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# Starbucks Corp. (SBUX)

Annual General Meeting

## CORPORATE PARTICIPANTS

### Kevin Johnson

*President, Chief Executive Officer & Director, Starbucks Corp.*

### Fabiola Sanchez

*Senior Coordinator; Global Social Impact & Public Policy, Starbucks Corp.*

### Sergio Alvarez

*Partner & Senior Coffee Specialist, Starbucks Corp.*

### Rosalind Brewer

*Group President, Chief Operating Officer & Director, Starbucks Corp.*

### Lucy Lee Helm

*Chief Partner Officer & Executive Vice President, Starbucks Corp.*

### Belinda Wong

*Chief Executive Officer, Starbucks China*

### Howard Schultz

*Executive Chairman, Starbucks Corp.*

### Sophie Hager Hume

*Vice President, Assistant General Counsel & Interim Secretary, Starbucks Corp.*

### Shiloh Britt

*Corporate Accountability Intern, Stand.earth*

### Adrian Grenier

*Goodwill Ambassador, UN Environment*

### Brianna Murphy

*Vice President-Shareholder Advocacy, Trillium Asset Management, LLC*

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## OTHER PARTICIPANTS

### Jan Drago

*Former Member, Seattle City Council*

### Justin Danhof

*General Counsel & Free Enterprise Project Director, The National Center for Public Policy Research*

### Jonathan Rosenberry

*Video Production Manager, Compassion Over Killing*

### Bruce Thomson Herbert

*Founder & Chief Executive Officer, Newground Social Investment SPC*

### Dakota Carucci

*Barista, Starbucks Corp.*

## MANAGEMENT DISCUSSION SECTION

[Abrupt Start]

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### Unverified Participant

...there will be a number of forward-looking statements made today that should be considered in conjunction with the cautionary statements contained in the company's recent SEC filings. Forward-looking statements are subject to the various risks and uncertainties that could cause Starbucks' actual results to differ materially from these statements. Starbucks assumes no obligation to update any of these forward-looking statements or information. Please see our filings with the SEC, including our last Annual Report on Form 10-K for a discussion of specific risks that may affect our performance and financial condition. Please refer to the Investor Relations page of starbucks.com for reconciliations of any non-GAAP financial measures noted today and their corresponding GAAP measures.

Please welcome President and Chief Executive Officer, Starbucks Coffee Company, Kevin Johnson.

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### Kevin Johnson

*President, Chief Executive Officer & Director, Starbucks Corp.*

Well, good morning. Good morning. It is my pleasure to welcome you all to Starbucks' 26th Annual Meeting of Shareholders. And let's all give a round of applause for the brilliant Pirulo and his band, who traveled here from San Juan, Puerto Rico. Pirulo?

Thank you so much. Thank you. Pirulo, the joy that you and the band brought to this room this morning is truly a gift. Thank you, thank you, thank you.

Now, Pirulo and hundreds of thousands of his fellow countrymen recently endured Hurricane Maria, a Category 5 storm that devastated the Island of Puerto Rico. When the wind and the rain stopped, we witnessed the damage, and the world's heart sank. Now our hearts have been challenged this past year by so many communities that have suffered through natural disasters, whether it's the hurricanes that hit Houston, Miami and the Caribbean, devastating earthquake in Mexico City, a decimating wildfire season in California, everywhere we turn, people facing adversity. It's how we choose to respond as people, who says a lot about who we are. And this Starbucks community, to which we all belong, chooses to respond with compassion and optimism.

Now, optimism is not just a positive disposition when times are good. Optimism is about banding together during times of adversity, believing in ourselves and working together to do what needs to be done. So, when disaster hits, Starbucks partners mobilize. We mobilize with our customers and we work together in our communities to serve others at a time of need. We roll up our sleeves, we bail water, we stitch lives back together. We volunteer our time and we contribute to raise money. Together, with Starbucks partners and customers, we contributed more than \$2 million to aid disaster relief in 2017 and we volunteered time.

And so, I want to start our meeting today by first recognizing the more than 330,000 Starbucks partners who proudly wear the green apron, for your commitment to community, partners who are here with us today, please stand up, please stand up. Come on. Okay. Partners, partners, remain standing, come on, stay standing, this is a fun event. No. For veterans, military personnel and their spouses, please stand. Welcome. Keep standing, keep standing.

I want to welcome our license partners and joint venture partners who traveled from around the world to be with us today. Please stand. Now remain standing. Everybody remain standing. I want to acknowledge our remarkable board of directors who guide us on our Starbucks journey. Please stand. All right. Stay standing now. Now, I want to recognize and welcome all shareholders and guests who have joined us here today, stand up, come on, stand up. Now stay standing. Stay standing because, together, as a community, all of us are trying to do something meaningful and that's why you're here today. We're trying to create a different kind of publicly traded company, a company that sees the pursuit of profit and the pursuit of doing good in this world, not as opposing forces, but rather as two strands of DNA that are woven together, both are essential for life. I welcome you all here today. Be seated. We're going to have some fun.

Now, today I want to share hopefully an inspiring and a clear-eyed view of where we are in this journey at Starbucks, at this special moment, as we look to the future, and I want to share my perspective, one year after assuming my responsibilities as CEO. Now, my most important and weighty responsibility is to keep Starbucks moving forward to claim its vibrant future. And this requires sharp discernment. It requires the discernment to have the wisdom to know which aspects of Starbucks must be honored and preserved, while at the same time the courage to boldly reimagine and reinvent our future. Now, in every part of today's program, you're going to – we're going to show you a little bit of both, what is enduring and what is being modernized.

Now, with that as context, we're going to go into three topics, three deep areas. First, I want to share how the hard work we've done in this past five years positions Starbucks for growth over the next 10 years. Second, [ph] I (08:00) want to share how we are modernizing this respected and beloved global brand to reach more people, uplift more lives, elevate their day in more places, in more occasions than ever before in our history. And three, how we are adding diverse talents, diverse perspectives and creating a fully representative culture, which we believe is the foundation for a truly modern Starbucks.

Now, let's start by taking a look at the past five years. Over the past five years, many brick-and-mortar retailers have struggled as the industry has been impacted by a significant shift in consumer buying behavior. In fact, this last year alone, more brick-and-mortar retail stores were closed in the United States than in any other period in history. Starbucks is the rare exception. Now, let's just take a look at these numbers. In a period where more brick-and-mortar retailers are closing than any other time in history, over the past five years, Starbucks opened more than 10,000 net new stores, from 18,000 to 28,000. And those stores are performing at the highest levels ever.

Now, certainly while many retailers have been suffering from declines, Starbucks has been the exception, we've grown the number of customers we serve each week from 66 million to nearly 100 million per week today. And while many retailers have been flat or shrinking top-line revenue, we have nearly doubled revenue and we have more than doubled the market cap of the company.

Now, while these numbers defy the trends and are impressive in and of themselves, there is an even more powerful story underneath. It's about the work that has happened in this five-year period that strengthens the foundation of Starbucks in a way that allows us to grow. The past five years have been all about turning in this

kind of performance, this pursuit of profit, while at the same time building our brand around social impact and investing for the future.

Now, when others in the industry have been cutting investment, we have doubled down. We've doubled down investment in three powerful areas. And these three powerful areas are critical to Starbucks' growth agenda going forward. And those three assets are: Digital, we've been extending the third place to embrace digital; China, we've established China as our next big growth market; and Starbucks Reserve, Starbucks Reserve is now our innovation lab for new ideas and for the future.

Now, at the highest level, Starbucks has always been and always will be a brand that is close to people's hearts. We've been a ritual, and a place you come to lift your spirit, your day. And in many ways now the closest thing that many of us have with us at all times is this, our mobile device, probably many of you have them with you here today. Now, Starbucks has been earning the privilege to be in your life in many ways; and over the last five years, we've been building much more expansive relationships that extend to our customers' lives on their mobile device, extending their rituals of the day to wherever they are, in the office, their car, their home. And I'll share with you in a moment why this greatly opens up growth opportunities for the future.

Now, Starbucks has also been and always will be a brand design for all. We've invented the concept of the third place and earned broad appeal. That said, there are hundreds of millions of more customers that we can appeal to, that we can reach out to, that we can earn their loyalty of, the rising middle class, the largest rising middle class on Planet Earth is in China, and it represents a powerful growth agenda for the company. In a moment, I'll share a little bit more about our approach and why we're so bullish on it.

Number three, Starbucks has always been and always will be a premium brand, something special, quality, worth it, your everyday uplifted. To earn that premium, requires that we harvest some of the highest quality, most ethically sourced coffee in the world, and that we boldly innovate at the top end of our offerings. And that is exactly what we're doing with Starbucks Reserve. But that's only half of the story. I'll share the other half when we get there.

Now, more on Digital. In my three decades, in the tech industry, I've seen many technology-driven disruptions. I've had a front row seat to the rise of personal computing, to the explosion of the World Wide Web, to the advent of cloud computing. And all of those disruptions enable perhaps the most impactful one of them all, the mobile device. I mean, think about it. The iPhone was introduced a decade ago, and the mobile internet began its transformative journey. And certainly, on that journey, it has changed not only consumer behavior, but human behavior.

Now, if you study many of the scenarios that all of us engage in on this mobile device, there is a common red thread. For example, on your mobile device, you can enjoy music from any artist, any time at any place in the world using Spotify or Pandora, convenience. On your device, you can make an airline reservation, reserve your seat, check-in, get a boarding pass, clear TSA, convenience.

On these mobile devices you can buy most anything you choose and have it shipped to you in hours, sometimes minutes, convenience. On this device, you can get an education, you can pay a parking ticket, you can see your medical records, you can predict the weather, watch a classic movie, you can even help your kids with their geometry homework, convenience. None of this was possible 10 years ago to the extent it is today. And in most of these examples, the mobile device has amplified the consumer desire for convenience.

Now, as you are aware, Starbucks has been investing in this, in mobile, in our app, in the transaction systems, in the platforms, building out the capability to extend the connection we have with our customers in the third place to a digitally connected world, and those investments are showing up in our performance.

Now, in fact, more than 30% of all U.S. customer transactions are paid for with the mobile app. We're now working to expand our digitally connected customer relationships well beyond the current state. We want to reach millions and millions of more customers digitally.

As an example, we have opened up Mobile Order & Pay to all customers. We've created digital coupons and promotions for customers that will be utilizing for our happy hours. We're utilizing our personalization engine to provide more relevant personalized content. And the opportunity goes well beyond that. Certainly, the realm of – in the realm of retail, oftentimes convenience has been the enemy of the physical store, instant has been the enemy of brand loyalty, fast has been the opposing force of great experiences.

Now, some in the industry believe that you must either focused on a retail experience that is about community or a retail experience that is about convenience, you cannot do both. We reject that thinking. We do not buy into the false trade-off. In fact, we've refused to succumb to the pressure of the tyranny of or. The work we are doing in store design, store locations, operational routines in our stores and digitally on our app, are all focused on embracing the concept that we can better serve multiple experiences our customers desire, experiences around community and experiences around convenience.

Now, over the past five years, the third place has been extended, extended digitally and we are innovating in ways to better serve experiences around both community and convenience. Roz Brewer, our Chief Operating Officer, will take you through more of that innovation agenda here in a minute.

China, now everywhere people who believe in humanity, community, kindness and optimism, is a place where Starbucks can thrive. Now, our brand seeks growth among people who believe in these things, and China is one of those places. So, let me set some context. Economists expect China's GDP to exceed \$15 trillion by 2021, and that explosive growth of GDP is fueling a massive increase in the middle class in China, expected to reach nearly 600 million people, that's nearly double the entire population of the United States. And Starbucks is a coveted brand at the center of this rising middle class.

