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Starbucks

2023 Reinvention Update

CORPORATE SPEAKERS:

Tiffany Willis
Starbucks; VP, Head of Investor Relations & ESG Engagement
Laxman Narasimhan
Starbucks; Chief Executive Officer
Sara Trilling
Starbucks; EVP and President of Starbucks NA
Brady Brewer
Starbucks; EVP, Chief Marketing Officer
Deborah Hall Lefevre
Starbucks; EVP, Chief Technology Officer
Michael Conway
Starbucks; Group President, International and Channel Development
Belinda Wong
Starbucks; Chairwoman and co-Chief Executive Officer of Starbucks China
Sara Kelly
Starbucks; EVP, Chief Partner Officer
Rachel Ruggeri
Starbucks; EVP, Chief Financial Officer
Molly Liu
Starbucks; EVP, co-Chief Executive Officer of Starbucks China
Arthur L. Valdez
Starbucks; EVP, Global Supply & Customer Solutions

PARTICIPANTS:

Andrew Charles
TD Cowen; Analyst
Jeffrey Bernstein
Barclays; Analyst
Sharon Zackfia
Wiliam Blair; Analyst
Lauren Silberman
Deutsche Bank; Analyst
Danilo Gargiulo
Bernstein; Analyst
Peter Saleh
BTIG; Analyst
Brian Harbour
Morgan Stanley; Analyst

Sara Senatore
BofA; Analyst
David Palmer
Evercore; Analyst
Jon Tower
Citi; Analyst

PRESENTATION:

Operator^ Please welcome Vice President, Head of Investor Relations and ESG Engagement, Tiffany Willis.

Tiffany Willis^ Good afternoon. On behalf of our CEO, Laxman Narasimhan and the executive leadership team, we welcome you to our Reinvention Update and Holiday Launch.

And we appreciate you taking time to be with us here in person and virtually, as we know this is a busy week for everyone.

So over the next hour, you're going to hear from our presentations from our executive leadership team and then we're going to transition into questions. And then we'll wrap up by about 6:00 p.m. Eastern Time. And then we'll invite those in the room to join us for a mix and mingle.

So just a few housekeeping items first.

We had our forward-looking statements shown before the start of this presentation. We hope you all took a look at those.

And at the end of our meeting, we will have all presentations that you see today up on our website at investorrelations.com.

So with that, let's take a minute to remind you of our heritage. And then Laxman will join us on the stage.

(Begin Video)

Laxman Narasimhan^ This is the place. This is our home. Five decades ago, the doors opened, fueling our passion to challenge the status quo, to dig into the mud, to push the boundaries for what we believe, to inspire a love of coffee in every corner of the planet.

What started as our founder Howard Schultz’s vision to bring the Italian coffee house tradition to America quickly grew, quickly bloomed, quickly snowballed into a mission to nurture a human spirit.

As we’ve gone from one humble store to more than 38,000 communities around the world, we see how human connection at Starbucks ripples out beyond our walls, uplifting lives, and positively impacting the communities we serve.

And while, we are in many stores, in many communities, and in millions of conversations every day, it all comes down to that one store, that one community, that one conversation, that one connection we get to make every day when we open our doors and say, “Welcome to Starbucks. What can we get started for you today?”

(End Video)

Laxman Narasimhan^   Welcome, everyone. Thank you for being here. Starbucks is an iconic brand that has changed how people connect over coffee worldwide. We are a partner-centric company, an innovation-led company, a digital and technology company, a global company, a company that challenges the status quo. And as a result, we deliver enduring shareholder returns.

We transform so that we can continue to uplift the every day and have transformed every few years in the 52 years of our existence.

In that spirit, Howard Schultz launched the Reinvention Plan in September 2022 to reset the business for even greater long-term success. The focus of our Reinvention Plan was to elevate the experiences in our stores for our partners and through our partners for our customers.

Our Reinvention was designed to reaccelerate growth through focus on 4 key building blocks: comp stores growth; store growth; margin expansion; and finally, disciplined capital execution allocation to collectively establish a more durable business model.

We have strong early momentum on every key metric of our Reinvention Plan as evidenced in this morning's Q4 and fiscal year 2023 record earnings results. Globally, in the full year, we grew comps at 8%, revenues at 12% and earnings at 20%. Based on the momentum we see and prevailing trends, we set strong guidance for fiscal year 2024 to grow comps 5% to 7% with revenue growth at the low end of the 10% to 12% range and earnings growth of 15% to 20%, reflecting our confidence in the multiple paths we have to deliver double-digit revenue and earnings growth.

This afternoon's session is about what comes next. Building on this incredible heritage, momentum and a mission grounded in human connection, we have limitless opportunity. But to achieve what is limitless, we need to address what limits us.

We have always striven to be a different kind of company. And to continue to do so, we need to recognize we operate in a different kind of world. We've successfully created a theater in the front of our stores, but we need to strengthen the factory in the back.

We see a long runway of high-return investment opportunities and changes that we believe will make us more efficient and strengthen the factory in the back, enable operational excellence at scale and ensure we achieve our fullest potential. We want to, therefore, share our ambition and strategies with you so you, too, can see the multiple paths to achieving our targets.

Earlier this year, as I took on the CEO role and with this team that you will see later, we refounded the company and evolved Starbucks' mission, promises and values while taking a deep look at the business and its long-term opportunities. As you know, I immersed myself in the business for 6 months, where I met and connected with partners around the globe and in all parts of the business.

I'm really excited by the energy and passion I found, by the strengths and advantages the company has and even more so by the opportunity ahead. I truly believe that we have a rock-solid foundation from which to build significantly, to reimagine the third place for more people in more places at more times of the day in more ways than just in the store and build more human connection at a time when we need it more than ever.

We've always said we are in the business of human connection. Our previous mission was beautiful. And it served us wonderfully, but it had been written before the iPhone was launched. We wanted to bring human connection more explicitly into our mission and give agency to our baristas.

Every single one of their action leads to a higher order purpose. It reflects the digital nature of the business, so the conversation is both in the physical as well as in digital communities. Our recrafted mission builds on the amazing heritage and history of the Starbucks brand and shines a light on the difference we know we can make in this world.

(Begin Video)

With every cup,
With every conversation,
With every community –
We nurture the limitless possibilities of human connection.

(End Video)

Laxman Narasimhan^ With every cup, with every conversation, with every community, we nurture the limitless possibilities of human connection. This mission is our North Star. Guiding us in delivering this mission, we looked at the promises we've made to our stakeholders over the years and how we have lived up to those promises.

When we're at our best, we promise our partners a bridge to a better future, this language coming directly from our store manager in our Pike Place store. For our customer, at our best, we promise to uplift the every day, that one moment each day to feel connected.

At our best, our farmer promise is we ensure the future of coffee for all. This is painted on the walls of our Farmer Support Center in Costa Rica. At our best in each of our communities, we want to make sure we contribute positively, whether that's in Shanghai, in Seattle, in the virtual Leaf Rakers' Society or via our Odyssey platform.

At our bets, our environmental promise is to give more than we take. We will leave our planet better than we found it and make sustainability part of every decision. And finally, to our shareholders, at our best, we promise to generate enduring long-term returns. And this is not new for this company.

(Begin Video)

Sara Kelly^ I am proud to be a Starbucks partner because of our history and industry-leading benefits, and we've continued to listen to our partners, to really innovate in ways that matter most to them.

That has included adding things like the Starbucks College Achievement Program with our partnership with Arizona State University. Today, we have over 11,000 partners who have graduated, and we have over 23,000 partners who are participating.

In 2020, we introduced industry-leading mental healthcare through Lyra, or in 2022 we introduced student loan debt restructuring.

Belinda Wong^ Starbucks is consistently recognized as one of the best employers in China. Our pace of growth creates exciting career opportunities with 9,000 partners promoted every year on average. We take care of our partners and their families. We pioneered critical illness insurance for the parents of our partners.

Michael Conway^ We're in over 86 markets, and there's the potential for us to uplift those customers every single day, and that's something we've been doing here at Starbcuks for a long time. We've seen tremendous growth in international over the last five years, even with the pandemic.

Since fiscal '19 we've grown over 9,000 stores, 7,000 of those are outside of the US. In addition, we've got our Channel Development business with At Home Coffee and Ready to Drink.

Brady Brewer^ When I think about the growth opportunity for Starbucks and look across the 86 markets where we offer it and I reflect on some of the biggest drivers of our growth over the last several years, we're still just getting started. If we look at the digital platforms that Starbucks has used to drive our business, two-thirds of our markets around the world today have delivery. About half have Starbucks Rewards, and only a third have mobile order and pay.

We are a very strong brand, and we have a lot of headroom for growth.

Michelle Burns^ What comes to mind with me is just thinking about a cup of coffee that's served in stores all over the world every day and taking it back to the farmer. That's why we have farmer support centers around the world, 10 of them. That's why model farms with over 100 and counting across the world make an impact to ensure not only are we creating for the future of Starbucks and our supply chain, but that we're actually making the impact on a global scale for all farmers and producers around the world.

Rachel Ruggeri^ What's special about Starbucks is we're in the business so we can do good. And, in fact, we reinvest about 2.5% of our profit every single year back into our global communities, including our farmers, because we know that when we do good, it's actually good for business, and that makes me incredibly proud.

Sara Trilling^ Our stores are truly part of the communities that we serve. Every night, our partners package unsold food to donate to our FoodShare programs. Since the program began, we have donated more than 54 million meals to those that are experiencing hunger.

Brady Brewer^ We're challenging ourselves with every decision we make. How can this be done more sustainably? And that's at the center of a lot of our innovation. An example of that is during the holidays when we give away millions of reusable red cups to help customers make it easier to reduce their impact on landfills. In this case this year, the cup itself is more sustainable with 75% post-consumer recycled material, up 45% from just a couple years ago.

Michelle Burns^ Giving more than we take comes to life every single day in our stores. Our Greener Store program, which we've done in partnership with World Wildlife Fund, is industry leading. Over 4,000 stores to date have better improvement in their energy usage, their water reduction, and all of the elements to make us more environmentally a leader in these stores.

Belinda Wong^ Our newly-opened Starbucks China Innovation Park is designed and built based on leading sustainability standards, including LEED Platinum. It uses the most energy-efficient roasting technology in our global roasting network, achieving 30% reduction in energy consumption and carbon emissions.

Rachel Ruggeri^ What's unique about Starbucks is that our partners are also shareholders. And since 2019, we've granted over 550,000 partners more than $800 million in stock benefits because we believe it's incredibly important that our partners participate in the financial benefit of what they do each and every day. And I'm so proud that they've benefited from the 77% shareholder return that we've driven over the last five years.

Sara Trilling^ Our promises create a system. When we invest in our partners, they, in turn, invest in our communities, in our customers, which drives business results for the total enterprise.

(End Video)

Laxman Narasimhan^   Each of these promises is part of our DNA. And as you saw, we've been making strides towards each of them. Today, we're taking the next step in the re-founding, building on the mission and laying out our long-term strategy.

Now much like a Starbucks order, we're calling it the triple shot reinvention. And like a Starbucks order, the triple shot reinvention in this case comes with 2 pumps, an order that will deliver significant long-term shareholder value.

