehouses up to the Starbucks standard and the experience that people would expect from Starbucks, as well as the experience that our partners want to provide. So it's also very powerful for the experience that we provide because our partners are truly proud now of their coffeehouse.

Your question on some of the stores that we may decide we have to close. Look, it's really about performance and location and sometimes where the actual asset is from a standpoint of remodeling versus we'd be better off just building a new store. So it's not a question of whether or not we think Starbucks can work in the trade area. It's more to do with, is this the right representation of Starbucks and are these the economics that frankly Starbucks should earn? And if the answers aren't yes, then you know what? We're being honest with ourselves and saying, we're going to address the problem now, and we'll build the right Starbucks in that trade area. So I think this is just good hygiene.

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

A

Hey, Brian. Maybe I'll add a little bit more on uplifts just for a little bit more color, too. What we're seeing, if you think back a quarter, we were a little over 300 or so stores, or I think coffeehouses that had been uplifted. So that means we did north of 650 this quarter. And so we've got obviously early on that entire population. What we're seeing, though, is what Brian said, which is across all formats, all channels, all dayparts, all urbanities, both cafes and drive-thrus. We're seeing a positive halo. And I think that all just puts the brand in a much stronger position. And I think we shared in the prepared remarks, our brand health metrics are at five-year highs. So I think all of that goes together with that great full customer experience, and we're seeing it with the uplifts.

And then the other thing is they continue to be a really good return on investment. My last plug is the team's doing a great job of not closing stores. They do the coffeehouse uplifts overnight, so we don't change the routine for our customers. And so the fact that we don't take a coffeehouse offline, I think is incredibly important. And they're a very low level of investment, as we've shared, $150,000 on average. So it's a great return. So I think all of that just to say we're really excited.

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

What's your assessment on same-store sales growth and operational performance of your stores versus the licensed stores in North America? And what actions are within your control to align the operational performance between the two? Thank you.

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

A

I'm sorry. I didn't catch the first part of your question, Danilo. Can you just repeat that?

Danilo Gargiulo
Analyst, Bernstein Institutional Services LLC

Q

Yes. So what's your assessment on the same-store sales and operational performance of your stores versus those of the licensed stores in North America, right? And so what are some of the actions within your control to close that gap? Thank you, Brian.

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

A

Yeah. So I just want to make sure I got it. So you're asking me company stores same-store sales growth performance versus licensed stores same-store sales growth performance, and what differences are we seeing there?

So what I would tell you is, the good news is we're seeing our licensed stores really have kind of a great quarter as well, primarily led by the travel category. But in general, what's happening in our licensed business is we're putting the same rigor in place that we've got in our company store. So we're putting in place the GROW report, obviously tweaked to recognize that it's a licensed model. We're also putting a lot of, I would say, specificity around what the expectations are for a Starbucks experience.

Because our goal is there should be no real difference between a Starbucks experience at a company-owned store or a Starbucks experience at a licensed store. And so the good news is we're seeing more and more examples where that truly is the case and fewer and fewer examples where we've got a big discrepancy. So the comp performance was really good in licensed stores. As what we saw in our company stores, and we continue to see great progress. And obviously, we're working to continue to make sure that the Starbucks experience, there really is no difference between which outlet you experience, whether it's company-owned or licensed.

Operator: Thank you. And your next question comes from Zach Fadem with Wells Fargo. Please state your question.

Zachary Fadem
Analyst, Wells Fargo Securities LLC

Q

Hi, good afternoon. So first, a housekeeping question on the impact of coffeehouse initiatives like extended hours, closed stores, and delivery, and how these factored into the Q3 comp relative to your brand initiatives? And then second question, unrelated on tariff refunds and whether you're anticipating more in Q4 and to what extent the guide contemplates anything there?

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

A

Hey, good afternoon. So let me start with the first one. And with regards to the impacts of things like extended hours, actually, pretty limited. Let me back first up. With a 7.9% comp that we drove, about half of it or a little bit less than half of it was due to closures, sales transfer, delivery growth. The rest of it is all that great store performance and menu and innovation. So let me start there. The hours of operation piece was actually very small, just a couple of basis points. So really, really small. And I'm sorry, what was the remainder of your question?

Zachary Fadem
Analyst, Wells Fargo Securities LLC

Q

Refunds and whether you're anticipating any more in Q4 in the guide.