In fact, Starbucks has cracked the code on China in a way that few other global brands have been able to do. And as a result, over the past five years, we've grown the number of stores from 700 or 800 to more than 3,200 stores today. And we've been introducing the Chinese consumer to premium coffee in the third place experience. We're opening a new store in China on average every 15 hours. And to ensure we bring the full force of Starbucks, we have acquired 100% of our joint venture in East China. As we finish that integration, we're going to accelerate the pace of growth in China. We are much more than a coffee retailer.

In fact, the secret to our success in China is that we stand for something that Chinese consumer seeks. We're an aspirational brand with empathy for the human experience, and we demonstrate our humanity by taking care of our partners and their families, creating opportunity and optimism for the future.

Now, our team in China has designed some of the world's most innovative and beautiful stores. It became a destination for our customers. Belinda Wong, who is with us today, CEO of Starbucks China, will take you through the amazing story and the amazing journey that's unfolding in China.

Now, globally, with more than 28,000 stores around the world, our brand has ubiquity. Our brand has always been about premium, about how we make you feel as a customer, and certainly our products and the experiences we create are never ordinary. We strive to constantly reimagine that experience, push the brand to new levels of premium. And one of the things that I learned in over three decades in the tech industry is how new product innovation at the very top of your product line can not only create a halo effect across the entire product line, but you can take elements of that innovation, features and capabilities and design elements of that innovation at the very top and weave it throughout your entire business. And in many ways that is exactly what we are doing.

Starbucks Reserve is an expression of the world's most sought after small lot coffees and the Starbucks Roasteries are the ultimate in experiential retail around all things coffee. These formats have become innovation labs for us, purposeful design, premium products, new beverages, new forms of service and new ways to share our coffee knowledge, and it's an opportunity to leverage innovation in new ways across the entire fleet of our core Starbucks stores.

Now, it's my belief that these investments that we've made over the past five years are setting the stage and the foundation for growth over this next 10 years. Let me fully and deeply acknowledge at this present moment that I am both a realist and an optimist. Now, the retail market has been particularly brutal over the past two years. Now, we have navigated the market much better than most all other retailers, but our growth slowed a bit last year. Even with that slowing growth, we continued to make the multi-year investments that position us for the future. We made these investments last year while still growing revenue by 7%, same-store sales by 3%, and we opened over 2,200 new stores. We also step back and assess the current market condition and our strategy going forward, and we've revised our long-term growth guidance to reflect the opportunity ahead.

Long-term, we expect to deliver revenue growth in the upper single digits, 3% to 5% same-store comparables, and 12% or greater EPS growth. Now, we are optimistic about the future. In fact, we are so optimistic about the future that we have made a commitment to return a record \$15 billion in cash to our shareholders over the next three years in the form of buybacks and dividends, \$15 billion.

Now, I opened up this discussion this morning with a statement about clearly knowing which aspects of Starbucks must be honored and preserved, and at the same time have the courage to boldly reimagine and reinvent our future. Now, coffee is at the core of Starbucks. And the ritual of sharing a coffee tasting at Starbucks is something to celebrate. These moments of human connection over coffee get our day going, they get our meetings going, they get ideas flowing. So, let's do the largest coffee tasting ever attempted at an annual shareholder meeting right here today. What do you think? Now, we're going to do this with our very special coffee. The coffee today is having – is celebrating its 10-year anniversary. Pike Place Roast, all right?

Now, we're being joined by 116 Starbucks partners. We're going to hand out coffee to each one of you. And while they do that, pass your coffee down to the end of your row. Don't start drinking it yet, we're going to wait till everyone has their coffee. But while you're getting your coffee, I want you to take a moment, introduce yourself to the people next to you, have a nice conversation and get ready for the largest coffee tasting at an annual shareholder meeting. We'll be right back in a moment.

[Break] (24:29-27:56)

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**Kevin Johnson**

*President, Chief Executive Officer & Director, Starbucks Corp.*

Okay. How are we doing on coffee? All right. I want to invite two of our special Starbucks partners to join me and lead this coffee tasting. So, Fabiola, Sergio, come on out here. Please welcome Sergio, Fabiola. Welcome. All right.

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## Fabiola Sanchez

*Senior Coordinator; Global Social Impact & Public Policy, Starbucks Corp.*

Hey.

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## Kevin Johnson

*President, Chief Executive Officer & Director, Starbucks Corp.*

Okay. Has everybody gotten your coffee? Well, Sergio, why don't you begin and share a little bit about your Starbucks journey and a little bit about this coffee?

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## Sergio Alvarez

*Partner & Senior Coffee Specialist, Starbucks Corp.*

Absolutely. Buenos días. Good morning, everyone. So, ever since my first Starbucks coffee tasting, I've come to learn that nothing pairs better with our coffee than a good story. And when it comes to Pike Place Roast, I can't help but share my story of where I came from and how I became a partner. I was born and raised in Mexico and I graduated as a graphic designer. But in 2006, I moved to the U.S. with my family and I found it very hard to find my place and fit in in this new culture and world.

Until in 2009, I moved to Seattle where a store manager believed in me and gave me the opportunity to train as a part-time barista in a little store in the Pike Place Market. You might have heard of it. It's known as the First Starbucks. You can't miss it. It's the one with a line out the door every day. So, without ever making coffee before or knowing much about it, for the first time in my life, I felt like I was part of something bigger than myself. So, in a way, before I got to taste Pike Place Roast, I got to experience the store and the history that this coffee represents, and it changed my life forever.

So, this coffee that we're about to taste today is not just the one that tells us where we came from, but it reminds us of where we've been, where we are and where we're going. And no matter where it's brewed, all around the world, every day, it makes us feel like we're all together in one store where we all speak coffee and where we all can feel like we belong. So...

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## Kevin Johnson

*President, Chief Executive Officer & Director, Starbucks Corp.*

Sergio, thank you for sharing your story. This is a special coffee for you. Thank you. So, Fabiola, a little bit about your story and why don't you lead us in this tasting?

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## Fabiola Sanchez

*Senior Coordinator; Global Social Impact & Public Policy, Starbucks Corp.*

No. Absolutely. I think of coffee so much as it's been described as this ritual, this nod to our heritage. Coffee is a call to presence. So, in the moments that we have together, let's just consider what it speaks to us. Maybe it's warmth in hands or thoughts of running into a store or it could be that perfect conversation across the table. I know for me when I consider Pike Place and in my story and in my experiences, I think of families across Latin America, families of farmers that very carefully and very lovingly cultivate coffee for the stories our cups share.

And so, if you have it already, let's remove our lids and let's really smell that coffee, thinking of those memories. Kevin, what do you smell?

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**Kevin Johnson**

*President, Chief Executive Officer & Director, Starbucks Corp.*

Oh, you're putting me on the spot.

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**Fabiola Sanchez**

*Senior Coordinator; Global Social Impact & Public Policy, Starbucks Corp.*

I am putting you on the spot. Can you smell it?

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**Kevin Johnson**

*President, Chief Executive Officer & Director, Starbucks Corp.*

I smell a little cocoa.

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**Fabiola Sanchez**

*Senior Coordinator; Global Social Impact & Public Policy, Starbucks Corp.*

A little cocoa.

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**Kevin Johnson**

*President, Chief Executive Officer & Director, Starbucks Corp.*

Yeah. And nuts.

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**Fabiola Sanchez**

*Senior Coordinator; Global Social Impact & Public Policy, Starbucks Corp.*

Yeah. No. Absolutely.

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**Kevin Johnson**

*President, Chief Executive Officer & Director, Starbucks Corp.*

Is that right?

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**Fabiola Sanchez**

*Senior Coordinator; Global Social Impact & Public Policy, Starbucks Corp.*

No, that's right. Yeah. No. Yes. No, Pike Place is such an approachable coffee. There's like chocolaty notes, there's this nuttiness that comes to life. It's meant to really be loved by all palates, and also again that memory. Now, continuing to experience this coffee, let's get it completely across our palates. Hopefully, it's been cooled at this point as you just got it and we're going to aerate the coffee by slurping it. Now, I am Puerto Rican and when we do things with passion, we do so loudly, and so together we are going to slurp. All right? Let's do it.

That wasn't very loud on my part. But thank you. Good job. It's coffee across all of our senses. Sergio, what else has it evoked for you?

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## Sergio Alvarez

*Partner & Senior Coffee Specialist, Starbucks Corp.*

Well, when I was a store partner, I always was surprised how smooth and balanced Pike Place Roast was. And when I became part of the coffee team, I got to experience firsthand everything that goes behind this cup. And I can tell you that it's all by design of passionate partners that are obsessed about tasting, blending, roasting, brewing until the proof is in the cup, and I am so proud to be part of that.

## Fabiola Sanchez

*Senior Coordinator; Global Social Impact & Public Policy, Starbucks Corp.*

Okay.

## Kevin Johnson

*President, Chief Executive Officer & Director, Starbucks Corp.*

Well, what I love about this coffee is, it reminds me of our heritage and where it all began, the Pike Place Store. And so, Fabiola, Sergio, thank you so much for sharing your stories and for sharing the first-ever coffee tasting at an annual shareholder meeting. Thank you. Fabiola, thank you.

## Fabiola Sanchez

*Senior Coordinator; Global Social Impact & Public Policy, Starbucks Corp.*

Thank you.

## Sergio Alvarez

*Partner & Senior Coffee Specialist, Starbucks Corp.*

Thank you.

## Kevin Johnson

*President, Chief Executive Officer & Director, Starbucks Corp.*

Now, every time we share a coffee tasting, we also affirm our commitment to making coffee, the first 100% sustainable agricultural product. In fact, everyone in the coffee ecosystem needs to take a proactive stance. And so, we partnered with Conservation International to create the Sustainable Coffee Challenge, a global initiative with more than 90 companies and governments to help all coffee purveyors adopt sustainable practices. Now, achieving sustainability means that we have to assure trust and transparency in every bean from the 380,000 coffee farms, from which we purchase our coffee, to every cup that we serve you, our customers.

Now, Starbucks is one of the only coffee companies and one of the few that can trace our coffee to each of these farms, which is critical to ensuring a viable livelihood for the farmers and their families. And now, we've taken traceability and trust to the next level. We're announcing a pilot program in Costa Rica, Colombia and Rwanda, collaborating with Conservation International. And over the next two years, we're going to demonstrate how technology and innovative data platforms can give coffee farmers even more financial empowerment.

Now, we're going to leverage an open source approach to share whatever we learn with the rest of the world. Now, you can see this in action at our farm. We own one coffee farm on the side of a volcano in Costa Rica. The farm is called Hacienda Alsacia. And I was there last month with our leadership team. It is one of the most beautiful places you can imagine. In fact, words alone cannot describe the beauty and there is no better way to show you this farm than through the eyes of our partners. Let's take a look.

[Video Presentation] (00:35:05-00:38:28)

Isn't that beautiful? It's fantastic. What a beautiful, beautiful place and just a wonderful way to share the story around sustainability of coffee. That was a year ago that Howard invited me to join him the morning of the Annual Shareholder Meeting at the Pike Place store, early in the morning. And as we stood together in the Pike Place store a year ago, he presented me with the key. This is the key that Howard carried in his pocket for years to the Pike Place store. And this key is a symbol of our heritage and it is the key to our future. And I'm honored to share this responsibility with a world-class leadership team. They are my partners and they represent the future of Starbucks.

In fact, this leadership team gets up every day, to work in service of the more than 330,000 partners who proudly wear the green apron. We work in service of our customers and we work in service of our shareholders. And I'm fortunate to have these leaders by my side and I want to introduce a very talented leader who joined this team just six months ago. She is someone with significant experience in retail. She is a great leader of people. She is my partner and she is our Chief Operating Officer. Please welcome, Roz Brewer. Roz!