In a minute, my leadership team will give you deeper insights into each part of our strategy. The triple shot starts with elevating the brand. Sara Trilling and Brady Brewer will speak to how we will elevate the brand by running better stores, elevating the experience through purpose-defined stores and an accelerated renovation of our network and through further product innovation.

Next, strengthening and scaling digital. Brady and Deb Hall Lefevre will discuss how we will grow customers and visits through Starbucks Rewards, innovate faster on digital and add features and offers by enhancing our technology infrastructure with some exciting new partnerships and collaborations that we are exploring at a time when we are seeing arguably the largest architectural shift in technology in a generation.

Further, becoming truly global. Michael Conway and Belinda Wong will show you how we intend to become truly global, focusing on store growth around the world, underpinned by the global opportunity we see for a coffee culture and by the strong unit economics we see.

And the triple shot reinvention is customized with 2 pumps. First, a pump of unlocking efficiency. Rachel and Sara Kelly will talk about how progress on our foundational Reinvention Plan has opened new doors for us to gain even more efficiencies outside and inside the store, enabling investment for revenue growth and for margin expansion.

And finally, the second pump, reinvigorating the partner culture. Ensuring that our culture embodies our values is fundamental to me. And I want to take the time to talk about the evolution of our culture to drive our growth.

These together drive our plan going forward to deliver long-term sustainable growth. We will share exciting announcements, progress made, work currently underway and also how we will track our progress. I am really excited to be leading Starbucks at this amazing inflection point.

Let me start with elevate the brand. I want us to delve deeper into this first area. We start with strength. The brand is very strong. It is iconic.

It is durable. It's attracting a new generation of customers and becoming more global each year.

And the brand has range. It is the #1 specialty coffee brand in 86 markets, the #1 in premium coffee in grocery retail, the #1 ready-to-drink coffee in major markets around the world.

And this brand is highly digital. It works in the traditional stores you're familiar with, and it fits well with stores that are in places with a lot of heritage like our very traditional tatami-carpeted Kyoto store. It also fits into environments with the most cutting edge art like what we have at the Kyoto store, which is just 10 minutes away from that traditional store.

I believe strongly that the most distinctive brands in the world have a great set of functional benefits, and we offer a great set of emotional benefits that link in a lot of ways to what functional benefits are. With the truly distinctive brands also deliver a spiritual benefit and in our case, human connection. Starbucks does just that when our partners deliver our global brand through approximately 400 million customer occasions each week at home and away from home. We fully expect demand for Starbucks to continue to grow materially around the world.

Building on the strong brand, Sara will share how more stores and better stores will drive Reinvention in growth. Sara Trilling.

Sara Trilling^   Welcome, everyone. Welcome. It is so wonderful to have you all here joining us this afternoon.

So North America is made up of over 17,800 stores across U.S. and Canada, including both company-operated and licensed. And that, as Laxman shared, we have so much opportunity for continued growth.

What I'm here to share today are the multiple and proven paths to improve our partner and customer experience, while elevating the brand and improving margins. Over the course of the last year, we've sharpened our purpose-defined store strategy, shored up our operational execution and enhanced our operating system.

We saw great success in our approach, learned many lessons along the way and are confident we can apply our learnings across our global store portfolio. As I've traveled the U.S. from rural towns to densely populated cities, I have no doubt there is abundant opportunity to continue to serve the strong demand we shared in our earnings call this morning.

We've seen our average weekly sales outpaced pre-COVID levels by double digits with high attach rates and across dayparts. This means more customers, more orders per customer and an opportunity to serve those customers better.

To capture that demand, we'll build more new stores with new formats in new cities and cities we are already in. So to be clear, Starbucks has not saturated the U.S. market.

It also means unlocking capacity in our existing stores. Stores are at times packed, which doesn't always create the best experience. We're serving customers through as many as 4 channels simultaneously. We've got cafe, drive-thru, mobile order and pay, and most recently delivery.

Designing stores that are purpose defined will first, unlock capacity; second, simplify operations; third, make it easier to be a partner, all enhancing the overall customer experience.

As we shared this morning, our U.S. business will grow stores in fiscal '24 by approximately 4% on a base of over 16,300, growing well over 20,000 over time. We see a tremendous opportunity to better leverage our footprint to serve really what are the evolving needs of our customers.

Innovation, specifically in our store formats to purpose-defined stores, like pickup, like drive-thru only, like double-sided drive-thru and delivery only really allows us to better meet our customers where they're at and to do so through differentiated experiences.

So for example, we see an increasing shift towards convenience, evidenced by growth in Mobile Order & Pay and delivery, which, when we combine them, reached 31% of sales in Q4. It's up more than 30% from just a year ago.

Pickup stores. They represent only 1% of our portfolio today in the U.S., but they play an increasingly important role to support infill. And in doing so, really load balance the increased demand we're seeing in our existing stores using our digital app, which will help in navigation.

So today, less than 4% of sales are delivery, and less than 1% of our portfolio is delivery-only stores. And yet, this business is growing rapidly and expected very soon to be well over $1 billion in sales.

By 2025, we expect to serve nearly 40% of our delivery orders to our delivery-only stores. So again, alleviating pressure in our most capacity-constrained stores.

Drive-thru. Drive-thru will remain an important focus for our stores as well. So for customers that want a quick and on-the-go experience, the drive-thru-only stores, they are the perfect format because they maximize both throughput along with service. And of course, we have our cafes and our elevated roastery and Reserve experiences for in-store occasions.

So the traditional third place will remain a critically important part of our portfolio really long into the future. Our stores are designed intentionally to meet various need states as well as for accessibility, along with sustainability.

In fact, we expect to triple our greener store portfolio over the next 3 years. So with this purpose-defined strategy in place, it's really hard not to see the opportunities for increasing our store count in every market in North America.

But let's talk a minute beyond new store growth because we also have an opportunity for growth in our existing portfolio of stores. So one example, we've created a set of operational standards for Mobile Order & Pay that launched this fall. And it will improve customer engagement, specifically at the point of pickup.

The standards we're creating create consistency in the experience across our portfolio, and it's that experience that brings our customers back for incremental occasions. Additionally, we've built a single system of metrics to evaluate our performance across the full suite of our U.S. company-operated store portfolio. This enables us to drive operational excellence but to do so systematically and to do so at scale.

We've invested in new and more efficient equipment across our stores, which unlocks capacity, and it improves the partner experience. So this is supporting the record levels of demand as evidenced by our most recent performance.

So we're going to leverage our renovation strategy, which is increasing to nearly 1,000 stores per year to upgrade our stores while also controlling costs. So the upgrades include things like Siren System, which we introduced at our Investor Day last fall. So not only do refreshment dispense along with our cold pressed cold brew helped meets this increasing growth in cold beverages, but Siren System also creates the backbone of our new operating system.

So importantly, these enhancements can be applied at scale and across our stores really around the world. So as you can see, we have multiple paths to better serve our customers by elevating the brand through improved operations and enhanced partner experiences.

Our strong performance this past year in revenue growth and margin expansion demonstrate great strides in our purpose-defined strategy, operational execution, enhanced operating system with more to come. So we remain laser-focused on making it easier to be a partner in our stores so that they can connect with our customers because this is the best predictor of a repeat visit.

So now let me turn it over to Brady. He's going to share a little bit about how our product strategy fits into this vision. Brady.

Brady Brewer^ Thank you, Sara. Thank you, everyone. How many of you were with us last September? About a third, 1/2. Okay.

It's good to see you again. Sara, thank you.

Today, I really want to build on Sara's points about elevating the brand, both through the store and the partner experience. But today, I'd also like to build on the third element, which is around product, and you heard Laxman talk about that. I'll share 3 key drivers of our product strategy that will elevate the brand and unlock growth: targeted daypart innovation, beverage innovation and growing food attach.

So the first one around targeted daypart innovation. We're continuing to grow our peak morning business in North America. And while we have grown the afternoon daypart, we see opportunities to significantly accelerate it.

You'll see us expanding our product menus in ways that tide customers over between lunch and dinner. And this strategy has helped drive our North America food business to nearly $6 billion annually in fiscal '23.

A perfect example of this is how we've served our customers love for all-day breakfast. Our egg sandwiches and our unique Sous Vide Egg Bites offer customers a high-protein, satiating recharge. In our North America company-operated business, these all-day breakfast categories grew 20% with total North America sales of these products approaching $3 billion. It grew 20% overall but 26% in the afternoon daypart. So we know we're on to something.

And like I said, it's approaching just these categories alone, $3 billion or nearly half of our total North America company-operated food sales. As we continue to innovate across our all-day and afternoon food platforms, we'll also expand with new all-day snacking platforms and introduce an elevated baked offering over time, all in service of driving afternoon and all-day visits.

Beyond product, we're also activating our digital relationships through personalized incentives that will entice customers to discover new products, establish new routines and boost all dayparts, including the afternoon. It's about the right products, massive customer reach and personalized marketing. And the combination of those are a powerful business driver as we saw in the fourth quarter of fiscal '23.

The second platform is really around beverage innovation. Today, in North America, 85% of net beverage sales comes from our core beverages, which grew double digits over the past year.

Even after more than 50 years, we're still finding ways to grow coffee and our core menu, a phenomenon most businesses struggle to achieve. 10% of our sales come from returning favorites like the Pumpkin Spice Latte or the holiday beverages that launch today and continue to grow year after year. And the remaining 5% comes from new platform and beverage innovations that can earn their way into a core menu item.

So all of this adds up to a core beverage portfolio that is very strong and highly productive for us. So how do we achieve that? We share with customers ways to make their beverages uniquely theirs so they find a beverage they cannot get anywhere else. Whether it's adding a shot of espresso, a flavor, oat milk or increasingly a cold foam. And we use analytics to discover what's trending, and then we amplify those ideas with customers.

As a result, our core remains highly relevant and our -- to our customers, and it supports our growth. We're innovating in both our food and beverage platforms with lower calorie, plant-based wholesome products to meet our customers' changing needs.

And when our beverage innovation hits the mark, it can earn its way back into that core menu. A great example of that is our iced shaken espresso with oat milk. As part of our focus, you've heard us talk about around plant-based cold customized beverages. We launched the iced shaken espresso platform about 2 years ago, and it has already rocketed up to $1 billion in sales per year in the U.S. alone, the fastest new beverage platform to reach that milestone in our company's history.

We're also introducing exciting innovation to Starbucks Refreshers beverages, which again grew at double digits in FY '23, even overtaking frappuccino at multiple points in sales during the year. So espresso, refreshers and tea, each of these are driving our business.

Our tea latte platform like chai and matcha is growing at nearly 30% year-over-year. So to continue with this, we're introducing seasonal flavors like today with our iced gingerbread oat milk chai. And we have more new concepts coming in the months ahead.

We also have an ability or an opportunity really to lift our hot brewed coffee business, which we'll continue to do as we roll out the remarkable Clover Vertica machine in FY '24, which is out in the lobby there. From hot brewed coffee to espresso from refreshers to tea, we will continue to grow our strong core by expanding on what Starbucks does best: beverage craft and customization.