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

A

Sorry. Thank you. We're excited about the – first off, the gross – or the operating income margin expansion we saw in the quarter. And we saw that even without the tariff refunds. As we shared, the year-to-date performance is probably the right way to look at our product and distribution costs or COGS. Because that pretty much nets the impact of increased tariffs and then obviously the refunds. We believe we've largely gotten the refunds we're entitled to at this point. And so I think that's probably a good place to anchor is that year-to-date performance.

Operator: Thank you. And your next question comes from John Ivankoe with JPMorgan Chase & Company.

John Ivankoe
Analyst, JPMorgan Securities LLC

Q

Hi, thank you so much. First the question, and then I think just a quick follow-up. First on the question, in terms of Green Apron Service, did we absolutely nail it in terms of labor hours, in terms of not only your current traffic, but potentially increased traffic going forward? In other words, could we expect the number of labor hours to stay relatively steady or perhaps have some efficiency opportunity as traffic has grown? So that's the question.

And then secondly, Brian, I think I heard in your prepared remarks 24-hour operating model. Does that mean some Starbucks stores could actually be open 24 hours? And I guess I know that's not an overnight kind of decision. So over time, how much do you think, kind of an average extended hours could potentially mean to the Starbucks US system when fully rolled out and optimized? Thank you so much.

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

A

Yeah. Thanks for the question. Look, I think our operators are doing a great job on managing the labor schedule and making sure that we are providing great experiences for the business that we're receiving. I still think there is opportunity for us to get even more growth going in the morning and in the afternoon. And obviously in the morning, that's where you could really see more efficiency gains out of the labor that we've got there at peak. And then as you kind of move through the day, I think we're going to start to see the same opportunity and eventually we'll earn our way into having the additional hours necessary to match the growth of the business.

So I think the team's done a great job of managing the labor hours so that we meet the demands of the business and that we aren't capping the growth off. That's really important to all of us is we still think there's more room for growth in the morning. We think there's more growth in the drive-thru. We think there's more growth in mobile order pickup.

So, and that's true in the morning and the afternoon, and we can just see it because we've got these different cohorts of stores that demonstrate what's possible. So very optimistic about where we go from here and how we take advantage of the new Green Apron Service model and the labor that comes with it.

And then on your second question, I think around 24 hours, I think you're referring to our supply chain comments that I made, where what we want to do is make sure that we now have a system that can create pull through the supply chain and get replenishment done within 24 hours.

As you mentioned, we do have a handful of stores that happen to also be open 24 hours. But really what I was talking more about is I'd like to be able to replenish stores within 24 hours so that we're never out of stock. And then also, hopefully we can shrink the back of house and have then the right inventory at the right location at the right time. And we'll just be much more efficient in the whole entire supply chain process. So that's really what we're driving towards.

And then obviously, it'd be great if the demand proves itself that we should have more stores open 24 hours. But right now, that's not a focus area. The focus area is more on the supply chain.

Operator: Your next question comes from Jon Tower with Citi. Please state your question.

Karen Holthouse
Analyst, Citigroup Global Markets, Inc.

Q

Hi, thanks for taking the question and congratulations on continued momentum. This is Karen Holthouse on for Jon. Just curious, what marketing spend looked like year-over-year? And as you're thinking about this sort of shift to more being part of the conversation and part of culture, do you think there's still room from here for advertising to grow in terms of a percent of sales investment and/or just continuing to optimize more like the media mix side of things?

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

A

Yeah. Look, the team's done a great job with the marketing budget. I think we spend a little bit more than 2% of sales on marketing. And obviously, as the business grows, the good news is we're not capping that spending. So, and we're not seeing diminishing returns out of our spending. So the team and Tressie are doing a great job of making sure that we're investing in the places where we believe we can drive transactions, drive the brand, build that loyalty and love, and make sure people understand what Starbucks stands for. And I think culturally, we've been on the money. And I think the communication, frankly, is at some of its best moments the brand has had in a long time.

So I love the way they're using the dollars. The budget will obviously continue to grow with the business as we grow. And the team's going to be accountable for making sure that they get great returns for those dollars that we spend. And you know what? They rise to the occasion every single time we have the conversation about it. So I think we're in a really great place, and I'm really excited about the plans that we have for the balance of the year, as well as I look at 2027.

Operator: Your next question comes from Margaret-May Binshtok with Wolfe Research. Please state your question.