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## Rosalind Brewer

*Group President, Chief Operating Officer & Director, Starbucks Corp.*

Wow. Wow. So it was last year that I was sitting right here in the audience being introduced as one of the newest members of the board of directors. And today, I have the privilege and I'm so proud to be standing here before you as the Chief Operating Officer of this amazing company.

So just like Kevin, I have the vantage point of seeing the company up-close and personal as a Director before embarking upon the incredible work of growing the Americas, thinking about store development, thinking about the next generation supply chain, and most importantly, our product innovation. I get to do this at a time when we are experiencing a seismic shift in retail. Our customers are demanding convenience, they're demanding customization, they're demanding choice.

Technology, technology has enabled the immediacy mindset and shopping patterns have shifted dramatically, with 96% of Americans shopping online. Mobile payments in just the last year in the fast food industry grew 75% just between 2016 and 2017. That's just one year. Our customers, they continue to seek respite from the busy day of multitasking, constantly in transition, creating the need for me time and human connection. But timing, timing is everything.

Having just completed 10 years with the world's largest retailer, Walmart, having honed design thinking and processes that are key to their culture and creating digital retail at scale and solving logistics and operations challenges and in this new world of retail, I personally feel uniquely capable of being a service to the next growth of Starbucks.

Thank you. So if I've learned nothing else, I've learned just what it takes to win this race and the importance to be strong operationally, while you innovate for profitable growth. Having operated more than 2,000 big box stores and at peak more than \$100 billion in sales, I'm excited to transfer those skills in this new role. But I've also learned a lot since I've been here with Starbucks for the past five or six months and let me just say, it's been exciting.

While the brand loyalty remains strong and we experienced really enviable sales growth of approximately 7%, we need to innovate cost effectively and we need to do that at scale to grow our digital relationships with our

customers and hone our coffee craft consistently. So let me focus on our innovation agenda and this innovation agenda will show some of the most recent moves in coffee that we've made and the impact that it's having on accelerating our growth.

The delight in coffee is that it can be made in so many different ways. It can tempt the palate, it can match your mood, and it can also make a ritual. This year we innovated an espresso and for the first time a customer can choose the heart of their beverage with Starbucks Blonde Espresso. This will mean a lot to the brand loyalty, and also a lot to our ability to serve our most loyal connoisseur customers.

So we're investing in how we deliver the perfect espresso beverages with the next generation of the Mastrena espresso machine, which gives us the ability to customize multiple types of espresso and has superior steaming capability and enhanced feed and the consistency we need for our customers. But also during this time I've been talking a lot to customers and these past few months, they've told us exactly what they want from us. And we're learning about the afternoon and these learnings are fueling the innovation in cold brew and beyond.

Afternoon occasions aren't just about breaks. They're also about transitions. They're about consumers taking the me time. And cold isn't just for summertime anymore. Five years ago, cold was about 37% of our beverage mix and now it's over 50%, with 2017 total cold beverage sales in the U.S. company-owned operating stores reaching nearly \$5 billion. So we're building multi-billion dollar platforms within cold, including cold coffee and Teavana, with the introduction of Teavana Infusions last summer. And this summer, we'll expand Starbucks Refreshers, a platform that has been 40% growth year-over-year with new unique flavors and colors to reach even more customers and provide better launch attach opportunities.

Tea and refreshment combined have contributed 1% weighted comp for each of the last four years. That's considerable growth. In March 2015, we debut Cold Brew and it drove comps, and prominently and immediately up leveled cold coffee in our stores. We can now say that we are the market leader in Cold Brew and have more innovation than any, any other coffee retailer.

Two years ago, we debut Nitro Cold Brew and it's smooth, velvety – partners know and they love it – velvety texture and subtle sweetness built in an incredibly loyal following with our customers. Our baristas, they create their own concoctions in the stores, custom beverages, and are now beginning to share them with their customers through menu boards. It's exciting stuff. But now we serve Nitro in 2,300 stores in 27 countries. And now here's the big news, we will expand that to nearly 4,000 stores by the end of this year. It's exciting stuff.

We aren't just rolling out more stores, but we have the next generation of Nitro and that will deliver breakthrough innovation for us, including multiple tabs for Nitro coffee, tea, and milk. And many of these platforms include Cold Brew, Nitro, Teavana, and we've launched these shortly after in critical geographies across the world like Japan and China, and we're contributing significantly to those comps.

So one of the most exciting opportunities is a chance for us to combine food with coffee. This is not new for us, but what it has changed for us is it gives our customers exactly what they're looking for. We've already grown the food business by 1.5 times since 2013 and looking forward, we plan to double our food business by the year 2021.

Let's start with the morning, where we've established a strong foothold, and we've answered our morning coffee customers need for delicious, for hearty, for those menu items to help them start their day. Breakfast Sandwich sales have more than doubled over the past four years and now account for more than 30% of total food sales. Yet, at breakfast we've been searching for something more.

The Sous Vide Egg Bites address the very need for the customers who are looking for grab-and-go, looking for wheat-free wholesome and an excellent source of protein. It's one of my favorite breakfast items. And we've seen more than 60% growth in this platform since the national launch in January of 2017 and with the recent launch in Canada, and early results are on pace to outperform even the U.S.

Yet, with all of that work, the biggest opportunity for food innovation is for lunch. How are we going to do this? We're going to do this through leveraging our store footprint and our traffic, where you have significant opportunity to drive, attach at the lunch day part. And we will offer customers more of what they are expecting and elevating our current Bistro Box line, which has grown at a rate of 20% in each of the past two years.

We will also continue to rollout Mercato regionally, with more than 1,000 stores by the end of the year. And approximately 50% of the traffic occurring after 11:00 a.m., you can see how driving attach at launch through new and existing products is really a big business opportunity for us. But that's just the start for us. Within the past 18 months, the growth of overall peak and Mobile Order & Pay, as we all call it MOP, has transformed how we run our stores. And I give all the credit to our partners. Thank you for all the work you do in our stores each and every day. This influx of customers and innovation has truly raised the bar for our in-store experience.

So in the last 60 days, we took one more step towards ensuring we meet our customers' need for speed and for convenience and by assigning specific roles by specific store, and then we continue to grow MOP, drive-thru, and the cafe business, all at the same time. We want to serve the customer in the many ways that they want to interact with us. It's the customers' choice.

So now, from how customers want to react with us to in-store and how we engage them on a personal digital level, we now have more than 15 million, that's 15 million active Starbucks Rewards members. This number has grown 11% year-on-year. We know how powerful digital engagement is as a driver of customer satisfaction and increased spend with Starbucks, and we plan to see double-digit growth in our Rewards members this year.

So here's a new opportunity. There remains 75 million unique customers coming through our doors every month. We have plenty of opportunity to form active relationships with millions of more customers by providing access to MOP for all customers, improved marketing to millions of lapsed Starbucks Rewards customers, and Wi-Fi/e-mail sign up, all of this work is underway. Then once we have these, we turn on digital marketing and one-on-one personalization, and that's been really successful in our Starbucks Rewards to a very large group and that extension is important to us. This allows us to bring product innovation across coffee, refreshment, and food to customers with focused marketing and all of the work that we need to do to stay ever present in front of our customers. We take true pride in continuing the drive for innovation across the company as a whole.

But what's so wonderful about this company is that it just doesn't stop with products. The innovation lens extends to our people, how we attract our people, how we support our partners, and, most importantly, how we retain them. We built our company on innovating in our people. For 35 years, this has been the mainstay of our company and we've continued that tradition.

So at this time, I'd like to ask my partner, Chief Partner Officer, to the stage, Lucy Helm.

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## Lucy Lee Helm

*Chief Partner Officer & Executive Vice President, Starbucks Corp.*

Good morning. And thanks, Roz. I'm so proud to stand with you today as Starbucks Chief Partner Officer. What a job I have. I have the incredible opportunity to ensure that our global partners have an exceptional experience,

and I'm so committed to that. And it's important not just because who we are as a company, but because of the important role that human connection, our partner connection has in driving our business. Today I am so pleased to share that we as a company have achieved a major milestone, 100% pay equity for women and men and people of all races performing similar role in the United States. Thank you.

Thank you, partners, and thank you, shareholders. It's such an important moment. It's an emotional moment for me. As an almost 19-year partner and a senior women leader, I know that it reflects our longstanding commitment to fairness and pay. The gender pay gap is real and Starbucks is committed to not only talking about it, but addressing it. For years we've developed the best practices to get this right, beginning with a focus on fairness and starting pay for our partners and continuing with comprehensive audits to address and close any unexplained pay gaps between men and women and between people of the different races, and we are not stopping now. We have committed to achieving as a company and maintaining 100% gender pay equity for all of our Starbucks partners in company-owned markets around the world.

In our quest to take this on, we are proud to partner with three national women's organizations that are standing with us and join us in recognizing the importance of this issue. First, the National Partnership for Women & Families, which promotes fairness in the workplace, equality in [ph] healthcare (00:55:48), and policies that help women and men meet the dual demands of work and family. The American Association of University Women is standing with us advancing equity for women and girls through advocacy, philanthropy, research and development. And the Billie Jean King Leadership Initiative, which addresses the critical issues required to achieve inclusive leadership that will lead to significant changes on how men and women operate in the world today.

With our commitment to these principles and best practices we so established, including equal footing for partners from the start of their career and throughout their careers, transparency in how we talk about pay, and accountability in addressing and resolving pay gaps, we will, along with these awesome partners that are standing with us in a coalition set a new bar for multinational companies who recognize the importance of equal pay for equal work.

But leading and innovating in partner pay is part of our heritage as a company. From the beginning, Howard set out to create a different kind of company, one that puts employees or partners first. In 1988, we were the first retail company to offer full benefits to part time employees and their dependents, including domestic partners when that just wasn't done.

In 1991, we became the first privately-owned U.S. company to offer a stock option program that includes part-time employees, and those employees then are called our partners, because we're owners of this company and that program exists still today. And in 2014, we introduced our Starbucks College Achievement Plan, giving eligible partners the chance to earn the college degree of their choice tuition-free at Arizona State University.

And again, we keep trying to innovate and understand our partners' experience. Early this year, we announced new and significant investments in our U.S. partner experience, which we accelerated due to changes in tax laws. Partners in the U.S., including all those who served you coffee today, will receive a pay increase next month. They will also receive an additional stock grant, an industry-leading partner and family sick pay benefit, and expanded parental leave to ensure that all store partners receive six full weeks of paid time-off to welcome their new child by birth or adoption.

It's great to get the applause for this. This isn't me. This is all of you and what you've wanted and our senior leadership standing for what's right for our partners. And with these investments, I stand before you today extremely confident that we are the best in the industry when it comes to taking care of our retail partners.

I love this company and I'm so committed to it every day. Our mission and values are the heart of who we are and our leadership, and our commitment to our partners' experience, including equal pay for equal work, is stronger than it's ever been. And we will continue to invest in our partners as they invest in our customers.

Thank you so much. Thank you, Roz.

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## Rosalind Brewer

*Group President, Chief Operating Officer & Director, Starbucks Corp.*

Thank you, Lucy. So this really, really confirms why I came to Starbucks. We're creating the future of Starbucks. We're driving value as we live our values. And exactly one year ago, Starbucks committed to hire 100,000 Opportunity Youth, the one-in-eight Americans, ages 16 through 24 who aren't in school and who are not employed. We're on a track to meet the goal by 2020 with over 50,000 hired to-date and we want to do more.