Lastly, I want to talk about growing food attach. Through product assortment, personalization and operational improvements, our food business has reached nearly a $6 billion business in North America, as I shared earlier. And it's growing at double digits, but there's still a lot more opportunity.

Earlier, I referenced our clear strategy to further increase food attach, expanding all-day breakfast and offering all-day snacking options. Snacking, it turns out, is one of the fastest-growing macro consumer trends in the U.S., reaching now a $110 billion market segment. We know our customers are looking for snacks and particularly wholesome and premium snacks. So in addition to new grab and go food products, we'll also offer a widening snack selection.

All of this is backed by supply chain excellence because we see that simply being in stock of these items and these fast-growing categories unlocks the next level of growth, especially as our customers seek out these signature products.

A note about sustainability. Supporting our product strategy is our ongoing promise to give more than we take from the planet. You heard Laxman talk about that.

Like us, our customers care deeply about the environment. And it's important that we join them in their sustainability journey, whether that's serving a range of plant-based beverages or products or offering a reward for a reusable cup to reduce waste.

Overall, we see clear and precise opportunities to enhance our brand and deliver on our double-digit revenue growth guidance. We continue to think big and do the unexpected with product innovation, all while staying true to our core, staying focused on coffee, craft and connection and doing it all more sustainably.

Both Sara and I provided you some key details on how we'll further upgrade the brand experience by running great stores through better operations, by building more purpose-defined stores with accelerated renovations and by continuing our proven track record of product innovation across dayparts within our beverage core with more elevated food and doing it all healthier and more sustainably.

Now I'd like to dig into the second element of our triple shot for reinvention, strengthening our digital leadership. I think as many of you have seen, our coffee and innovative products have always been drivers of our growth. But in the last decade, the digital flywheel has been the accelerator.

Now we're taking our digital flywheel into the next phase of acceleration. And this phase builds on who we have always been, but our ambition goes even higher. Our ambition is to know every customer, to personalize their experience and make Starbucks effortless across all channels globally.

We're bringing this to life through a strategy that offers customers both convenience and connection in ways that only Starbucks can do. And I want to start with convenience. It's table stakes these days.

How we deliver convenience, it's about backing it with human connection. That's what makes Starbucks special. And convenience at Starbucks is more than just faster service or fewer taps on a screen. It's about deep care for customers that guides us to create an effortless and frictionless experience.

We do this in ways big and small every single day. We drop new releases into our app continuously, and we optimize every aspect of our end-to-end digital experience. And we've accelerated the pace of these innovations in the past year.

So I'd like to share just a couple of simple examples to bring it to life. We know that finding the right store to order and pay in our app can be challenging at times. So we recently improved the ability for people to select a store and significantly reduce the orders that are sent to the wrong store.

We know that seeing an item out of stock, especially your favorite items, is disappointing and may lead people to skip their visit. So we created a Deep Brew-enabled algorithm to recommend substitute products, to turn a moment of disappointment into a moment of discovery. These types of moves to continuously make the experience more effortless, whether they're big or small, add up to big business impact.

I talked about convenience, but I want to talk about human connection and our digital experience. Feeling uplifted in a sense of warmth and belonging is at the heart of Starbucks. And that starts with knowing every customer. The more customers we know and can form a digital relationship with, the better connection we can offer and the more our digital flywheel accelerates.

So today, we have 75 million Starbucks Rewards members around the globe that have visited us in the last 90 days. But even with that extraordinary number, that's a limited view of our total strength. If we widen the aperture beyond just Starbucks Reward members to include all the customers that Starbucks can know and reach directly around the world, the number is 3x greater.

Starbucks has direct digital relationships with hundreds of millions of customers, hundreds of millions of customers that we can reach with personalized messages that engage, activate and uplift them and in a way that also drives our business.

So building digital relationships is a flywheel accelerator. Hundreds of millions of customers is a start, but we want to know every customer.

We're achieving this through multiple paths. One way is by connecting Starbucks Rewards to the world's best and biggest loyalty programs. You saw this last year as we introduced our first U.S.-based reward together partnership with Delta Airlines, which allows both loyalty members of Starbucks and Delta to link accounts and earn rewards. And we plan on taking it even higher with Delta.

Now building on the success with Delta, we're sharing today that we will introduce 2 new reward together partnerships in the next 6 months, including a leading financial institution and a world-class hospitality company. With these new partnerships that we're announcing, we'll extend the benefits that Starbucks Reward customers always love, and we'll bring that to new customers to bring them into the program.

Our Starbucks Rewards membership growth rates across the globe have put us on a path to double our Starbucks Rewards membership with another 75 million customers in the next 5 years. And as we do, we'll continue to evolve what it means to be a member and how you're rewarded.

We're also deepening connection with our customers by engaging them with entertainment content that sparks conversation and provides what really are micro moments of joy. Some examples of this. The Starbucks daily, in partnership with Hark Audio in which we have a minority stake, brings customers brilliant podcast moments to uplift their day.

And we intend to go deeper into the content space in our digital experiences. We're partnering on the upcoming holiday release of the film, The Color Purple, a new take on the beloved classic, to bring our customers uplifting moment surrounding the film's debut.

We believe in the power of connection through conversations, and curated content is a great source of conversation, and it will play a bigger role in our future digital experience. Now we're not just connecting with our customers. We're also connecting customers to each other, facilitating connections between customers. And as a result of that, we're creating these uplifting digital communities alongside our stores.

The third place has always been about community, but the idea is no longer limited to a physical place. We're expanding the warmth and belonging of the third place to any place that a customer connects with us, and we're enabling our customers to connect to each other.

So for example, we have a digital group called The Leaf Raker Society on Facebook. This is all centered around a community with a shared love of Starbucks and the fall season.

We also have an online Discord group, which is part of Starbucks Odyssey beta, where super fans of Starbucks interact online, and they're also meeting up in real life. So while we've seen a profound and positive impact on our brand and business from our digital experiences, we are still accelerating.

As I said, our ambition is to know every customer, to personalize their experience and make Starbucks effortless. This is our digital flywheel acceleration phase, and we're taking it to unprecedented reach. We have a clear and compelling road map. The acceleration has already started, and we will extend our digital leadership globally.

To hear more, I'd like to next introduce Deb Hall Lefevre, where she'll talk about some of the foundational elements and the technology investments to help us realize our ambition. Deb? Thank you.

Deb Hall Lefevre^ Thank you, Brady. In many ways, Starbucks is a tech company. We are a company that uses the power of digital to nurture the limitless possibility of human connection anywhere in the world.

With more than 38,000 locations and 22% of global sales coming through digital channels, Starbucks continues to leverage and grow our scale. And that scale is important because it allows us to attract world-class talent and create collaborations with technology pioneers.

During this time of unprecedented technological change, we are modernizing our environment, specifically our tech stack, so we can innovate faster, streamline the partner experience to reduce cognitive load and finally, use technology to create an effortless experience for our customers.

Included in the modernization of our tech stack is the extension of Deep Brew, our internally built predictive AI platform that allows us to innovate through data, hyper-personalize the Starbucks experience for each customer and efficiently manage our stores through augmented capabilities. We've been using AI for years, and our recent Deep Brew enhancements allow us to deploy new artificial intelligence, machine learning (inaudible) in weeks instead of months to unlock value faster.

For example, Deep Brew now serves up alternative food and beverage recommendations, and we're also refining our forecasting algorithms to improve our customers' experience, supporting the record food attach in our U.S. company-operated business this past year. We've always been digital leaders, launching Mobile Order & Pay in 2015, Deep Brew in 2018 and being on the forefront of testing innovative capabilities like voice ordering and more.

And with the rapid takeoff of generative AI, we are poised to lead once again. Getting all our stores, including our global license partner locations, ready for faster rollout of innovation will be important because while the pace has been fast up to now, it will only get faster.

By the end of fiscal 2023, we moved from taking months to release new features to now being able to release on a 2-week cadence with higher quality. We will continue to improve our delivery velocity and our effectiveness by moving our resource allocation from running and sustaining to growth and innovation.

Speaking of innovation, I'm excited to share that we intend to extend our innovation lab with Microsoft. We have a long-term partnership, Microsoft, and we look forward to exploring the utilization of their groundbreaking multimodal model to ingest trends in social media, global food and taste preferences as well as our own transaction data and insights from our Deep Brew AI engine.

This will take our product development and personalization to new heights. Right from when a customer thinks about what they'd like to have to the barista who then builds it to our marketing team, who developed the perfect communication to enhance the experience.

As you've already heard, we can't succeed at anything without our partners. We are constantly striving to improve our partners' experience and make their jobs easier. We have many, many use cases underway. And we are thrilled to collaborate with Apple products as we launch our first partner innovation store to streamline the tools and the information each partner interacts with during their shifts. Whether it's inventory management, (inaudible) beverage builds or cleaning schedules, we will use this innovation store to experiment and refine technology to assist our partners all over the world and make it easier and more fun for them to deliver amazing customer experiences.

Our goal is to streamline where we can. It's in the spirit of less is more. Today, we have 66 applications our partners use to run our stores, and that is just too many. So we are excited to collaborate with these tech pioneers to take a more holistic partner-centered approach to designing our partner experience using fewer applications and less communication, which gives them more time to connect with our customers.

Lastly, our customers. They tell us again and again they come to Starbucks for connection and convenience. And to that end, we continue to explore innovations in effortless customer experiences with Amazon.

We are reimagining the customer in-store experience with the Amazon One and just walk out technology, and we're eager to learn how this could evolve the experience going forward. We are excited about the momentum we're building to accelerate our innovation and deployment, to simplify the partner experience and exceed our customers' expectations for convenience, making connection the reason they keep coming back.

This focus on strengthening and scaling digital as Brady and I just described is a core element of the triple shot reinvention strategy. We will lean into opportunities we see with accelerating digital releases, expanding customer reach with new reward together program partnerships and collaborating with tech pioneers in this moment of unprecedented technology change, all to elevate experiences for our customers and our partners and double our Starbucks Reward members.

Next up, Michael Conway will share how this translates into global business growth. Michael?

Michael Conway^   Thank you, Deb, and good afternoon, everyone. The third shot of our triple shot strategy is becoming truly global. Over the past 5 years, we have opened nearly 9,000 stores, 7,000 of which are outside the U.S., and we are still only scratching the surface. While we have been an international company, now we will become truly global as we create surround sound of omni-channel strategies in the 86 markets where we operate Starbucks stores.

Today, International and Channel Development are important components of our global growth algorithm, comprising roughly 85% of our total global customer touch points, more than half of our global store count and a third of our profit growth split almost equally between China and the rest of our International and channel businesses.

As the global coffee culture grows, we have much higher ambition for our earnings contribution from these businesses in the future. Channel Development, which includes our CPG and foodservice partnerships, elevates and extends the Starbucks brand around the world. This segment brings nearly 40% of households into the brand that do not regularly visit our cafes, a tremendous opportunity to introduce store occasions over time as markets grow their coffee consumption.

Importantly, Channel Development also contributes well above our company average margins, an accretive element to our expectations of improving margins over the next few years. Anchored through our now 5-year partnership with Nestlé, we are the market share leader in U.S. at-home coffee and are growing significantly outside the U.S. Our global ready-to-drink business continues to rapidly innovate and accelerate alongside strong partners like PepsiCo, Dongsuh Foods, Suntory and Arla.