Margaret-May Binshtok
Analyst, Wolfe Research LLC

Q

Hi, guys. Thanks for taking my question. I just wanted to ask a little bit about digital menu boards. Where does the penetration stand today? And what are you seeing specifically on the afternoon daypart performance in stores that have them? And what I guess that menu board can allow you to do for an afternoon? Thank you.

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

A

Yeah. So I think digital menu boards now are in I think by the time we get to September, we'll be in like 80%, 90% of our stores. And the thing that we've been doing right now is you'll see us dayparting the menu boards, which has been great. And I think that is helping build our afternoon daypart, because we're doing a better job now of merchandising the offerings that we have in the afternoon.

And the team continues to fine-tune how we use those digital menu boards to better drive the daypart communication. And it's going to be really great once we have the entire system on the digital menu boards, going forward. So, and with every uplift, we make sure we put in those digital menu boards as well as then just the digital menu board program that we have in place. So the marketing team, I think, is taking advantage of the technology and the ability to then daypart it accordingly.

Operator: Your next question comes from Logan Reich with RBC Capital Markets. Please state your question.

Logan Reich
Analyst, RBC Capital Markets LLC

Q

Hey, good afternoon. Thanks for taking my question. Brian, I just want to follow up on the remodels, obviously tracking ahead of schedule in 2026, and you pointed to acceleration in 2027. Just trying to get a sense of where the limit on the remodels you guys can do? Any sense on when that could be completed across the whole system? And just what the potential acceleration could be in 2027?

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

A

Yeah. So look, our goal is to try and get it done as fast as we can. Obviously, we want to balance the speed at which we do it, given the other areas that we're also investing in. But I think you're going to see a pretty good step-up from 2026 to 2027. And then obviously, our goal is to try and get it done as quickly as possible from there. So we're building the capability in order to do more than we did this year, and then we'll see how we scale that up. Because I also don't want to go fast and be sloppy. I want to make sure that we move quickly and do it with excellence. So that's kind of the balancing act that we've got to make sure we execute here because they're working really well.

And the last thing we want to do is jeopardize quality because you go and amp up the speed to a level where you don't get the quality performance that we want. So meaningful step up in 2027, and we'll see how it goes from there, and then we'll figure out how much faster we can go from there and hopefully complete all of them in a timely fashion.

Operator: Thank you. And your next question comes from Steve McManus with BNP Paribas. Please state your question.

Steve McManus
Analyst, BNP Paribas Securities Corp.

Q

Great. Thanks. So I had a question on delivery. So as that scales at a higher penetration rate, how should we think about incrementality and the trade-off versus in-store visits? And is there any color you could share around channel margin implications? That'd be great. Thank you.

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

A

Yeah. So, right now there's no trade-off on margins, and we have yet to see any meaningful cannibalization from the delivery channel. So we're really excited about it, and pretty soon we'll have it also in our app, with obviously a white label partner, which I think will also make the platform that much more attractive because then you'll be able to get rewards or Stars as part of the program. Which today when you do delivery, you aren't participating in the Stars program. So we think there's still a lot of upside in it and right now, there's no trade-off from a margin standpoint.

Operator: Thank you. And ladies and gentlemen, 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. And thanks everybody for taking the time. Very proud of our results on Q3. I think as I mentioned before, when we put together the Back to Starbucks strategy, it really was built on this simple idea that was kind of the founding idea of Starbucks, which is extraordinary coffee, terrific human connection, and obviously done in a way where people can have an experience that they want to come back for. And so I think we're proving that that is playing out as a point of difference for Starbucks and also that the Back to Starbucks program can deliver results in a meaningful way.

So I think we're in the process of building the Starbucks that we believe we should be and a Starbucks that's built for performance and a Starbucks that's built for consistency of that performance. And we've got a clear plan. The team's focused on this plan. I think we have tremendous opportunity in front of us, and I'm excited about what's next.

And I'm really excited about where we grow from here because I think the foundational elements that we've put in place really sets the Back to Starbucks plan up for enduring performance, so that quarter after quarter, we can talk about the great customer experiences and the great results that come with it.

So, thank you, everybody. Have a great day, and look forward to continuing to talk the business with each and every one of you. Take care.

Operator: This concludes Starbucks' third quarter fiscal year 2026 conference call. You may now disconnect.