As Lucy talked about, we aim to retain our young partners with access to competitive wage, access to health insurance, access to equity in the form of stock, tuition-free college education through ASU, and the Starbucks College Achievement Plan and mentorship opportunities. And this is working. And our data is showing this that our young partners in order to be incredible additions to our company, they're staying with our company, they're being promoted, they're enrolling in our Starbucks achievement program at equal rates with all of our partners.

So once in the Starbucks College Achievement Plan, we find that young partners pursuing the degree retain at 1.5 times and they're promoted 2.5 times the rate of the U.S. barista population. Those numbers make a difference. And we want to do more. Our work extends beyond Starbucks to ensure every young adult has a chance to join the workforce to pursue their ambitions and to improve our shared futures.

Now, now we're joining forces with LinkedIn, with MENTOR: The National Mentoring Partnership, and non-profits like Big Brothers Big Sisters, the Schultz Family Foundation, YMCA of the USA, City Year and Year Up. And with these organizations, we will establish nationwide a mentorship call to action, with benefits for career planning and career seekers. Our goal is to leverage all Starbucks company operated stores across our communities and LinkedIn's member base of over 146 million professionals in the U.S., so all interested youth can connect with trusted leaders to expand their skills and, most importantly, to network.

Believing in the power of human potential regardless of background and creating pathways to opportunity in our environment, where partners can team and learn and thrive is central to who we are, is central to Starbucks. So I want to show you a video and this video will show you how these hiring initiatives are adding to the value of our company and the communities that we serve every day. Thank you.

[Video Presentation] (01:03:11-01:05:47)

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## Kevin Johnson

*President, Chief Executive Officer & Director, Starbucks Corp.*

Well, Roz and Lucy shared a little bit with you about what makes the Starbucks brand so great. The fact that we focus on taking care of our people and at the same time a social impact agenda. Our social impact agenda revolves around three key pillars, sustainability, sustainability of coffee, of our store design and of our cups. It's

about opportunity, veterans, Opportunity Youth, refugees, creating opportunity for our partners and for the communities we serve and it's about community.

And the Starbucks brand has earned recognition consistently for this. For the 16th year in a row, we were named one of the world's most admired brands by Fortune Magazine. And for the 12th consecutive year, Starbucks was named one of the world's most ethical companies by Ethisphere Institute.

And just recently this last year, we were chosen as the 2018 most innovative company for social good by Fast Company. Now, this brand is built with those 100 million customers visiting our stores every day and the reputation. It's our partners and our customers that create this. And so let's take a closer look at a tour of this last year, that the role our customers have played engaging with our partners in creating and building this great and enduring brand. Let's roll the video.

[Video Presentation] (01:07:36-01:08:48)

Now that video demonstrates how our brand comes to life in 28,000 stores every day around the world. Now, each one of our stores represents a community. And I want to talk about something that is happening right here in our own local community, Seattle. Two years ago, in our community we discovered right here in Seattle, one of the more wealthier cities in the world, we had a crisis. A crisis of more than 600 families, families with young children, sleeping outdoors, sleeping in cars, sleeping in tents, to have children in our own community, to no fault of their own sleeping outdoors was unacceptable.

So we stepped up to lead an effort to end this crisis and ensure that no child sleeps outside. Now for the last two winters, we've mobilized partners, customers in our stores, and in support of Mary's Place, the No Child Sleeps Outside campaign together with local business community, we've raised more than \$6 million to ensure that we are addressing this problem.

Now homelessness is a complex issue, but we believe this part of child homelessness is solvable. And it's a continued work effort that we have under way. We've made so much progress in the last two years, and this year, we will also be joining with our generous friends at Pearl Jam to be a part of a historic two-concert event in August, the Home Shows.

Now, the Home Shows will bring together businesses, foundations, individuals and fans to unite our region around the critical need in our Seattle community. Together and with your help, these collective efforts can ensure that we are doing all that we can in support of our local community. Now, this is happening in every geography around the world. Our partners engaging in relevant things to leverage our scale for good. Let's take a look at another example, of taking care of our partners and doing good in this world in China. Let's roll the video.

[Video Presentation] (01:11:35-01:14:51)

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## Unverified Participant

Shareholders, please welcome Chief Executive Officer, Starbucks China, Belinda Wong.

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**Belinda Wong**

*Chief Executive Officer, Starbucks China*

Wow. Thank you. Good morning. The story of [ph] Mike (01:15:08) is one of the many personal stories in China, and it's our core purpose of being and the reason why we're passionate about what we do each day. Since our earliest days, we've been bringing to life Starbucks deeply rooted mission and values by investing in our partners. Along the way, we have successfully created a unique culture of family. I wish you could have seen the response of our partners and their families when we announced at our Partner Family Forum last year, the first of its kind critical illness insurance for parents of our partners.

This is in addition to the coverage we are already providing to their spouses and children. There were tears of joy and almost disbelief. To date, 93% of eligible full-time partners and 14,000 parents are now in this plan. But we have higher ambitions. We want to inspire more companies to do the same for their people to create greater social impact. We've made intentional efforts to share our key learnings and best practices from the parent insurance program to nearly 100 corporations. And I'm so happy to share with you that some of the companies that we met with will soon launch similar programs for their people and we will not stop here.

This strong family culture has built a phenomenal sense of pride, enthusiasm and commitment among our 45,000 partners. This is the reason why China is the fastest growing and the most strategic international market today for Starbucks. We have more than 3,200 stores across 139 cities and serving more than 6.4 million customers every week. We're opening a new store every 15 hours, and despite this accelerated growth, we have been able to achieve 33 consecutive quarters of incredible positive comps.

We are totally on track to reach our ambition of 5,000 stores in 200 cities by 2021, and we will do so by driving market leading and locally relevant innovations for our customers, and we're just getting started. To understand our enormous opportunities in China, let's take a look at the tremendous growth my country is experiencing. China is expected to overtake the U.S. to become the world's largest economy in terms of GDP by 2030. Yet in consumer spending, China has already surpassed the U.S. in 2016. And that the core of this economic change and social transformation is China's middle class, the largest middle class in the world.

By 2022, 600 million people will reach middle class status. That's nearly two times the entire population of the U.S. Today, China's per capita coffee consumption, it's only 0.4 cups per year compared to more than 300 cups consumed here in the U.S. Lots of opportunities. The rising middle class will for sure drive the coffee consumption growth in the market and further propel the demand for Starbucks. China's new middle class will reshape the global economy.

We're excited to bring a welcoming third place environment to our new customers that is both inspiring and tailored to the evolving aspirations of the rising middle class lifestyles. Our passionate partners are engaging with them to create the perfect Starbucks experience. As our customers go through the Starbucks coffee journey, we want to build a deep and enduring friendship with them. One example is that we've been laying the foundation of the China digital flywheel that expands Starbucks' third place.

With social gifting, we're moving closer to our aspiration to become one of the most gifted brands which has enabled gestures of love sent millions of times digitally. And My Starbucks Rewards program has been embraced by our customers for its benefits and personalization. We have a total of 6.2 million active MSR members, almost half of the U.S. active members with only one-fifth of the store count.

Just two months ago, we unlocked another significant growth opportunity by acquiring our East China region, making China now a full company operated market. Yay. This region comprises of two provinces Jiangsu and Zhejiang, as well as the City of Shanghai. It represents 11% of China's total population and generates 22% of the entire country's GDP. Now to put this into perspective, the 150 million people living in East China is equivalent to

almost half the U.S. population. Its GDP at \$2.5 trillion is as large as the entire State of California or the entire country of India. Shanghai as well as Hangzhou, Nanjing, Suzhou are ranked within the top 10 most affluent Chinese cities.

In Shanghai alone, we have more than 600 stores, making it the largest number of stores in any city in the world. However, there are still a significant opportunities. The City of Shanghai alone has a population of 23 million people. This is a population that is equal to the top ten largest cities in the U.S. combined. I am so excited by the incredible opportunities in East China, the synergies and the efficiencies as we integrate into a company-operated structure will allow us to scale and accelerate for their future.

What makes me even more excited is how we can then use our scale for growth to impact the communities we serve. One example of this that has made us all very, very proud is our Yunnan coffee program. We want to bring the best of China's coffee to the world stage because it is what we must do as a coffee company deeply rooted in China. For the past five years, our Farmer Support Center in Yunnan has directly worked with 17,000 farmers in sustainable farming practices. Today, almost 1,700 farms are now verified through our cafe practices.

Our farmers can receive premium prices with higher quality coffee. Behind me is a photo from the most recent farmer assembly. This is a highly anticipated event, which we do every year. We hosted 4,000 farmers and their families. Some travelled many hours from their homes. We celebrated their hard work and dedication to improve the quality of Yunnan coffee. This is a firm testimony that Starbucks has become the fabric of the local community.

We will continue to work hand in hand with the farmers to change their lives, to help change their lives and bring Chinese homegrown coffee to the world. You have my personal commitment that we will continue to give back to the local communities in even more meaningful ways. My partners and I were so proud to announce the additional social impact investment in China back in December, a \$20 million commitment over the next five years to support disadvantaged women, alleviate poverty and elevate our efforts in Yunnan.

Our early success in China is really because of our people. Partners like [ph] Mike (01:25:40) who you just saw on the video, our goal is to share our success with them. It is never just about the number of stores we open or how rapidly we can scale our business. We want to take care of each other because Starbucks in China is truly one extended family. We invest it in partner benefits that are not only unique, but also bring our mission and values to life. We have Bean Stock, Korea Coffee Break and comprehensive health insurance for all of our partners and their families.

We rolled out housing allowance subsidies to help young retail partners overcome their initial financial challenges of living outside their hometowns. We launched the Talent Exchange Program to bring them across China and to Singapore to broaden their life experiences. Family values are very important in my culture and that is also embedded in Starbucks China. We're here to take care of each other and help each other succeed. And we take this very seriously and very, very personally.

I cannot end without sharing our recent proudest moment, the grand opening of our Shanghai Roastery built on the love, passion, belief our partners have and hold for Starbucks. The Shanghai Roastery is a metaphor of the unimaginable ways we're innovating to create the world's most desired coffee wonderland. For three years, we poured our heart and soul into making the impossible possible because we believe, we truly believe the Shanghai Roastery is the game changer for us. This is an incredible moment in time for Starbucks China. And I stand here before you on behalf of my 45,000 partners with love, pride and optimism for our future. Thank you.

[Break] (01:28:10-01:29:27)

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## Howard Schultz

*Executive Chairman, Starbucks Corp.*

Thank you. Thank you very much. Did you not think I would be here? I must say just sitting back there for the last hour and a half, it's a very different feeling than being on stage from the beginning. Kevin did such a wonderful job in kind of framing everything. But seeing the growth and development of the company and the new leaders, I just sat back with such incredible pride, and I know watching your reaction, you felt the same way.

Let me begin by – I know Kevin acknowledged the board, but two extraordinary people who have served the board so well, Secretary Gates and Senator Bradley are retiring from the board. And I'd like them both to stand and be recognized by the entire audience and just thank you on behalf of all of us at Starbucks. Please, gentlemen.

And I just from a personal standpoint, having Senator Bradley and Secretary Gates at our side and at my side all these years, it's hard to kind of put into words the guidance, the support, the wisdom that we've all gained, and I've gained personally and I just in a very humble, humble way thank you both so very much for what you've done for me. Thank you.

The video that was just played showed the opening of the Shanghai Roastery in December. And like any grand opening, especially when you spend as much money as we did, you're going to get a lot of people to come for a lot of free stuff. So what I wanted to do is I wanted – I asked Belinda and her team to go back to China last week and just for the benefit of our shareholders, let's look back three months and see what's now happening when we're actually charging for things. So just take a look at what happened last Saturday at the Roastery.