And through our thousands of We Proudly Serve food service locations, we are able to complement Starbucks retail and reach customers in ultra-convenient ways and locations that perform well with lower volumes than our retail stores.

In our International segment, we recently celebrated the opening of our 20,000th store outside the U.S. And we are growing 10% annually, a pace we anticipate will continue over the next 3 years.

We are increasingly leveraging drive-thrus to reach more customers while also elevating the brand in places like our Battersea power plant location in London. We have strong confidence in our licensed store growth through strongly engaged licensees focused on growing the business because of the high returns that Starbucks provides them and the elevated brand that customers continue to seek.

Emerging markets also present a significant opportunity. Today, we are only 19% penetrated in fast-growing markets like India, South East Asia and Latin America with a 10,000-plus store opportunity remaining.

As a result of all of this, 3 out of every 4 new stores over the near term is expected to be opened outside of the U.S. as our store portfolio becomes increasingly global. Our strong unit economics ensures that our license partners continue to invest in our brand. We are well ahead of the growth expectations we indicated at last year's Investor Day as we continue to accelerate sales volumes per store.

Now digital is an important driver here, aided by Starbucks Digital Solutions, which is now leveraged by more than a third of our international licensed stores just a year after introduction. This is also laying the foundation to pursue tremendous headroom in growing our digital transactions as it gives licensees access to our proprietary tech stack and most importantly, Starbucks Rewards and Mobile Order & Pay.

Starbucks' fourth largest market and one of our strongest license markets is Korea, a highly competitive environment. Yet, we are winning. We're winning through innovative and locally relevant products and digital experiences that create an unmatched and elevated brand connection for the customer.

Our company-operated markets of both the U.K. and Japan are also thriving. Fiscal year '23 comps remained well above our historical averages. In the U.K., we opened a record 110 net new stores, taking our total count to more than 1,200 stores. An increasing number of these are drive-thrus, which has helped us more than double our profit in the U.K. versus pre-COVID levels.

And in the highly competitive Japanese market, our steady drumbeat of locally relevant product innovation, including customer favorites like Melon on Melon and our new moussed lattes continue to set us apart and drove record transactions in fiscal year '23. Like Japan, China is also leveraging innovation to grow rapidly with more opportunity on the horizon.

And now I'd like to introduce Belinda Wong to give you more details. Belinda?

Belinda Wong^   Thank you, Michael. Hello, and good afternoon, everyone. Concluded a watershed year in China where we put the pandemic behind us and built growth momentum for the future. We have transformed into a very different business since 2019. Our store network has expanded by 65%.

We have built a thriving omni-channel business, and we have significantly digitalized our supply chain and store operations.

As a result, we now offer a full spectrum of Starbucks experiences that are unique in China across our 6,800 stores. China continues to be one of the world's most important consumer markets despite recent headwinds.

Today, only 35% of Chinese middle-class consumers drink specialty coffee at least once a quarter. And this is expected to grow by 50% -- to 50% by 2027. The opportunity is not just in penetration but also frequency.

Imagine that the per capita consumption of 13 cups per year grows to Shanghai levels will still only be at a fraction of where the U.S. and Japan are today. We've always reported on the number of prefecture-level cities we entered. 4 years ago, we began to enter more aggressively into county-level cities.

Moving forward, we'll take a more granular approach to report the number. After close to 3,000 county cities in China, Starbucks has increased our presence from 500 cities to over 800. And we still have a lot of white space in addition to further penetrating the cities where we operate today.

I would like to go a little deeper on how we drive sales in our comp stores. This summer, we launched an unprecedented 28 new coffee forward locally relevant beverages, combining great taste and aesthetics from local adaptations of global innovations like iced shaken espresso, the Starbucks Refreshers to uniquely Chinese creations such as Mousse Espresso and Starbucks smaller-sized Intenso collection.

These beverage innovations have attracted millions of new customers' trials, mostly younger customers, driving increased visits and growth, especially the iced beverage category. Our beverages have helped to convert new customers into members, driving our Starbucks Rewards program to a record 21 million active members this past quarter, enabling us to build deeper relationships and increase frequency of customer visits.

There are also huge opportunities across dayparts. Over the past 4 years, we have built up the breakfast daypart, supported by our evolving food offerings and growth in convenience channels such as delivery and Mobile Order & Pay. Lunch and afternoon continue to be our strongest dayparts and are growing.

Today, 1 in 4 customers attach food with their orders. And there's still room for growth versus the 2 in 5 in the U.S. as we personalize experiences targeted at specific dayparts, including our afternoon and evening dayparts fueling ticket growth.

Our delivery is on its way to a $1 billion business. And we continue to innovate new services to fuel new customer demand such as Starbucks curbside, which delivers the same convenience of a drive-thru, pioneered in partnership with China's leading map navigation platform.

Another key part of our transformation is digitalization across our supply chain and store operations. As a result, we've been able to increase our labor productivity by 30%, decrease wastage by more than 50% and lower logistics costs substantially. Overall, our store operating expenses decreased by 15%.

I'm excited about the recent openings of our Coffee Innovation Park in Kunshan as well as our Innovation and Technology Center in Shenzhen. These two unique investments will continue to fuel our productivity and efficiency efforts and drive new innovations and experiences for our customers, for our partners, coffee and sustainability efforts.

Our relentless efforts to optimize store size, equipment and rent structure have led to a nearly 20% reduction in our new store investment. And as a result, we continue to achieve strong returns as stated at our Investor Day last year with a payback of less than 2 years and a 2:1 sales to investment ratio.

We will continue to infill our existing cities with purpose-defined store formats while entering more new county cities where new stores consistently outperform the market average, demonstrating the power of our brand. Our plan is to open close to 1,000 net new stores a year, driving strong returns on top of our existing locations, which continue to deliver strong profitability. And we're on track to operate 9,000 stores in China by 2025.

We are still in the early chapters of Starbucks' growth journey in International and Channel Development as coffee culture grows around the world. We will have over 35,000 stores by 2030 outside North America.

Our stores have very strong unit economics, ensuring our license partners will continue to invest in our brand over time. Our ability to integrate digitally across retail and other omni-channels in both our company-operated and licensed markets across the globe enable us to reach our customers whenever and wherever they are. The unique power of our omni-channel strategy allows us to create a surround sound and give us great confidence and high ambition for our International business, fueling nearly a third of the earnings growth potential of Starbucks over the long term.

Now I'd like to hand it over to Sara Kelly to talk about our Reinvention. Thank you.

Sara Kelly^   Thank you, Belinda. Originally, Frank Britt, our Chief Reinvention Officer, had planned to be here today to share with you this next part of our strategy. Unfortunately, he's not feeling well today, so I am stepping in for him, lucky you.

My peers just detailed the 3-year growth strategies are triple shot. And just like a typical Starbucks order, we are going to now customize as Laxman said, with two pumps.

The first is unlocking efficiency. Over the past 12 months, our focus and discipline around our Reinvention has driven tangible financial results mainly in our U.S. business. The progress we are making, which shows up in our in-store operating expenses, has driven incredible incremental financial efficiencies to support revenue growth and margin expansion.

This has also unlocked capital for us to invest into our partners and into our business. More than 20% of our profits further extending our competitive advantage. In order to accelerate the company transformation, we have built a new and durable level of planning, of process and analytical rigor to scale our Reinvention agenda.

Taking it a step further, looking at our store operating costs in our P&L, our efforts drove a decrease of our expense as a percentage of revenue, supporting the 100 basis points of margin expansion in the fiscal year 2023 that Rachel Ruggeri highlighted this morning on the earnings call.

So how do we do that? Investing in both our partners and our in-store operating environment with equipment and with tools. Making our stores more productive also makes them run better.

In the last year, we added a new and more efficient equipment to our U.S. company-operated stores, equipment such as the portable cold foam blender; the Clover Vertica brewed coffee machines, which you saw today as you came in; and faster warming ovens.

These investments are unlocking production capacity and creating a better experience for our partners to serve our customers. In addition, we invested in new tools to support our retail leaders in managing their business, including how they address our partner staffing and scheduling needs. The result is that hourly turnover is now below pre-pandemic levels, creating a more consistent partner experience across the 9,600 company-operated stores we have here in the U.S.

Since our founding, we have focused on investing in our partners, creating inclusive environments where our partners can grow, where they can thrive and where they can build a bridge to a better future. A cornerstone of that commitment is better schedules that fit their lives. We have made meaningful progress in increasing partner hours and have now collected partner preferences that will be factored into our scheduling platform moving forward.

As a result and as Laxman shared during this morning's earnings call, total hourly cash compensation has increased nearly 50% since fiscal 2020. By the end of fiscal year 2025, we expect to have doubled hourly income versus fiscal year 2020. This is through hours and higher wages.

These are investments that matter. They drive value for our partners and for our business through increased stability and higher retention. To remain the retail industry employer of choice, we must continue to create a uniquely Starbucks experience, an experience that uplifts, an experience that inspires and that engages our partners. We will continue to listen to their evolving needs and best support them on their job, with their teams and in their life.

In the year ahead, we're going to continue our unwavering commitment to elevate the value created for our nearly 200,000 -- actually more, I should say, 200,000 U.S. in-store partners and be strategic with our investments to deliver against our partner promise, again, to build a bridge to a better future.

As early as next week, we will be sharing directly with our partners how we will again raise the bar in industry-leading benefits with a bundle of new and exciting partner experience enhancements. This will include investments in pay and innovative benefits across financial well-being, skill building as well as improvements in digital partner engagement, more personalized scheduling and elevated coffee and community experiences.

These efforts will play a pivotal role in further solidifying our status of providing the best portfolio of benefits across the retail industry. In turn, our partners will create an even more uplifting customer experience, further differentiating our brand and driving our business.

Now let me turn it over to our amazing CFO, Rachel Ruggeri, to expand further on how we're expected to drive efficiencies in the years to come. Rachel.

Rachel Ruggeri^ Thank you, Sara, and welcome, everyone. So Sara shared the very early success we're seeing as it relates to Reinvention. But as she shared, there is so much opportunity ahead, both in the store and out of the store. We have multiple paths to drive growth and profitability. Our results prove that we've executed strongly on the Reinvention Plan, and we'll continue to do so.

Now when we look at our P&L, we referred to expenses in the store as largely those that show up within store operating expense while expenses out of the store are more aligned with cost of goods sold or COGS. These expense lines combined represent over 70% of total company revenue. That's significant.

Over the past 3 years, these expenses have grown faster than our revenue growth. This was driven by several factors, most specifically the high inflationary environment we navigated through the past few years.

But as Sara shared, we unlocked leverage this past year in our store operating expenses driven by the focus and discipline executed through our Reinvention, driving full year 2023 margin expansion of 100 basis points. And we see opportunity for further leverage with a target of driving more than $3 billion out of the P&L over the next 3 years.

Now I want to make it clear, though, that we are not solely focused on reducing costs. This is about creating sustainable efficiency in our business to drive growth. Importantly, some of the efficiencies realized will be reinvested back into the business to support revenue initiatives and brand-enhancing innovation, highlighted by the partner efforts Sara detailed.