These are not extras, by the way. These are Chinese customers at 10:00 in the morning, are coming into the Roastery, and as you can see, it's threaded deeply into the Roastery and to Seattle. And what we've tried to do is really do everything we can to elevate the theater, the romance, the premium experience and for all of us who have been to China all these years, for nine consecutive years, we lost money in China, and there were so many people who doubted whether or not in a tea-drinking society we could breakthrough.

And as Belinda showed you, not only have we broken through but China's going to be the largest market in the world for Starbucks. We're just getting started. And I would say unequivocally, there's no other Western consumer brand that even comes close to what we have achieved not only in terms of our commercial presence, the values of the company, the relationship of trust and confidence with the government and our standing in the country. And this was the crowning achievement of the entire company over the last almost 50 years.

I now have to turn to a very tough moment for all of us at Starbucks. A few weeks back, we lost one of our own and that was Orin Smith. And for many of you who have seen Orin on the Starbucks stage over the years, I just want to spend a few minutes and talk about Orin, his unbelievable contribution and the value that he's added to the company while he was here and, perhaps most importantly, the legacy that lives on.

In 1990, Orin joined the company as the Chief Financial Officer of Starbucks. We had less than 60 stores. And he joined around the same time as Howard Behar, and for the most part, the three of us made most of the important strategic decisions of the company. But it was Orin who always had the measured approach, the guidance, the maturity to put us in a position to not only dream big, but along with Howard to make sure that we execute well.

He was a mentor to all of us. He was a teacher. He was a big brother. And over the last eight months, as Orin was suffering with just a tragic disease, many of us had the opportunity to spend time with him. And Orin's passing for everyone at Starbucks is a huge, huge blow and a reminder to all of us about the fragility of life. There's nothing I can say and there's no words I can describe other than to say how much I love and respected Orin.

And I promised him when we were last together that we would do everything we could as a company and I would personally ensure the fact that his legacy will live on at Starbucks Coffee Company. I can also tell you unequivocally that there would be no Starbucks Coffee Company today in the form that you have seen it without Orin Smith. Thank you.

And I was sitting back there and watching this all unfold and reminiscent of three years ago when I stood before you and kind of challenged all of us to understand that, in my view, the rules of engagement for a public company have changed dramatically – and this was three years ago – about the role and responsibility of doing everything we could, not only to make a profit and create shareholder value, but to serve our people as well as we can and to give back to our community.

I think in the three years that have passed, I think what you saw today was really a direct manifestation of us doing everything we can to demonstrate that fragile balance between profit and social conscience and social impact and at the same time creating shareholder value. So I think now the question for me is love and responsibility – what does it mean to love something and the responsibility that goes with it.

In 1988, when we began thinking about Bean Stock and health insurance, to us it was an easy decision. We were trying to build a different kind of company. And in 2008, when we were, like many companies, a company in the firestorm of the financial crisis and the cataclysmic issues that were going on, there was tremendous pressure on us to do everything we could to reduce cost.

And I've told the story before where a institutional shareholder picked up the phone and called me and basically pressured me to do everything we could to cut that healthcare benefit, and at the time, that was about a \$230 million expense and we needed that money. But the question in front of us was what's the cost of cutting that benefit with regard to fracturing the trust and confidence, with regard to the culture, the values, and guiding principles of the company.

And along the way, we have faced a number of challenges trying to do everything that you've just witnessed and balance the financial pressures with growth and innovation in new markets. There's a constant challenge of making these kinds of decisions. A week and a half ago, I had really the privilege of presenting myself at the American Enterprise Institute in Georgia. And for those of you who don't know that organization, it's basically a conservative think tank made up mostly of Republicans.

And I went there and presented to 400 Republicans, mostly Republicans and members of Congress, half the cabinet, very famous, iconic senators right in front of me in the audience. And I talked about the role and responsibility of the company, the dignity of work, and many of the things that you have known us to be, and when I left the stage which – and I went fairly well actually. No, no, I don't say that with – well, no. When I left the stage, someone came up to me and respectfully asked me, what was the reason why that we elected not unlike most companies, we received a tax benefit given the tax cut and the corporate rate to 21%.

But I shared with that audience, the fact that we had decided, even though we were benefiting from hundreds of millions of dollars of incremental benefit as a result of the change in the tax rate, we had decided that we had a

moral obligation and a cultural obligation not unlike what we did with Health Care and Bean Stock and College Achievement and all the things that we've tried to do over the years to share that benefit with our people.

And we had a spirited discussion about, what is the wrong responsibility of the public company in terms of making money. And I think we've proven over the years and we're not perfect and we make mistakes. But the conscience of Starbucks, the conscience, for almost 50 years, and it's proven out more often than not in our financial performance. That success is best when it's shared and that is what I tried to describe.

So, could we have taken that money and given it all away to our shareholders and maybe the stock would have gone up a point or two. So let me address the stock price just for a moment, I think it's important, is the stock has been fairly flat for the last 12 months or so. And for those shareholders who look at the stock every day and are short-term minded, and maybe disappointed that the stock has not gone up at levels perhaps that you hoped, remember something we've been a public company now since 1992. The market cap in 1992 was \$250 million. The market cap today is over \$80 billion.

We are in this for the long-term, we are building a great enduring company, we're trying to make long-term decisions, we're trying to value the dignity of work and we're trying to do everything we possibly can to demonstrate to the world, not that we're better than anyone else or that we're preaching to any other company, but that there's a better way.

And a better way is not a zero sum game, where you leave your people behind. The better way is not, doing everything you can for the almost 6 million opportunity youth in the country, who are not in work, and not in school. The better way is to do everything we can to help veterans who are transitioning out of the service and hiring them because they're not damaged goods, but they got real value to add to any organization in the country. And the better way is to recognize with regard to immigration and specifically refugees that this is a country of opportunity and that's what Starbucks Coffee Company stands for.

So, let me shift just quickly into the business a bit and what's going on in terms of the seismic change that we're all witnessing in terms of consumer behavior in Retail.

No, I wasn't clairvoyant three years or four years ago, but I did notice something and you didn't have to be a genius to figure it out that the e-commerce effect of things was going to have a dramatic effect on people physically shopping for goods and services. And that has resulted in a tremendous level of compression in terms of the amount of retailers that are serving customers today because less customers are coming into their stores and that has resulted in unfortunately many, many stores national, regional, and local going out of business.

Now this is a photo as you can see of a mall that is very, very busy with people shopping for goods and services. Unfortunately, that was then, this is now. And it's a dramatic change. And what it means and you saw this today and what we've tried to present to you is that we've got a push for reinvention and innovation and we have to do everything we can to become a primary destination.

Now, as a result of what we're witnessing, we're also seeing something else and that is, there is a proliferation around the country right now of empty storefronts. We took a walk in New York two weeks ago from 59th street to 79th on Madison Avenue, and we lost count of how many empty storefronts there were in Manhattan. It reminded me of the cataclysmic financial crisis in 2008. But what's happening is very simple, the rent structures for the last 5 to 10 years, have been rising at historic rates and retailers do not have the amount of customers they had during these last 5 to 10 years and could no longer economically survive.

So they're closing stores and as a result of this, I can promise you just like I predicted in 2014 that rents are coming down and landlords are going to have to get religion, or else their stores are going to stay empty. And we're already beginning to see a different level of reception in terms of what we believe the cost of occupancy should be. And this is going to bode extremely well, specifically for us. We're adding almost 700 new Starbucks stores a year. And so we are going to take full advantage of the economic reality of this situation. And as we go forward two, three, four, five years out even though labor is going up in terms of cost of labor, we believe rents are going down and the economic model of Starbucks is going to be enhanced as a result of this macro situation. And we're just at the beginning of this trend.

Now, in addition to this, the burden of proof is on Starbucks and always has been to create innovation in our stores, to create an experiential environment. And that is why over the last couple of years, we've been thinking about premiumization and segmentation. And that started with the Seattle Roastery, which is at the top of that pyramid. We believe that we can build 10, 20 maybe even 30 global iconic groceries around the world over time. And then as a result of establishing the Starbucks Reserve brand in the Roastery, we want to build reserve stores and take advantage of the unique opportunity we have with a brilliant really artisanal baker and that's Rocco Princi, who I believe is here. And Rocco, if you are here? Rocco.

So, I'll not use this word lightly, but this man is a culinary genius. And somehow the Italian language, no matter what he's saying to me, it just sounds so good. It's amazing actually. So, Rocco has brought to us the ability for us to deliver the highest quality Italian baked goods and develop three different day parts. And for those of you who have been in the Seattle Roastery, you've seen that we've integrated Princi into the Capitol Hill Roastery and as a result of that that store is really demonstrated such incremental traffic and sales as a result of Princi. But we also believe in addition to the reserved stores, we believe we can build standalone Princi bakeries as well.

And so that pyramid exists. So just over the last couple of weeks, after opening the Seattle Roastery, we began planning for the opening of the first Seattle Reserve Store, and if you think about what that store is and what it can be in the future, basically, it's taking every element of the reserve Roastery in Capitol Hill.

Breaking it down in either half or even a third, taking the Roastery out, putting Princi in, in a full way all of the theater and romance of everything we're doing around coffee in terms of coffee brewing and the beautiful, beautiful visual design and then elevating mixology in ways that we can have an afternoon and evening day part.

And I think we're going to play a short video which will actually show the Reserve store that opened at the lobby entrance of our office in SODO, just a week and half ago. How many of you've seen it. Okay.

So, the design is very emblematic of the roastery and of all the things we're doing we're really bringing Princi to life in terms of the quality, the integrity, and the artisanal value of what Rocco has done and why we're so pleased is that SODO really is not a destination and so we're getting obviously lots of people coming who are Starbucks partners from our own office, but about 40% of the customers that are coming literally are people who are driving because this store has become a destination. So, our plans now are to build Princi standalone stores, reserve stores and then of course the excitement we have about new roasteries.

So, in terms of new roasteries, we have a lot of exciting things coming. So New York will open up at the end of 2018, and this is in the meatpacking district and that store on the left is Apple, on the right which you can't see is a Chelsea Market and across the way is Google's headquarters. Our fear about this store is it's going to be too small. But you can imagine the excitement that we all have especially me coming from New York about finally getting a Roastery in Manhattan. This will open at the end of the year.

Then we go to Tokyo in 2019 in Nakameguro and for those of you who don't know Japan that well this store kind of sits in the perfect place of where the cherry blossoms are and this store will open in the spring, exactly when the cherry blossoms are blooming, you know we get a few things right.

And then, we go to Chicago and in Chicago, we were very, very fortunate to be able to secure one of the most iconic pieces of real estate, in North Michigan Avenue and this is the old Crate and Barrel site. And the interesting thing about this store, this is a design nightmare, because this is going to be a vertical roastery. So, four stories and I can tell you that people are going to be coming to this roastery, just to see and ride the escalator. It is the sexiest thing you've ever seen and very expensive.

Okay, so those are the three roasteries, but there is one roastery and one market that has been on our minds now for many, many years and that is what we share with you a year-ago, and that is the opening of Starbucks in Milan.

So, I can't find the words or express to you, how excited I am about opening in Italy. You all know the story. We went to Italy for the first time in the early 1980s, we discovered the Italian coffee bar, the sense of community, the romance of espresso, but we've waited a long time. We waited because we didn't feel we had the right level of respect and we just had to get things right in many countries before we came here. And then once we decided to come to Italy, we said we can't just open up a store. We have to come with the roastery and we got to find the right side. And we found literally the old post office at Cordusio Square in walking distance of the Duomo and this store will open in September of 2018 and I'm telling you it is going to be – I have no words.

Everything about Shanghai and everything about Capitol Hill and everything we've done in advance of this has led us to this place. And I think we have our Italian partner here and that is Matteo Percassi. Matteo, are you here? Can you stand? Thank you. I also see Angelo Moratti there. Angelo, will you stand? Thank you.

So, there's lots of concern and trepidation as whether or not the Italians are going to embrace Starbucks. And there's also a lot of people in Italy are thinking they really have lost their mind. They're going to open up us – a 2,000 square foot coffee store in a 30,000 square foot building because they don't know what this roastery is all about. So a week ago, we had in essence a hiring fair in Milan and in order to do that, we decided that we would kind of build a pop-up roastery, invite the media in and hire close to 150 people to 200 people because we have to train them in advance of the opening. And we didn't know what would happen, and we filmed it.

And when you see this, you are going to realize I think the anticipation that the Maloney's and Italians are going to have when we open the doors in September and I can tell you the design elements of this roastery are going to take advantage of everything we've learned and put a kind of an Italian flair inside. But take a look at what happened when we had this mini-training opportunity in hiring fair this week.

[Video Presentation] (01:56:52-01:58:59)

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## Howard Schultz

*Executive Chairman, Starbucks Corp.*

This is my 36th year with Starbucks Coffee Company, my 26th opportunity to be at the Annual Meeting. And I just want to just take one moment and recognize my wife Sheri for all of her support throughout all of these years. Thank you. Thank you. So almost in every Annual Meeting we've ever had dating back to the first one where we held that at the Kent Roasting Plant and we had [ph] Kenny G (01:59:49), who was – why do you people laugh at that? He was – anyway.

So we've had a history of bringing world-class talent to the Annual Meeting and to share with all of you. And you know this year, we had so many opportunities, we could've done so many different things and we thought we'll do something quite different and quite unique, but in keeping with the excitement and the anticipation we have about Italy.

So, what I want to share with you is an aria and to do that, I think most famous world renowned singers in Italy are from La Scala, and we have brought them to Seattle.

[audio gap] (02:00:50-02:17:43)

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## Kevin Johnson

*President, Chief Executive Officer & Director, Starbucks Corp.*

Fantastic, well. At the opening of today, we said we would share a bit about those things that we would honor and preserve as we built this great and enduring brand and those things that we would reinvent and reimagine as we go forward. Hopefully, we've shared a little bit of both of those with you here today, and with a wonderful closing performance, what can we say, what do you think, it's fantastic.

I've often said that having Starbucks in my life has been a gift. And I consider it a great privilege to serve this company, to serve our partners, serve the customers and you our shareholders. And I just want to close by taking this opportunity to thank Howard. My journey started nine years ago. My Starbucks journey started nine years ago, and he's been by my side since the very first day as a friend, as a mentor and as somebody that I have great respect for and I value his relationship.

So, Howard, thank you so much for everything you've done.

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## Howard Schultz

*Executive Chairman, Starbucks Corp.*

Thank you, Kevin. Thank you, and I can promise you the company is in great, great hands with Kevin, the leaders that you saw and [ph] spend us (02:19:10) for many years, these are still the early days with the growth and development of the company and you haven't seen anything yet.

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## Kevin Johnson

*President, Chief Executive Officer & Director, Starbucks Corp.*

Now, we're going to take a quick two-minute break. While we set the stage for the formal part of the meeting and we'll conduct that formal business and Howard and I will be back to take questions. So, be patient just two minutes. Thank you.

[Break] (02:19:38-02:23:56)

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## Unverified Participant

Please welcome, Vice President, Assistant General Counsel and Assistant Secretary, Sophie Hager Hume.

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## Sophie Hager Hume

*Vice President, Assistant General Counsel & Interim Secretary, Starbucks Corp.*

Good afternoon, Starbucks shareholders and partners, and maybe I should say buongiorno. My name is Sophie Hager Hume, and I'm a proud almost nine years Starbucks partner. I'm here today to present the formal part of our meeting.

First, before we consider the proposals detailed in the proxy statement, it is my honor to introduce the nominees to the Starbucks Board of Directors. If I could please ask the board members to stand?

Howard Schultz, our Executive Chairman; Kevin Johnson, our President and Chief Executive Officer; Rosalind Brewer, our Group President-Americas and Chief Operating Officer; Mary Dillon, Chief Executive Officer, Ulta Beauty, Inc.; Melody Hobson, President, Ariel Investments; Jørgen Vig Knudstorp, Executive Chairman, LEGO Brand Group; Satya Nadella, Chief Executive Officer, Microsoft Corporation; Joshua Cooper Ramo, Co-Chief Executive Officer and Vice Chairman, Kissinger Associates; Clara Shih, Chief Executive Officer, Hearsay Systems, Inc.; Javier Teruel, Retired Vice Chairman, Colgate Palmolive Company; Myron Ullman III, Retired Executive Chairman and CEO, J.C. Penney Company; and last, Craig E. Weatherup, Retired Chief Executive Officer, Pepsi-Cola. Please join me in applauding.

Broadridge Financial Solutions has been appointed the Inspector of Elections to tabulate the votes, and Mr. [ph] Andrew Wilcox (02:26:12), representing Broadridge, is present at the meeting today. We have received an affidavit, signed by Broadridge Financial Solutions, that notice of this meeting along with related proxy and annual report materials was mailed or made available on January 26, 2018 to each Starbucks shareholder of record as of the close of business on the record date, January 11, 2018. And based on that affidavit, this meeting is duly called with timely and proper notice.

In addition, based on information provided by Broadridge, a quorum of shareholders is present to conduct our meeting today. Please note that a list of shareholders as of the record date is available for inspection by shareholders at the Investor Relations table located in the grand lobby behind this auditorium. The polls for the matters to be voted on today are now open and will close immediately after I present the matters to be voted on at this meeting. If you are a shareholder of record as of January 11, 2018, and you have not previously voted or you wish to change your vote at this time, you should go to the Investor Relations table in the grand lobby.

So the first order of business is the election of the directors as nominated by the board that I just introduced. The board recommends a vote for each of the nominees. The second item of business is the approval of an advisory resolution on executive compensation. The board recommends a vote for this proposal. The third item of business is the ratification of the selection of Deloitte & Touche LLP as the company's independent registered public accounting firm for the current fiscal year ending September 30, 2018. Likewise, the board recommends a vote for this proposal. The fourth item of business is the shareholder proposal submitted by James McRitchie and Myra Young regarding proxy access amendments.

I would now like to recognize Shiloh Britt, a representative Mr. McRitchie and Ms. Young for a period of three minutes. Ms. Britt, would you please come to the microphone?

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## Shiloh Britt

*Corporate Accountability Intern, Stand.earth*

Thank you. Shareholder proposal regarding proxy access amendments. Shareholders ask the board to amend its proxy access for director nominations bylaw and associated documents to decrease the amount of stock the member of nominated groups is required to hold for three years to satisfy ownership regarding to form a nominated group as follows.

No limitation shall be placed on the number of stockholders that can aggregate shares to achieve the 3% required shares for an eligible shareholder. The reason for this proposal is that even in the 20 largest public pension funds, who are able to combine shares, they would not meet the 3% criteria a continuous three years. This proposal addresses proxy access potentially for only the largest shareholders, the least unlikely shareholders to use it.

Since no group of shareholders at any U.S. company has yet to make use of the proxy access, it is important to make sure the current limitations of 20 shareholders does not prevent shareholders from using proxy access. We urge you to vote in favor of proposal for.

And I would like to end with a quick story. My name is Shiloh and I was a barista for five years. I absolutely love the time that I was a barista, was some of the best times of my life where I learned more about the community and about myself than I would have in any other time. Tonight, I have been hearing quite a bit about community and just how much Starbucks honors the community. And I want to thank you for that because while I was a partner, I truly felt as a community member. I felt valued, and I felt that what I said mattered. So I do want to thank you for that.

During that time, I got to know my customers. And I got to know what they truly believed, what they wanted and what they thought of the company. And I can tell you that they believe in this company, they want it to do the right thing. They believe in the forests and the ocean and they want the company to address plastic pollution. When I was a barista for those five years, I served over 65,000 cups of coffee. That seems like a lot, but it is just pennies compared to what baristas all around the world do. And I'm here today to speak on their behalf.

We are very grateful that Starbucks has, as of yesterday, said it is going to up the ante and admit to or get us a recyclable cup. However, the thing is this has been said twice before. I want to know, Mr. Johnson, will you keep your promise? Will you deliver on this recyclable cup that we are still waiting for, because the world is watching and we're all waiting. So, please, what you do, the world will follow. Will you give us this recyclable cup?

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## Sophie Hager Hume

*Vice President, Assistant General Counsel & Interim Secretary, Starbucks Corp.*

Thank you, Ms. Britt, for your time. We'll hold any more questions for the end. Respectfully, for the reasons set forth in the company's proxy statement, the board recommends a vote against this proposal.

The fifth item of business is the shareholder proposal submitted by As You Sow on behalf of the Michelle Swenson & Stan Drobac Revocable Trust together with other co-filers, regarding a report on sustainable packaging. I would like to now recognize Adrian Grenier, a representative of As You Sow, also for a period of three minutes.

Mr. Grenier, would you please come to the microphone?

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## Adrian Grenier

*Goodwill Ambassador, UN Environment*

Hello, everyone. My name is Adrian Grenier. I'm a UN Environment Goodwill Ambassador, a friend and an investor. And I'm here on behalf of concerned investors, As You Sow, to present proposal number five, which requests the phaseout of plastic straws and the renewed commitment by the company to fulfill on its failed sustainability goals regarding plastic.

One person, one cup and one neighborhood at a time, this is Starbucks commitment to creating positive impact on the communities it serves. One new Starbucks store opening every 15 hours in neighborhoods across China. This is Starbucks' current growth trajectory in Asia. Yesterday, Starbucks announced a \$10 million investment in the Closed Loop fund to begin tackling the recyclability of its plastic lined cup. Impressive? Certainly. And I applaud this tiptoe in the right direction, but how can Starbucks live up to its promise of creating positive impact on the communities it serves when the company is knowingly expanding its footprint and its plastic waste in a part of the world that often has little to no formal recycling systems? And of course, the plastic that already bleeds into the environment.

While innovation on the paper cup is important, we must not get distracted from the bigger tragedy of plastic packaging, which accounts for over 40% of marine litter. Starbucks' moon shot must shoot beyond the paper cup. As investors, it is our fiduciary duty to understand our portfolio's impact on the climate and vice versa.

The global ocean is the world's seventh largest economy; a healthy ocean is fundamental to mitigating climate change and its impact. A healthy ocean is also fundamental to ensuring the future of our investments in the company. So, why did I, an actor, come all this way from New York to be here today?

One year ago, I visited Bali in support of my work with the UN Environment and its Clean Seas campaign. Even for me, someone intimately aware of the plastic pollution crisis, I was shocked when I walked down the beach picking up handfuls of plastic. Starbucks' iconic green straws were among the most prominent in my collection. I now know that plastic consumed in China, Indonesia and the Philippines accounts for 44% of all marine plastic pollution. So, yesterday's announcement also makes no mention of Starbucks' ubiquitous green straws, which are swept into waterways ending up in the bellies of sea life and eventually back on land in our tap water that our children drink and the fish on our plates.

I'm here not because I was asked to be, I'm here because I have seen this destruction firsthand. I'm here because I care, and Starbucks, I want you to care more. I am business friendly and I understand the challenges associated with innovation on a global scale, but solutions are already on the market and our competitors have begun to take action. McDonald's and Costa have made announcements that have stolen our moral high ground. I do not want Starbucks to fall behind the times. If we don't meet the growing ethical demands and expectations of an awoken consumer base, we will lose our competitive edge.