Now as I shared earlier today, we expect to invest upwards of $1 billion in incremental investments in fiscal year 2024 across wages, new store equipment and enhancements, digital innovation and supply chain modernization. While we will continue to invest in our business over the long term, we're confident the revenue benefits from these investments will outpace costs, leading to continued and consistent margin expansion.

Now Sara already shared the area of focus in the store that will lead to store operating expense leverage. So let me focus more specifically out of the store in the area of cost of goods sold.

Cost of goods sold represents 30% of revenue for Starbucks. Several work streams are already underway to drive reductions in COGS, which we expect to yield over $600 million in annual savings or nearly $2 billion over the next 3 years. That means of the approximate $3 billion efficiency target in total that I just shared, nearly 70% will come from opportunities in cost of goods sold or out of the store.

Our biggest opportunities are in how we manufacture, source and distribute our products to our stores. We see opportunity here of $200 million to $300 million annually. We'll use our scale to capture more value, creating greater efficiencies, leading to simplification and better flow of products, a better experience for partners and customers.

Additionally, we can meaningfully drive waste out of our stores through efforts like further automating the ordering of our inventory, reducing complexity for our partners while we increase attach. On this past year, we drove waste improvements in our stores, yielding over $90 million of benefits. But even with the solid progress, we have more opportunity ahead.

Beyond cost of goods, we also see opportunity to drive leverage from G&A. Over the past year, we purposely grew our G&A ahead of revenue growth to invest in the technology and resources to support our Reinvention. Over time, we expect to grow G&A at a rate below revenue growth, contributing to our expectation of margin expansion.

Now while efficiencies are incredibly important, there is no better way to expand margin than through sales leverage, inclusive of strategic pricing. To further the opportunity around sales leverage, we've started to work to improve how we manage our revenue through more targeted actions, actions detailed by Brady and Deb earlier today.

Specifically, we're furthering our technology to address daypart offerings, suggestions around customization using Deep Brew and even incremental channel opportunities. As evidenced by our strong fiscal year 2023 performance, particularly in the U.S., our focus on customization, mix and attach is driving meaningful ticket growth and will continue to be a core focus.

The combination of efficiencies that Sara and I outlined, the $3 billion over the next 3 years, coupled with opportunities around sales leverage and pricing and with targeted investments in the partner value proposition, give us confidence in our ability to progressively expand margin returning to our historic levels over time.

I'll conclude by saying that we are very confident in our ability to create a more resilient, durable business for the long term. This past year, we purposely built the foundation to support a new era of growth as shown with this morning's guidance for fiscal year 2024.

But while our opportunity is clear, we know that our success, everything that we do is dependent on the differentiated experience our partners create for our customers. After all, our partners are our superpower. Thank you.

(Begin Video)

Unidentified Speaker^ For me, someone that stood out the most is craft.

Unidentified Speaker^ Craft is something I connect with very strongly because it brings me so much joy.

Unidentified Speaker^ I like results, being more forward-thinking and setting goals.

Unidentified Speaker^ When people walk into our store and leave better than when they came, that is an amazing result.

Unidentified Speaker^ I think courage because it takes courage to try something new and it might not work.

Unidentified Speaker^ Yeah.

Unidentified Speaker^ There’s just so many things about like belonging that really resonate with me.

Unidentified Speaker^ I think belonging definitely.

Unidentified Speaker^ Yeah.

Unidentified Speaker^ Joy.

Unidentified Speaker^ Why joy?

Unidentified Speaker^ Because it makes me happy when I’m floor.

Unidentified Speaker^ I think what makes Starbucks different from other company is having fun while we’re working.

Unidentified Speaker^ It honors our heritage and where we’ve been, but there's an aspirational component to it as well.

Unidentified Speaker^ I really like them. They just feel – they feel natural.

Unidentified Speaker^ This is really awesome. Did you come up with this?

Unidentified Speaker^ No, our partners did.

Unidentified Speaker^ Way to go, partners.

(End Video)

Laxman Narasimhan^   I have the privilege of beginning my Starbucks journey in stores all across the world. The opportunity to wear the green apron and to stand shoulder to shoulder with our partners taught me how and why the Starbucks culture is unique.

You heard my team say throughout the entire afternoon, our store partners are the heart of our business. They make magic happen throughout the day, every day through the countless interactions with our customers. We thank them, and we continue to commit to invest in the overall partner experience to constantly reviewing and improving compensation benefits and training. And you will soon hear more from us about the next bundle of partner investments to enhance the partner experience.

Our partner-centric mentality first considers those inside our 38,000 stores around the world and extends to the strengths, needs and challenges of every person who is part of a Starbucks bean-to-cup journey, from our farmers to our roasters to our distributors and to our support teams. We are all in this together as we work through the second pump of our customized Reinvention strategy, reinvigorating the partner culture at Starbucks, which brings me back to our mission. With every cup, with every conversation, with every community, we nurture the limitless possibilities of human connection.

So that's the triple shot reinvention with 2 pumps. Let me take you back to the inspiration of Milan's coffee culture, which Howard Schultz brought to America and that we are now bringing back to Italy.

We have 20 stores in Italy now, and we're opening a new flagship store in Rome next year. In our Italian stores, the most ordered product in our stores is the espresso, both hot and cold.

On my Starbucks journey, I went to the Milan Roastery. Put simply, it is Starbucks at its best. It's Howard's genius at its best. As I have learned and the world has witnessed for over 50 years, it epitomizes how art, architecture, beauty and design are central to the ethos of Starbucks, no matter the moment, no matter the venue and no matter the creative expression.

(Begin Video)

(Music)

(End Video)

Laxman Narasimhan^ What you just saw was filmed in our Milan Roastery, and it's how Starbucks showed up during Milan Fashion Week this year. We love featuring beautiful design, architecture and celebrating artists in our stores worldwide. This includes the creative works by many of our own partners, who are artists, musicians and vibrant contributors to culture.

Our cafes often represent the beauty of the local communities we serve. Whether I'm walking down one of the halls of our support center or visiting a store, it's very clear to me that art, music, architecture and culture serves as an inspiration for Starbucks to dream even bigger.

As part of that dream, we're announcing here the establishment of the Starbucks annual art prize. This new honor will celebrate inspiring emerging artists, who represent craft, courage, belonging and joy and whose art creates the kind of conversations and experiences that bring us together, which is so needed at this time.

The walls inside our 38,000 stores and the walls outside our 38,000 stores will essentially become galleries, featuring art in the service of human connection. Each year, we will select one emerging visual artist, who brings a new perspective to the table with a $1 million prize and opportunity to display their art in our stores around the world.

We plan to establish 5 architectural prizes for emerging talented architects, whom you'll work with and contract with in different parts of the world to design and build unique and distinctive stores in our many markets around the world. This award will be determined by an experienced panel of judges.

We have also announced Starbucks scouted inside our company to highlight the artistic music and creative talents of our partners in stores. Perhaps you will soon hear it in the soundtracks in our stores.

Our Annual Meeting of Shareholders in March, we will share more details of how we will continue to elevate this beautiful brand, embracing the principles of beauty, design, art, culture and human connection.

We have spent the last several months paying our respects to the past while reimagining the future. We have rolled out a new unifying mission for this company. The mission is manifested in the evergreen promises that we make and that we keep. And those promises inform the strategic priorities, the triple shot reinvention with 2 pumps plan that we shared with you in depth today.

Lastly, we also co-created with our wonderful partners the set of values that will reground and reinvigorate the partner culture of Starbucks. As we move into fiscal year '24 and beyond, you will see progress against our triple shot reinvention with 2 pumps.

To summarize the key elements of our strategy, here's what you can expect. We will first elevate the brand. To do this, we will run our stores better, grow with more purpose-defined stores and accelerated renovations and drive further product innovation. Through these strategies, we expect to improve customer connections and grow the North America store portfolio to over 20,000 stores over time.

Second, strengthen and scale in digital. Specifically, we will accelerate our digital operating model with more frequent releases. We will also expand our Reward Together program, building on our successful relationship with Delta with the intent to announce 2 new partnerships, including a leading financial institution and a premier hospitality company.

And we will further extend our digital and tech leadership through personalization and customization, resetting our tech architecture and building on our distinctive Deep Brew platform. As a result, we plan to extend our reach to new customers through new partnerships. And we expect to double our Starbucks Rewards members to add another 75 million members globally within the next 5 years.

Additionally, we continue to partner and collaborate with tech pioneers, including Microsoft, Apple and Amazon to help us further strengthen and scale in digital.

Third, become truly global. With the abundant opportunities we've outlined today, the International segment will play a critical role for Starbucks, fueling nearly a third of our overall earnings growth potential over the long term.

We will expand our footprint to 35,000 stores by 2030 outside of North America. This store growth will be bolstered by strong unit economic expansion, underpinned by the extension of our digital platforms to all our licensed partners globally. Overall, we plan to expand our global store footprint to 55,000 by 2030, growing on average 8 stores per day with nearly a third of the future earnings coming from international.

Fourth, we will unlock efficiency, $3 billion in efficiency, $2 billion of which will come from opportunities in cost of goods sold or out of the store, to both reinvest in the Starbucks experience and to drive returns to shareholders through progressive margin expansion and earnings growth.

Lastly and perhaps most importantly, to the foundation of the Starbucks brand, we will reinvigorate the partner culture at Starbucks. We will further our mission, promises and values while investing in a partner experience around the world.

Progress on the strategic drivers are the metrics we will use internally to measure our success. And you will see how this ladders up and how we as a company fulfill promises to our partners, to our customers, to the farmers, to the communities, to the environment and to shareholders with a guidance that we are setting.

We've delivered great results and early this morning have set guidance for fiscal year 2024 to grow comps at 5% to 7% with revenue growth at the low end of the 10% to 12% range and earnings growth of 15% to 20%.

Our business has great momentum. We have significant headroom and strength in our brand, giving us confidence in our ability to further grow and invest in our partners while delivering consistency in shareholder returns. Therefore, we see multiple parts to the shape of the long-term algorithm of comp growth of 5% or greater, revenue growth of 10% or greater and EPS growth of 15% or greater.

I am honored to be leading this talented group of 450,000 green apron partners, including this executive leadership team, to deliver human connection more broadly around the world for the benefit of us all. And now as it's getting colder here in New York City and the streets and houses everywhere are about to be decked in the colors of the season, we are excited to have you join us at our holiday launch here today.

I was in stores at 6 a.m. this morning. And I think you've probably noticed, we have turned the color red. We will now take a moment to set the stage for all our presenters and the rest of our executive team to join me on stage for a Q&A session. Thank you for joining us today.

QUESTION AND ANSWER SECTION

Laxman Narasimhan A

Chief Executive Officer & Director, Starbucks Corp.

Thank you all for hanging with us while we all got on stage. I'm going to try and play the air traffic controller on the questions. And so, feel free to raise your hand, there are mics that we can take around. And what we will do is, I'll take the question and then send it on to my management team here who can help answer it. So, maybe first turn in the back. Thank you. On the right there.

Oh, sorry. I didn't see there.

Rachel Ruggeri A

Chief Financial Officer and Executive Vice President, Starbucks Corp.