Now, Starbucks, you need to act and fully realize your commitment to our global community and to the planet who you name as your most important business partner, because it is a good business. Today, I'm simply asking that you act ocean-friendly and vote yes on Proposal 5. Starbucks taught the world how to drink coffee, and I firmly believe that Starbucks can teach the world how to make the environment its ultimate business partner. The siren is calling. I hope all of you will listen to her.

Thank you.

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## Sophie Hager Hume

*Vice President, Assistant General Counsel & Interim Secretary, Starbucks Corp.*

Thank you Mr. Grenier. Respectfully for the reasons set forth in the company's proxy statement, the board recommends a vote against this proposal. The last item of business is the shareholder proposal submitted by Trillium Asset Management LLC on behalf of the Paul LeFort Revocable Trust regarding a diversity report. I would now like to recognize Brianna Murphy, a representative of Trillium Asset Management for a period of three minutes.

Ms. Murphy, would you please come to the microphone?

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## Brianna Murphy

*Vice President-Shareholder Advocacy, Trillium Asset Management, LLC*

Thank you. Good morning, Mr. Chairman, members of the board and my fellow shareholders. My name is Brianna Murphy, I'm a shareholder advocate at Trillium Asset Management. I'm here on behalf of the Paul LeFort Revocable Trust, a long-term Starbucks shareholder to hereby move proposal number 7.

Our proposal asks Starbucks to disclose workforce diversity data, identifying employees according to race and gender in categories defined on the EEO-1 chart, what many consider to be the standard and comprehensive workplace diversity disclosure.

To begin, I think it's worth highlighting that we both agree on the importance of advancing gender and racial diversity within the company. The board statement in the proxy notes that building a diverse inclusive workforce is a real business imperative. We are encouraged by Starbucks commitment to pursue a diverse workforce. However, investors do not have enough information to evaluate the company's efforts and progress.

Currently, Starbucks provides a high-level diversity data for just two ranks within the firm, the 50 top leaders and Vice Presidents. By summarizing this data in such a vague manner, the company prevents investors from fully understanding and evaluating the company's commitment and progress over time. We're concerned this may prevent the company from capturing the business value of a diverse workforce. Research has shown that companies with greater ethnic diversity are 35% more likely to outperform those without ethnic diversity.

Starbucks currently reports that just 18% of the 50 top leader roles are held by ethnically diverse employees. We believe the proposals are classed as not only reasonable, but poses few if any costs to the company. Starbucks is required to provide this information annually to the Equal Employment Opportunity Commission. Therefore, the costs of disclosing should be minimal.

Lastly, disclosing workforce data could contribute to a culture of transparency and accountability. By promoting a gender balance workforce, Starbucks can further reduce the company's risk of sexual harassment incidences, a risk we need to address at all companies now more than ever.

In closing, we believe it is in the best interests of shareholders and of the company to demonstrate that it is its commitment to diversity in the most thorough way possible. I'd like to take this opportunity to not only urge shareholder support for this proposal, but strongly urge the board to consider making this information public.

Thank you for your time and consideration.

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## Sophie Hager Hume

*Vice President, Assistant General Counsel & Interim Secretary, Starbucks Corp.*

Thank you, Ms. Murphy. Respectfully, for the reasons set forth in the company's proxy statement, the board recommends a vote against this proposal.

So, that concludes the matters to be voted on as outlined in the Notice of Annual Meeting. In accordance with our bylaws, I hereby declare the polls for voting at our 2018 Annual Meeting closed.

Ladies and gentlemen, I received the preliminary tabulation from Broadridge and based on that tabulation, I'm pleased to report all of our director nominees were elected, each of the management proposals was approved, the shareholder proposal regarding proxy access amendments was not approved, the shareholder proposal regarding a report on sustainable packaging was not approved and the shareholder proposal regarding a diversity report was not approved. The final results will be reported on a Form 8-K filed with the SEC within four business days of this meeting.

And that concludes the formal business, and I now declare the formal meeting adjourned. Any shareholder who does not have an opportunity to ask a question today may submit their question by going to the Investor Relations table in the grand lobby.

And I now welcome back Howard, Kevin and Roz to the stage for Q&A.

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## QUESTION AND ANSWER SECTION

Kevin Johnson

*President, Chief Executive Officer & Director, Starbucks Corp.*

A

I think we have some mics in the aisles, if there are other questions.

Jan Drago

*Former Member, Seattle City Council*

Q

Good morning. My name is Jan Drago, and I'm here as a very proud Starbucks shareholder. I'm also here representing Mary's Place board. And I want to thank Howard and Kevin especially for their vision on social impacts and all the work that Starbucks has done. I'd also like to say a special thanks to John Kelly for his advocacy and leadership in the corporate and business community in Seattle and to Shannon Boldizar, who was the Chairperson of our very, very successful No Child Sleeps Outside campaign this year. And a special thanks to Sherry and Howard for their personal financial support of Mary's Place.

So, I just want to let you know what we've done in the past year and how well your \$6 million has contributed to the results. We've provided over 175,000 bed nights. And by the way, for people that don't know Mary's Place, Mary's Place is an organization that has emergency family shelters in Seattle and in the region. So, we've provided over 175,000 bed nights. We've served over 300,000 meals, which includes your program of FoodShare. And we've begun to regionalize our emergency family centers. We have three in Seattle, but in the past year, we've also opened in Shoreline, Canmore and White Center. And that means that our families, our guests and their children are closer to the communities that they come from and the children are closer to the schools that they continue to attend.

So, thank you for all the work you've done on social impacts.

Kevin Johnson

*President, Chief Executive Officer & Director, Starbucks Corp.*

A

Thank you. We're so pleased to be partnered with Mary's Place and the service you provide is wonderful. Thank you so much for your feedback.

Jan Drago

*Former Member, Seattle City Council*



Thank you.

Justin Danhof

*General Counsel & Free Enterprise Project Director, The National Center for Public Policy Research*



Hi. I'm Justin Danhof of the National Center for Public Policy Research. Howard, I think I know how you felt speaking at AEI. I kind of feel the same way when I come here every year just in reverse. In repeatedly bashing President Trump's Tax Cuts, however, Mr. Schultz, it appears that you might be placing your personal politics ahead of the company's best interests. You've gone so far as to call the Tax Cuts, fool's gold allowing hardworking class Americans including many Starbucks partners to keep more of their hard earned money. That's not fool's gold. Hundreds of corporations have offered bonuses, increased wages and increased investments in the United States importantly in response to President Trump's tax reform.

Despite, Mr. Schultz's protestations of course, Starbucks increased wages and offered Starbucks bonuses to many of its employees, as Lucy pointed out earlier in her presentation that was in response to the Tax Cuts. Even after the company made that announcement, Schultz made the outrageous claim that the tax reform law is somehow designed to rob from the future of young people. This comes again as many Starbucks partners are seeing larger paychecks not only because of the company's pay increases, but also because of favorable provisions in that reform. That's not robbery. It's a double victory for Starbucks partners.

Relying on poor economic analysis, Schultz appeared to suggest that the Tax Cuts might increase the national debt by as much as a \$1 trillion. President Obama's economic policies increased the national debt by an unprecedented \$9 trillion. What did you say about that? Using your own logic, President Obama robbed from future generations much more than any other president in history.

Howard Schultz

*Executive Chairman, Starbucks Corp.*



What's your question?

Justin Danhof

*General Counsel & Free Enterprise Project Director, The National Center for Public Policy Research*



Well, here's the question. The comment first is that it's shocking to hear Mr. Schultz object to a law that's helping so many Starbucks partners and their families. If he cares more about criticizing the president he has the right to enter the political arena. But this law is helping Starbucks partners. So my question is for Kevin. Do you agree with your predecessor that the recent tax cuts that have benefited so many Starbucks partners are fool's gold designed to rob future generations?

Howard Schultz

*Executive Chairman, Starbucks Corp.*



I'm sure that Kevin can have his answer to that question. But can I just clarify a few things. First of all, thank you for coming, thank you for the question. And I think you've mischaracterized what I said about AEI. I said I was privileged to go to AEI and I was – the opportunity I was given was an honor to speak to a mostly Republican audience. It was nothing disrespectful about that.

With regard to the tax cut itself and the reduction in the tax rate, what I said publicly was that I was for comprehensive tax reform which would have included a corporate tax cut. But I did not believe that cutting the corporate tax rate from 35% to 21% was the right thing to do. And let me explain why, I think this is really important as it relates to how you've characterized my position.

The reason I said it's robbing from young people and future generations is that we are sitting today and this is factual with almost a \$21 trillion debt on the balance sheet of America. Is that true?

Kevin Johnson

*President, Chief Executive Officer & Director, Starbucks Corp.*

Yeah.

A

Howard Schultz

*Executive Chairman, Starbucks Corp.*

Okay. Secondarily, we are approaching \$400 billion a year in interest expense, is that true?

A

Justin Danhof

*General Counsel & Free Enterprise Project Director, The National Center for Public Policy Research*

Absolutely.

Q

Howard Schultz

*Executive Chairman, Starbucks Corp.*

Okay. Both parties, President Obama, President Bush and now President Trump, both members of Congress are complicit in their reckless approach to the amount of debt. And if this was a business, we'd be approaching insolvency. The debt is robbing from the existing generation of young people and future generations. The corporate tax rate of 21% in my view was an enormous missed opportunity to do comprehensive tax reform. And that was my position, that is what I stated publicly.

A

And I think both parties – and this is important, both parties including the current administration are responsible for the years in which we have not gotten the truth and the honesty with regard to the piling on of almost \$21 trillion in debt, China owns over \$1 trillion of that and building an infrastructure on our money. That's why I think it was a reckless thing to do without doing comprehensive tax reform. Thank you.

Justin Danhof

*General Counsel & Free Enterprise Project Director, The National Center for Public Policy Research*

Thank you.

Q

Kevin Johnson

*President, Chief Executive Officer & Director, Starbucks Corp.*

Thank you. Thank you for your question. First of all, I think each of us as citizens of this country obviously will have our own perspective and our own point of view on policy and different things related to politics. I separate that though from my responsibility at Starbucks. My responsibility at Starbucks is to always do the right thing for our partners, our customers and our shareholders, and that's exactly what I did in this case, certainly looking at the impact of the tax legislation that was passed.

A

And what was the right thing to do? The right thing to do was to accelerate some of the investments that were already in our strategic plan, and one of those was the investments that we're making in our partners. And I think that was absolutely the right thing to do for our partners and for our company, and I'll separate that from any personal point of view I might have as a citizen. My job as the President, Chief Executive of this company is to do the right thing for Starbucks partners, customers and shareholders.

Justin Danhof

*General Counsel & Free Enterprise Project Director, The National Center for Public Policy Research*

Q

Thank you.

Jonathan Rosenberry

*Video Production Manager, Compassion Over Killing*

Q

Hi. I'm Jonathan Rosenberry. Thank you for this opportunity to speak. Starbucks brightened our mornings when it became one of the first national coffee chains to pour out non-dairy milks, but millions of consumers are seeking hearty plant-based foods to enjoy with their coffee, and that's where Starbucks menu still doesn't live up to the buzz. A recent report by international restaurant consultants, Baum+Whiteman named plant-based dining the 2018 trend of the year. And last summer...

Kevin Johnson

*President, Chief Executive Officer & Director, Starbucks Corp.*

A

[indiscernible] (02:50:52) answer that.