Your left.

Q

David Palmer

Analyst, Evercore ISI

Hey, thank you. I guess, I have kind of a two-parter. The $3 billion in savings. If you had to give that a confidence level or a visibility level, scale of 1 to 10, and just give us a sense of your confidence on that, how much you've really feel like you've identified there? And then, the other thing was striking to me, maybe you can react to it is, I don't think our models reflect one-third of the growth in the next few years coming from International when it comes to profitability. So, it seems like something – I wonder how you're thinking about it, like in that sort of a timeframe versus some sort of very long-term type thing? And obviously, China is in that number. So that permeates our thinking. Thank you.

Laxman Narasimhan A

Chief Executive Officer & Director, Starbucks Corp.

Well, on the productivity front, do you want to start that, Rachel?

Rachel Ruggeri A

Chief Financial Officer and Executive Vice President, Starbucks Corp.

Sure. Of the $3 billion that I spoke about related to efficiencies, I would look at it as – it's $3 billion over three years, largely you could say loosely, about a $1 billion a year. And I would say our confidence level for the year that we're in is quite high. Of course, we've got opportunity as we continue to work pipelines in the future, but we're very confident in the year ahead, which is part of the guidance that we had given this morning for FY 2024. It's included in that and it helps support the $1 billion of investments that I also shared. So, that will help us to continue to expand margin progressively, but also continue to drive our earnings growth.

Laxman Narasimhan
Chief Executive Officer & Director, Starbucks Corp.

A

Do you want to take the second question on the earnings growth?

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

A

Sure. And as far as it goes with the third of the earnings growth or nearly a third of the earnings growth coming from the International segment, I think what's important there to think about is, Michael showed the slide in the beginning that showed that a third of the growth this year was coming from internationals with channels. As we move forward, we would expect in this year and in each year going forward. So, this isn't a long-term outlook. This is currently and in each year forward that about a third of the earnings growth, growth will come from – largely from the International segment, and that does include China in it. But I think you can think about it as nearly half coming from China and the rest from the markets around the world.

Laxman Narasimhan A

Chief Executive Officer & Director, Starbucks Corp.

Yeah. Sorry. Sorry. Go now. After that is okay.

Q

Yes. Yeah.

Andrew M. Charles Q

Analyst, TD Cowen

Hi. Andrew Charles from TD Cowen. I had a two-part question. I was looking for an update just on Siren System. Obviously, when we convened about a year ago, obviously, a very exciting plan around that. And the last we talked to is going to be around 40% of the store base in the US by 2026. And so, curious, where you stand with that? And Rachel, if you can help contextualize the $3 billion of savings versus how much of that is going to be rolled into Siren Systems in 2026? Just help us better understand the costs for OpEx versus CapEx for that as well.

Rachel Ruggeri A

Chief Financial Officer and Executive Vice President, Starbucks Corp.

Sure.

Laxman Narasimhan A

Chief Executive Officer & Director, Starbucks Corp.

Let me first start with just setting up this question that you've raised, and then I'm going to hand it to Sara Trilling to talk you through it. As you've seen over the course of this year, the operating foundation we've put in the business has actually resulted in a lot of improvements in what we're making in the store. Siren System is clearly one aspect of it. So Sara, perhaps you can touch a bit on the platform as well as ~~where Siren fit~~ in. That's it.

Sara Trilling A

Executive Vice President & President-Starbucks North America, Starbucks Corp.

Thank you. Thank you. Absolutely. So, as Lax just shared, running great stores requires us to fundamentally change how we operate, not only what we're operating on, as Siren System might be thought of. And so, we've already done a lot in terms of how we're operating. And you've heard me speak of the examples, Mobile Order and Pay being one of them, where we're launching a suite of new tools and solutions that will help us to better capture that demand, other tools as well that will help us sort of look across our total portfolio base to understand how we're operating at scale and monitor those stores performance and really support stores that need support from the center.

I think we've rolled out a lot of equipment already, Mastrena being one, our handheld cold foam blenders being another, and we're seeing great success in terms of unlocking capacity with those solutions. Our drive-thru times are great proof point. We're seeing decreased drive-thru times at peak, which is wonderful, so we can serve customers.

Siren System specifically, we're on track in terms of our rollout schedule. The way that we're getting there is through our renovations strategy. So we're renovating a 1,000 stores a year. We've also got new stores and we're putting Siren System in those locations. That's how we're moving forward. I think most important is really that Siren System and the equipment that we're deploying, it unlocks capacity and it will certainly help our partners better serve our customers and drive the connection which keeps them coming back.

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

I think one of the things we've talked about in the past as well is that what the Siren System requires and what all the improvements require, obviously, is the changes in the processes in the store. So we're really in some ways resetting the operating platform that we have in the stores and with the renovations, creating the ability for us to actually bring that equipment in. And we're bringing it in a sequential manner, exactly as per plan. And it is on schedule. Do you want to touch on the second portion?

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

Sure. And of the $3 billion of the efficiencies that I spoke about, it's all OpEx. And about $2 billion of it over the next three years comes from cost of goods sold. So, you can think about that line that will include what I spoke about with how we source, manufacture and distribute, how we buy our products. There's a big opportunity there.

A big – another portion of it is waste. And so, that's the kinds of things you can think about that you'll see in that $2 billion. The remaining $1 billion over the next three years is largely in the store and that's related to continued efficiencies we'll see largely from staffing and scheduling this year. So, little bit about what Sara Kelly spoke about with having the right schedules for our partners, making sure we understand their preferences and being able to leverage our labor more efficiently, to be able to support our partners, but also to better support the stores. That creates the stability that leads to efficiency in our business. That'll be a big driver of the $1 billion. And inclusive in that is some of the new equipment that will roll out, more specifically Siren System. But since that's a little bit further out, that'll play more into FY 2026.

Of the renovation plan, all of our renovation. So, when we think about the $3 billion that I spoke about this morning in CapEx, 85% of it is coming from new store growth in renovations and then some new store equipment. So, most of that is global store growth. But within that number, also, that 85% is renovation costs as well, which are increasing to that 1,000 that Sara spoke about, as well as store equipment, which includes Siren System and some of the other equipment that we'll rollout. There's not as much of an OpEx impact from that. Of course, you'll have the depreciation, but it's largely a capital in nature.

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

One thing I want to add, just really straddling both questions, your question about visibility and certainty. What has really changed over the course of the last year is just the systematic approach that we're taking to the overall program. So, we have tools, we have dashboards, we kind of know where we stand and the discipline around measurement and also discipline around visibility at which level are we at in terms of certainty and visibility and how do we move that along the pipeline of what we do and then the implementation that happens.

And I think what you saw in the Reinvention program this year that we actually accelerated it and actually delivered more than what we thought. So, this has been very helpful to us in terms of the way we're managing this. And this is exactly how we intend to manage it. So, we've a clear sense of where it's coming, where it's going and where we stand. So hopefully, that answers your question on visibility.

I think Sara has got a question there. Sorry. Yeah, go ahead.

Sharon Zackfia
Analyst, William Blair
Q

Hi. Thanks. So, obviously, doubling the number of Starbucks Rewards members would be a massive feat over the next five years. I guess, I'd be curious to hear in the US and in China, what you're seeing now in terms of ticket and traffic lift when someone joins rewards? And I know as mentioned on the call that this is a tool you have that you didn't have it 2008, 2009. Do you have proof points of being able to influence consumer behavior when times are more challenging?

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

So, let me take that and just break this into two parts. I'll break into the US part. Brady, if you could take it on. And Belinda and Molly, I'd like you to talk a bit about China.

Brady Brewer
Chief Marketing Officer and Executive Vice President, Starbucks Corp.
A

Sure. Yeah. Doubling our number of Starbucks Rewards members is a big goal, as you heard. And at the same time, we're on track to do that right now. If we take our growth rates in FY 2023 and you draw those out, what we're seeing is that this year in the US, we significantly grew our Starbucks Rewards member population. In international markets, it grew even faster. When we look within the US and say, how do you get to that number, you can see things like our licensed stores where at a grocery store, in an airport, at a Target, less than half of those stores even have our digital flywheel. So, our Starbucks Connect program that we're rolling out to our licensees helps accelerate our ability to bring in new members.

Internationally, it's things like Starbucks Digital Solutions, which is a massive unlock, where as you heard from Michael, we're rolling that across our markets that allows them to offer Starbucks Rewards. Also, the incentives and the offers that we've offered to our customers is highly attractive. And we've seen a big ramp in Starbucks Rewards membership the last few years. So, I think between those things and program innovation, the things you heard about with Reward Together, we have a path that we see to doubling that membership.

What we have always seen is that when a customer joins Starbucks Rewards, their spend and frequency increases significantly. When they start to mobile order, it goes up even further. And so, that accelerator in our digital flywheel is one that we see more customers in the program, times those benefits, equals significant growth.

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

I can say one more thing on that, Brady, is that, if I look at the 90-day actives that we have in the US, we actually have, as Brady pointed out, we have a larger number of those would be a digitally connected to. With very targeted communications and messaging and offers, we're able to bring them back, particularly for things like favorites or for specific visits to bring them out of the lapsed into what we do. So, we run it that way. And in a lot of ways, when you look at some of our limited time offers, it's a great tool to bring them back. So that's in the US.

Molly Liu is our Co-CEO from China. She joins us from there. She's working very closely with Belinda. And Molly, go ahead.

Molly Liu
Executive Vice President, Co-Chief Executive officer, Starbucks China, Starbucks Corp.

A

Thank you, Lax. As a 11-year partner for us, I was very privileged for me to be here representing our 60,000 partners in China. Now, thanks for the question for the China loyalty program and our member engagement. We just celebrated a record high 21 million active members in China and we're still on the runway to further grow both member count and frequency.

And I will share other than what Brady has already shared, two secret power weapons that we have. Number one is the real omni-channel full spectrum of services we have in China. That's a very powerful tool for us to build connection with our members, both recruit new and drive more frequency of our existing members, because when they frequent more channels, speed, MOP, delivery, in-store, e-commerce or even we have CPG and also We Probably Serve as well, it helps to build a big routine for that with Starbucks brand.

Second thing is really the locally relevant product innovation. So, this summer, we launched 28 new products. This help us to expand our member base significantly. This summer, we actually increased 2 million new active members to our base. And also, our recent introduction of a product line called Starbucks Intenso line is really based on customer insights targeting the very sophisticated coffee drinkers, works very well with our Gold Members. It's only launched in the market for two weeks. We already see very early encouraging sign of high – regular high repeat rate and increase in Gold Member frequency.

Laxman Narasimhan
Chief Executive Officer & Director, Starbucks Corp.

A

Now, we touched on the investments we're making in technology, in the architecture and the collaborations we have here. But we're also doing the same thing in China. Maybe perhaps you want to just touch on the investments we're making in Shenzhen, Molly, and what we're doing there.

Molly Liu
Executive Vice President, Co-Chief Executive officer, Starbucks China, Starbucks Corp.