Jonathan Rosenberry

*Video Production Manager, Compassion Over Killing*

Q

...vegan options ranked highly in QSR magazine's list of 100 ideas for improving restaurant brand. Although you've recently debuted a vegan cupcake and a protein packed lentil ball in a few cities, for most of your customers across the country, vegan food options are quite limited. Nearly 30,000 people have now signed Compassion Over Killing's petition with journalist, Jane Velez-Mitchell, calling on Starbucks to offer more vegan food. When will Starbucks cash in on this massive growing market of plant-based eaters and introduce a hearty vegan food options nationwide?

Kevin Johnson

*President, Chief Executive Officer & Director, Starbucks Corp.*

A

Jonathan, thanks so much for your question. Roz, I'll hand it over to you.

Rosalind Brewer

*Group President, Chief Operating Officer & Director, Starbucks Corp.*

A

Sure. So, I talked about food innovation earlier. We do have a line that we would love to share with our customers later this year. So, it is in our plans. We know our customers ask us that repeatedly and we'll be responding.

Jonathan Rosenberry

*Video Production Manager, Compassion Over Killing*

Q

Thank you so much.

Kevin Johnson

*President, Chief Executive Officer & Director, Starbucks Corp.*

A

Thank you. Over here.

**Bruce Thomson Herbert**

*Founder & Chief Executive Officer, Newground Social Investment SPC*

Q

Thank you. I'm Bruce Herbert of Newground Social Investment and Investor Voice here in Seattle. And I am an original stockholder of the company, who has stood at many times on this occasion to celebrate both our company and our people. And in contrast, today, I must stand to call the company toward a higher standard of good governance and conduct. And the issue is this. Today, Starbucks curbed shareholders First Amendment rights by not allowing the proponent of the sustainable packaging proposal to present their proposal in the way in which they wished, in essence controlling the impression that shareholders and the press might get on that topic. One must ask if the board was aware that this was taking place on their watch.

The rules which govern the manner in which these proceedings are conducted are set by the Securities and Exchange Commission, and under SEC rules as well as established meeting protocols such as Robert's Rules, presenters are allowed to speak their minds in and are encouraged to ask questions of the board. So, I've attended a number of annual meetings around the country where pairs of presenters have shared in presenting a proposal. Often young people have been especially encouraged to participate in this important civic process. In this light, it was disappointing to see how the company tamped down on shareholder rights today. As I have celebrated before, Starbucks is a very good company and used to making courageous choices and persevering against all odds. But there is not really room for that in terms of tamping down shareholder rights. Therefore, I ask will the board pledge to support its engaged stockholders and not micromanage future meetings under the SEC mandated portion of this proceeding. Thank you.

**Kevin Johnson**

*President, Chief Executive Officer & Director, Starbucks Corp.*

A

Well, first of all, thank you very much for your feedback and I'll just comment that, we are committed to providing access to the annual meeting to as many shareholders as possible and while at the same time, remaining in compliance with all SEC rules and regulations. Now, certainly to accommodate that here at McCaw Hall, certainly there's a big line of shareholders that want to have access to this, and so we reserve a seat for any shareholder proposals, and then first come first serve basis for other shareholders that want to show up. So we take your feedback and recognize that we try and make this a meeting that's inclusive and accessible to all shareholders. So thank you so much. Thank you. Over here.

**Shiloh Britt**

*Corporate Accountability Intern, Stand.earth*

Q

Hi. Mr. Johnson, you do not know me, although my picture is probably on some dartboard in Starbucks. I am a proud former barista and current volunteer for Stand.earth. Thank you for listening to me earlier and I do just want to say that despite asking you guys to create a better cup, I absolutely love what you guys are doing. I go to Starbucks every other day with my mom with our reusable cups. But I do have to ask you, sir, your company has made a promise in 2008 and 2012 to deliver on a recyclable cup. Will you keep that promise this time?

**Kevin Johnson**

*President, Chief Executive Officer & Director, Starbucks Corp.*

A

Well, first of all, I appreciate your dedication to Starbucks and your comments around sustainability. I think we share a common goal and, in fact, I'll just remind our shareholders and our audience that our current cup is a recyclable cup. Unfortunately, for that cup to be recyclable, it requires cities and municipalities to invest in the equipment to recycle them. We are searching for a better solution. We have a common goal with you. And what

we decided was, because Starbucks is far less than 1% of the total cups, everyone in the industry is looking for this solution. And so, this is why we made the commitment of \$10 million in partnership with Closed Loop Ventures to create an opportunity for innovators to come up with not only a recyclable cup, but ideally a compostable cup. And so, we remain committed. We do have a recyclable cup today. We know there is more to do and we are making the investment in partnership with this third-party, is an aspiration to create an open source solution that not just Starbucks can benefit, but all merchants and all consumers that use paper cups to consume their beverages. So thank you so much for sharing your perspective.

Shiloh Britt

*Corporate Accountability Intern, Stand.earth*

Q

Thank you. We will be keeping an eye and our giant Cup Monster, Grounds, will take a break from ruling the streets of Seattle. But I do invite you to reach out to Stand.earth. We would love to speak with you about this exciting future. So thank you.

Kevin Johnson

*President, Chief Executive Officer & Director, Starbucks Corp.*

A

Thank you. Thank you so much.

Shiloh Britt

*Corporate Accountability Intern, Stand.earth*

Q

Thank you.

Q

Good afternoon.

A

Good afternoon.

Q

My name is [ph] Jerry Thorpe (02:56:38) and I'm just a regular stockholder. I live in Tacoma, Washington.

Kevin Johnson

*President, Chief Executive Officer & Director, Starbucks Corp.*

A

Welcome, Jerry.

Q

And, of course, I go to Starbucks a lot. And whenever I walk in the door, I always get a real cup. I do not take a cardboard cup. I always use a real cup.

Kevin Johnson

*President, Chief Executive Officer & Director, Starbucks Corp.*

Ceramic, yeah.

A

Q

And that's just the way I am. But, a number of years ago, a comment was made and we would like to see cups that are for sale at Starbucks be made in the United States. And I realize your commitment to the business in China, of course, I understand that. And if I was in China, I'd expect a cup to be made in China that I would buy. But here in the United States it would have been really nice if we could support companies that make cups here in the United States. And I remember that Mr. Schultz a number of years ago said that there was a company that they are going to – I don't know – investigate or buy more cups from, but I haven't really seen the results of that. So...

Kevin Johnson

*President, Chief Executive Officer & Director, Starbucks Corp.*

Howard?

A

Q

...I would still like to see cups made in the United States sold by Starbucks. Thank you.

Howard Schultz

*Executive Chairman, Starbucks Corp.*

Thank you very much. I think what you're referring to is we began an investment and a partnership with a company in East Liverpool, Pennsylvania, right on the border between Pennsylvania and Ohio. 20 years ago, this was the center of pottery manufacturing in America and all those companies for the most part are now gone. We invested in that company and tried to help them. Unfortunately, they could not sustain themselves just on our business. And for now, they're no longer making that product. We would love to find domestic manufacturers of those products and have been seeking them for quite some time now. The issue is the scale of Starbucks and the amount of product that we need, but we are constantly looking for those kind of vendors. Thank you.

A

Kevin Johnson

*President, Chief Executive Officer & Director, Starbucks Corp.*

Thank you. So, we've got two more over here, so we'll take these as the last two questions.

A

Dakota Carucci

*Barista, Starbucks Corp.*

Hi, there. My name is Dakota Carucci. I'm a proud barista of almost two years and I've just been chosen to be on the Youth Leadership Council, my other members are here as well.

Q

Kevin Johnson

*President, Chief Executive Officer & Director, Starbucks Corp.*

Congratulations.

A

Dakota Carucci

*Barista, Starbucks Corp.*

Q

Thank you. First and foremost, I want to thank Kevin, Roz and Howard for just being a part of this company, it literally saved my life. I was at my wit's end before I got hired on by my first manager. What I do want to address today is the topic of a non-retaliation workforce. I have been with the company for almost two years and I've worked underneath five managers. Only two of those five managers have been held accountable for that non-retaliation workforce. In the six-week span between January and February, I watched six of the partners of the current store that I work at leave because of the issues that they brought up to my manager and her cutting them out their hours and refusing to speak to them. To me, that is exactly what the opposite of a non-retaliation workforce.

For a partner to address a problem that they are seeing, and then get their hours cut because they wanted to bring it up, that's ridiculous. I'm a firm believer that people do not leave jobs, they leave managers. And Starbucks does so many things for their employees that I see mostly from higher up. The thing is that, you can be a great shift supervisor and you can be a great barista, but your manager is what makes your store.

Kevin Johnson

*President, Chief Executive Officer & Director, Starbucks Corp.*

A

Yes.

Dakota Carucci

*Barista, Starbucks Corp.*

Q

And I'm seeing now with a lot of the youth, they are afraid to approach their manager with any issues because of that retaliation. I moved to Idaho last year, when I told my manager I didn't want to open anymore, she threatened to fire me. I told her that she could not do that because this is a non-retaliation workforce, she did not speak to me for three weeks.

Kevin Johnson

*President, Chief Executive Officer & Director, Starbucks Corp.*

A

Yeah, okay.

Dakota Carucci

*Barista, Starbucks Corp.*

Q

So, I just want to know what we can do about that.

Lucy Lee Helm

*Chief Partner Officer & Executive Vice President, Starbucks Corp.*

A

Yeah. So, let me, first of all, thank you for everything. You're totally dedicated to us and I'm grateful for you being a partner in our stores, and what you've described to this room is totally unacceptable. And we do not support retaliation in this company. I'd like to learn more about your story, I'm going to ask – I see my leader for the U.S., Rossann Williams, I'm going to ask her to get your store number, so that we can make sure that we look into the situation.

Dakota Carucci

*Barista, Starbucks Corp.*

Q

Yeah. I was about to talk to you guys about that.

Lucy Lee Helm

*Chief Partner Officer & Executive Vice President, Starbucks Corp.*

Thank you very much.

A

Dakota Carucci

*Barista, Starbucks Corp.*

Thank you.

Q

Kevin Johnson

*President, Chief Executive Officer & Director, Starbucks Corp.*

We've got time for one last question and I'll go over here to this side of the room.

A

My name is [ph] Mya (03:01:21).

Q

And my name is [ph] Eve (03:01:23).

Q

And we're both in Grade VI from Calgary. We started a petition at change.org, it's titled Starbucks, we know you can make a #BetterCup. We were wondering...

Q

Thank you, Mr...

Q

Thank you, Mr. Kevin Johnson, for meeting us yesterday at the Starbucks headquarters. We were wondering, can you use reusable mugs next year at this meeting?

Q

Kevin Johnson

*President, Chief Executive Officer & Director, Starbucks Corp.*

Well, first of all, I want to thank you and your parents and adults for hosting – for visiting Starbucks yesterday and sharing your story with me. I think these young ladies began a journey, studying sustainability and things that they felt were important and they came to us with ideas and things they'd like to see. And certainly as we talked yesterday, we share a common goal, which is to – we've got to recycle the cup, but that's not good enough. We have to move forward with a recyclable cup and even the compostable cup, and your ideas of let's encourage more of the reusable cups. And so, we sell the reusable cups in our stores and we're going to do more around that. For this particular meeting, I don't know if this is a reusable cup meeting, but your point about reusable cups

A

is so noted and it was a pleasure to spend time with you yesterday and thank you so much for your creativity and your commitment to sustainability. Thank you.

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Thank you.

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## Kevin Johnson

*President, Chief Executive Officer & Director, Starbucks Corp.*

Okay. So, I think that wraps up the Q&A session of our meeting today. Thank you so much for joining us and for staying for the full event. Thank you. We'll see you again next year.

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## Unverified Participant

Thank you.

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