A

Yeah. So, we just announced the investment of our Starbucks Innovation Technology Center in Shenzhen this August. Although we have started our digital journey and experience many years ago, we've built so many capabilities in China. This new milestone will enable us to further accelerate on five aspects; number one, create more compelling customer digital experience; number two, help our partners to further optimize and improve the way they work in our stores; number three, on the coffee part, both product innovation and the coffee value chain, since our opening of the Coffee Innovation Park in Kunshan, China really have a vertical integrated coffee value chain in China. So, SITC, the Starbucks Innovation Technology Center, are going to leverage technology and big data to help us advance product innovation and coffee innovation as well.

And not to mention on the store development side, big data is going to enable us and IoT equipment are going to enable us to build a better store at a faster speed. And finally, advance our sustainability agenda. So, a lot of aspirations for our SITC. Really looking forward to that.

Laxman Narasimhan
Chief Executive Officer & Director, Starbucks Corp.

A

So in the end, I think as we said, we announced, we're at the Delta partnership last year, we're going to be announcing in the next six months two more that again, feeds into what we do with the overall Starbucks Rewards program. Yes, please.

Jeffrey A. Bernstein
Analyst, Barclays Capital, Inc.

Q

Thank you, Laxman. Jeff Bernstein from Barclays. Two-part question really related to China. The first part, Laxman, you really – you inherited, I guess, a year ago, tremendous enthusiasm about China. I'm just wondering whether over the past year, you've embraced that enthusiasm, it seems like the past year between macro uncertainty and COVID concerns and competition. Just wondering your conviction in that passion that you inherited a year ago.

And the second part of the question, I mean, Belinda talked about the volatility over the past year and that you're happy it's done. And Michael talked about the license business model and how great it is and the stability it generates. So, I'm just wondering, Laxman, it's come up in past Investor Day, is that something you always consider? But what are the pros and cons to maybe converting the company-operated China business into more of a license business? I mean, every other country around the world, 80-somewhat countries is primarily licensed and generates a higher margin annuity stream of royalties, less operating vulnerability. You could take on more balance sheet leverage return, more cash. It seems like China is the tail that's wagging the dog in terms of the volatility and China really drives your stock and people tend to disregard the other 85 countries. So, I'm just wondering whether you've given any more thought to potentially licensing out China. Thank you.

Laxman Narasimhan
Chief Executive Officer & Director, Starbucks Corp.

A

Well, thank you for the question. Well, first of all, I have studied advised-led businesses with a China footprint for the last 20 years. And it's a remarkable country. And I have deep exposure to that country over the years that I've been a professional. I think that I have a lot of heart for what the – one of the largest consumer markets has to offer us and has to offer the world. I think we're in a business of delighting consumers, uplifting the everyday with coffee. We build bridges between different countries through coffee. And as I look at what we have in China is, we have a terrific business. I mean, I'm actually quite amazed by what I saw. If I look at the partners we have in China, they are remarkable, and this is a business that's been built by a China-led team and it's quite rare to have that. And we have.

The second I look at the stores we have in China and they're amazing. I'd love to have some of those stores elsewhere, but we have them there.

Third, we have vertically integrated supply chain that Molly referred to. And I think that's terrific, including if you go back to Howard's original idea of saying we want to go to China and develop the specialty coffee industry, we're now enabling the growth of coffee in Yunnan. We have an amazing factory in Kunshan, advanced distribution there, a digital supply chain that I would love to have in US. And if I look at that, I say that's a great source of advantage.

And then, the final thing we have is we've a brand. This brand is known as Xīngbākè in China. It is known as Xīngbākè in China. So it's a brand that I think people really care deeply about in that place and I think the headroom for that brand in China is large. Today, we're at 12 cups per capita. As Belinda pointed out, Shanghai is much larger. We have 1,150 stores of our own in China, in Shanghai, and we have upside in Shanghai in terms of where else we could be. So I think these are still early days in this industry. I mean, look at competitive environment, glad that we have folks who are expanding the market. And if you look at how competitive our business is, just take a look at the results we've had, the transaction comps we have in food and beverage are strong and I think what it reflects is a brand that's loved.

Product innovation that is both global and locally relevant and is going to speed up even more, a digital capability that's incredibly strong. So this is a business that I think does well and if I look at the expansion of stores, the kind of returns you make financially are strong. So I look at this business and I say it's a good business to have and we have no plans to look at the options that you suggested.

Tiffany Willis

Vice President, Head of Investor Relations & ESG Engagement, Starbucks Corp.

A

We have a couple of questions from online. So I'll just go through them one by one. The first one comes from David Tarantino, Baird. It's directed to Belinda. Can you please address investor concerns about the rapid growth by lower priced coffee competitors in China? Is it impacting your business today and how do see the coffee market evolving over the next 5 years to 10 years in China?

Laxman Narasimhan

Chief Executive Officer & Director, Starbucks Corp.

A

Belinda, go ahead.

Belinda Wong

Chairwoman & Co-Chief Executive Officer-Starbucks China, Starbucks Corp.

A

Yeah. Thank you for the question. I think we said quite a few things about competitions already, but let me just start by saying that I'm very pleased with the results that we posted in Q4 and also in FY 2023. What I meant by that is you look at the record number of stores that we've opened this year, 785 net new stores, high as ever. And you look at our transaction comp that we posted in Q4, which is just sequential improvement from Q3, the beverages that we rolled out really drove new customers transactions in-store visits. So, very pleased with the sequential improvement.

Now, I spoke about the full spectrum of experience in my presentation. So let me just add some colors to that. In China, Starbucks is the only brand right now uniquely providing full categories in the space in the channels that we have. We have beverage, obviously; food, merch, coffee, full spectrum at our scale where we're very unique. We look at all dayparts, very meaningful, four dayparts that we have built out and I talked about the breakfast daypart that we're now even exceeding 2019. So that's very exciting. So four very meaningful dayparts.

You look at the store portfolio that Lax just mentioned, we probably have one of the best real estate portfolio for retail companies in China. So you look at our 6,800 stores, they are in the best locations in China which helps us to provide the full spectrum of service that we provide. So we have all that to fulfill our customers occasions needs and I am very confident that is only the beginning. The early chapters was you looked at the white space, that we haven't opened. The comp sales that we're going to continue to go drive for our existing stores that we've opened, there are plenty, plenty of room to grow, a lot of headroom ahead. And we're very confident and excited. And our brand is very strong. And our partners are great. We're going to continue to move forward.

Laxman Narasimhan

Chief Executive Officer & Director, Starbucks Corp.

A

I'll just make one final comment on that. It's interesting when markets evolve, they tier. This is a market. It's actually in its fairly early days and it hasn't yet fully tiered. You can get low priced coffee just down the street, but when you look for an experience, you look for something that's distinctive, you look for something that's quality, you look for something that's innovative, clearly you go to another place for it. And that's the place for Starbucks. That's the place Xīngbākè in China.

Tiffany Willis A

Vice President, Head of Investor Relations & ESG Engagement, Starbucks Corp.

Another question from online from Brian Bittner, Oppenheimer This is for Rachel. You talked about $3 billion. Can you help us better understand what percent of that $3 billion in cost saving initiatives you plan to flow through back to margins or invest in the business? What we're trying to get at is what is the net savings initiative. Hopefully, you can share something related to the efficiencies.

Rachel Ruggeri A

Chief Financial Officer and Executive Vice President, Starbucks Corp.

The way I'd look at it is, as I guided this morning, we're looking to see progressive margin expansion. And when you look at fiscal year 2023, we expanded margin on a full year basis by 100 basis points and that included over $1 billion invested largely in wages as we would lap the annualization of wages from the prior year. So we had over $1 billion invested in FY 2023 and we were able to unlock efficiencies through our reinvention plan that created sustainable operational efficiencies that helped us support that investment, allowing us to expand margin largely through sales leverage and strategic pricing.

I would look at it in a similar way where when you think about the $3 billion in opportunity, particularly in the year we're in you could say almost about a $1 billion in efficiency will help support the $1 billion that I spoke about in OpEx investment. It allows us to be able to leverage business, to be able to continue to fund our investments, while we continue to expand margin and grow our earnings. So I would look at it from the perspective of what we delivered in FY 2023 and how that will translate into FY 2024. That's the way I would think about the $3 billion.

It's a way for us to continue to fund critical investments that we need to be able to support our business, but also to be able to commit to the margin expansion and the earnings growth over time. So it allows us to have a very balanced path in terms of how we grow our business over the long term through revenue growth as well as through margin expansion and that's different from where we were a couple of years ago. So that's the important lock is that we'll be able to see earnings grow faster than revenue while we're expanding margin, and importantly, investing back into our business.

Laxman Narasimhan A

Chief Executive Officer & Director, Starbucks Corp.

Great. Yes, please go ahead. Sorry. Next, you after that.

Lauren Silberman Q

Analyst, Deutsche Bank Securities, Inc.

Hi. Lauren Silberman, Deutsche Bank. So can you talk about the decision to trim the top line guide and perhaps if anything's changed from last year? And then, if you can speak to how you can still maintain the 15% to 20% EPS growth in fiscal 2024 and 15%-plus thereafter? Thank you.

Rachel Ruggeri A

Chief Financial Officer and Executive Vice President, Starbucks Corp.

Yeah. What I would look at Lauren is this morning, I provided guidance for fiscal year 2024 and so that's the low end of the 10% to 12% revenue, the comp of 5% to 7% progressive margin expansion and earnings growth of 15% to 20%. That's our guidance for this year. That's why there's ranges because it's a guidance. With what you saw in Laxman's presentation and what we've pointed to, for the future, that's more about the shape of a long-term algorithm. When you take all these strategies that we talked about today, that's the shape that supports a long-term algorithm towards what we see as a path towards growing our business in a more durable and balanced way. So we don't look at it as guidance per se.

I would look at it as a shape to what we see for future opportunity. We'll continue to provide more fulsome and detailed guidance annually, usually in Q4, when we provide next year's guidance like we'll do for FY 2025. So I would think about it from that perspective. It was a way to take all of these strategies and be able to give a perspective of what we see over the long-term, largely from an algorithm standpoint.

Laxman Narasimhan A

Chief Executive Officer & Director, Starbucks Corp.

Sir, go ahead, please.

Danilo Gargiulo Q

Analyst, AB Bernstein

Thank you. This is Danilo Gargiulo from Bernstein. I have one question and two quick clarification, if possible. So first of all, I would like to understand whether the implementation of the Siren System is going to change the typical renovation timeline of your stores. And if so, what is the comp drag that you might be expecting over the next three years related to the acceleration of the renovation? And then a quick follow-up, if possible. Lax, I think you mentioned how excited you are on the China business. I just didn't quite hear explicitly you're not looking into licensings, want to confirm that. That was an answer. You're not looking into licensing, I know right now?

And then, the second clarification for last year you mentioned about $20 billion of shareholder returns that were expected by 2025. I wonder whether this is still relevant in the context of the updated guidance. Thank you.

Laxman Narasimhan A

Chief Executive Officer & Director, Starbucks Corp.

Let me do the following. I'll just take the second question and the answer is no, we're not looking at it. Let me go to the Siren System and maybe perhaps you can take it on.

Sara Trilling A

Executive Vice President & President-Starbucks North America, Starbucks Corp.

Go ahead with that?

Laxman Narasimhan A

Chief Executive Officer & Director, Starbucks Corp.

Yeah.

Sara Trilling A

Executive Vice President & President-Starbucks North America, Starbucks Corp.

And I'll be succinct on the Siren System. So yes, obviously, with the level of equipment that we're putting into the stores and the investments that we're making, renovation timelines will exit. However, two things that are happening simultaneously. One; we're working to develop new ways and to drive efficiency in our overall new store build out and renovation process; really to shorten those timelines overall. So that's first. And second, in terms of the comp drag, we're not anticipating any. We believe, right, that the investments that we're making are going to unlock capacity and drive more throughput and help us to tap into unmet demand that exists today. So therefore, we're not anticipating a comp drag.

Laxman Narasimhan
Chief Executive Officer & Director, Starbucks Corp.

A

Great. And Rachel, perhaps you want to take the capital allocation question?

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

A

Sure. And as this relates to the $20 billion, that $20 billion we expected by 2025, we're still committed to that. It could be a little bit further out. We will still drive and these are the reasons. We will still drive high return growth oriented investments. So, our ability to drive our ROIC this year to 25%, which was much faster than what we expected as we shared last year at Investor Day, we'll continue to focus on investments that will help us to continue to see improvement in our ROIC. In addition to that, we're committed to a leading dividend, and we'll continue to target an approximately 50% payout ratio.

As it relates to share repurchases; given the interest rate environment, we're evaluating, taking on any new debt and support of share repurchases at this time, but I want to be clear that share repurchases as I shared last year, at no different would be, about 1% on our earnings growth net of interest. So, little bit more significant than when we had last year, but about 1%, but as we continue to see how things go, we'll continue to evaluate the perspective in terms of what we do with share buybacks this year, but I think what's more important for us is to make sure that we maintain flexibility in our balance sheet, while we continue to support our critical investments.

Laxman Narasimhan
Chief Executive Officer & Director, Starbucks Corp.

A

So those are your three questions. Right? Wonderful. Yes, please. Sorry. Just wanted to be sure, they were three. Yes.

Peter Saleh
Analyst, BTIG LLC

Q

Thanks. Peter Saleh, BTIG. You mentioned 4% unit growth in the US in FY 2024. And Rachel, you and I chatted before you indicated that most of that is going to be drive-thru. Where does that leave your drive-thru mix at the end of 2024 versus about 50% pre-pandemic? And what's been the impact on the check and the traffic through that transition?

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

A

I'll take that.

Laxman Narasimhan
Chief Executive Officer & Director, Starbucks Corp.

A

Sure, please.

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

We'll start to see our mix move from 70% over time closer to 80%. I'll take a little time to get there, but I would say our record ticket that we saw this quarter and even when you think about from a pre-COVID level, our tickets grown by 50% since pre-COVID, little less than half of that is pricing. The remainder is the increase we're seeing in attach mix and customization, which is largely fueled by the growth we see in drive-thru, which has higher group orders. In addition to that, we're seeing a growing delivery business. So delivery as a percent of sales this quarter was 4%. That's up from 2% a year ago.

Delivery also has much higher attach due to the group orders. So we see our shift towards continuing to open new stores, continuing to open more drive-thrus, as well as continue to grow channels like delivery, as well as growing our rewards program in MOP in our US licensed stores as an example, as all opportunities for us to continue to drive revenue growth in a more balanced way where we'll see growth coming from traffic, but we'll also see growth coming from a more strategic ticket; meaning we will drive it through attach customization and more premium beverages.

Peter Saleh Q
Analyst, BTIG LLC

Great.

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

Yes, go ahead.

Brian Harbour Q
Analyst, Morgan Stanley & Co. LLC

Thank you. Brian Harbour from Morgan Stanley. One quick one, renovation pace. Do you think that you could do more of them after 2024? Is that roughly 1,000 kind of the right pace going forward? Second question was just can you talk about the could the broader team talk about some examples of things within manufacturing, sourcing, distribution that you think will be driving those cost reductions or there is also another bucket. I don't know if you'd care to comment on that or maybe that's still TBD?

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

Well, Sara why don't you take the first one on in terms of renovations?

Sara Trilling A
Executive Vice President & President-Starbucks North America, Starbucks Corp.

Can you – I'm not sure I caught the question.

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

So the question was, you've said we're going to take up the renovations to about 1,000 a year. Your question was, could we go even faster than that? Is that your question?

Brian Harbour
Analyst, Morgan Stanley & Co. LLC

Q

Yes.

Laxman Narasimhan
Chief Executive Officer & Director, Starbucks Corp.

A

Okay.

Sara Trilling
Executive Vice President & President-Starbucks North America, Starbucks Corp.

A

A 1,000 a year is at a higher rate and a pace than we've historically done. And I think to the question earlier about closure times and really just trying to balance the needs of our customers who rely on Starbucks and want to make sure they can access us in their daily lives, we don't feel like there is today a path right to accelerate past 1,000. But I want to punctuate that today, because if I link back to the earlier discussion, as we find efficiencies in the process for our renovations and as we continue to work to shorten down those timelines, as we look out to future years, we can imagine a future, right, where we could continue to increase the rate of those renovations. And remember, we're doing this on top of our new store growth simultaneously. It's a lot of projects.

Laxman Narasimhan
Chief Executive Officer & Director, Starbucks Corp.

A

For your second question, I'd like to call on Arthur. Arthur's just joined us a few months, he's going through the immersion. Arthur, first impressions.

Arthur L. Valdez
Executive Vice President, Global Supply & Customer Solutions, Starbucks Corp.

A

Yeah. Thank you, Laxman, and thank you for the question. I get to get involved here. It's exciting. So brand new to the organization about three months in, but the question I think is very, very important to what you saw Rachel present today in the combination of the in-store and the out of store. The out of store is a big component of the efficiency and the problem we need to solve over the next three years. And my role in solving that was the first my immersion was in the store really looking at what are the processes that our partners in the store dealing with, what are the backroom are we call the factory in the back, what are those opportunities and how could that product and the flow of goods come in? And then working your way back up to the system is how does distribution have to change so that the efficiency and variance that our partners are dealing with in store today can be removed and standardized in order to allow for that efficiency and faster processing to take place in the front of store, which the theatre.

Well, all of that is associated and predicated on how we actually buy, how we make, how we then process and flow, how we're consistent, how the accountability that we have to provide to our suppliers in the way that they're on time with their deliveries, in the way that they are supporting our fill rate needs in the flow. So where it's early days and what I've studied, I think, the opportunity that we have in out of store is real and it can be achieved. And I'm looking forward to working with my personal team and with the team here on deck to help us solve those problems, but early days tell me it's an achievable process improvement that can take place and helping our partners and our customers have a different experience over time.

Laxman Narasimhan
Chief Executive Officer & Director, Starbucks Corp.

A

Thank you, Arthur. In the back, please. Yeah. Sorry. And then maybe here. Yeah. In the back, please. Oh, go ahead. Go ahead.

Sara H. Senatore
Analyst, BofA Securities, Inc.

Q

Sara Senatore with Bank of America. I have a, I guess, two questions. Keeping with the theme. One is, Rachel, you talked about sort of 85% of the CapEx going to stores. Could you maybe talk about how you split up the incremental CapEx, the difference between last year and this year? And then the second question, which is perhaps harder to measure. A lot of what think has been talked about is basically meeting unmet demand. So things like in-stocks or things like throughput. And then, talking customers who you already have a relationship with their loyalty. Is there a way to quantify or at least give us sort of magnitude, relative magnitude of those opportunities as you think about growth, whether it's what you see when somebody joins in terms of spend increases, how you measure the impact of things like out-of-stocks of food or even throughput. If you want to talk about like sort of seconds of productivity, but just putting numbers behind it, please.

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

A

I can start with the capital. So of the increase this year, we were around $2.3 billion in capital and we're moving to around approximately $3 billion. All of that increase is in the – increase in the number of stores that we're opening globally and then the higher renovations. So that's really where all of that increase lands from a capital standpoint. I think what's important about that is those are very high return growth oriented investments. So that will help fuel continued improvements that we expect in ROIC as an example, while continuing to help us find – go after some of the unmet demand that we've spoken about today.

Laxman Narasimhan
Chief Executive Officer & Director, Starbucks Corp.

A

Brady, do you want to take the question on customers?

Brady Brewer
Chief Marketing Officer and Executive Vice President, Starbucks Corp.

A

Sure. Yeah. I mean, we slice and dice our business with so many metrics that we – I can't share all of them today. But what I can assure you is we do see significant increases when someone joins Starbucks Rewards. That curve steepens when they start mobile ordering.

We have – what we look at is latent demand and we measure that. How many people book walking in the store and walk out? How many people walk outside the store? What does that look like in a drive-thru? So we look at latent demand that we're unable to serve, but then we also look at customers and what new opportunities can we capture. So we look at the market and the demand spaces of the market. We measure where Starbucks is playing, what the headroom is, and we strategically go after those spaces. We do that with product innovation. We do it with services like delivery.

I mean, remember, I think what you've heard Laxman talk about earlier today and Sara was that the delivery business is approaching a $1 billion in the US. That's a business we didn't even have a couple of years ago. So very strategically and precisely looking at opportunities to capture new occasions and address latent demand that we're not able to serve effectively yet. That all ties in with the efficiency that we're talking about as well. So very disciplined, very metrics-driven and we pursue it with a lot of strategic rigor.

Laxman Narasimhan
Chief Executive Officer & Director, Starbucks Corp.

A

I know its early days and we can't share numbers on the supply chain. Your question on fill rates and the like, but do you want to just philosophically just address this question?

Arthur L. Valdez
Executive Vice President, Global Supply & Customer Solutions, Starbucks Corp.

A

Yeah. I think it's a great question. It's intuitive to how the store operates today with what we're saying in describing the Siren System and then the needs from the upstream from the out-of-store. And absolutely, there is opportunities for us. And that's what we're sharing in our efficiency models of how we think about operating differently in the way flow goods in and the way we operate in a standardized you heard us talk about today, purpose-driven store models, right. Think of that as purpose-driven demand models as well, right. It's allowing us to standardize variance and standardize the process. So that's easier for our partners and customers. And that's how we lead to a consistent time of performance against the customer needs.

Laxman Narasimhan
Chief Executive Officer & Director, Starbucks Corp.

A

I think what I'm going to do is also, as I said earlier, there are things in China that we have and the way we digitized our operations that I would love to have here. Belinda, could you talk a little bit about particularly that question just around...

Belinda Wong
Chairwoman & Co-Chief Executive Officer-Starbucks China, Starbucks Corp.

A

Yes. Yeah. So I'm very excited to share that. In the past three years, while we were having COVID distractions, we rolled out a project we call Rainbow in all of our stores. It took us two years to do so. What it is, is that we use technology like IoT and a new ERP system, and we made it very easy – much easier for our goods to arrive at the stores and make it very easier for our partners, reduce the number of hours that they have to receive. And then when the throughout the in-store inventory management, it's all digitalized. So what happens at the end is that we have – we are much better in handling waste reducing and also inventory management, a lot of reduction on labor hours and also a lot more accurate. So it helps us to forecast much better and that is all visualized and that is part of – a part of what I've just shared in my presentation on the efficiencies that we've talked about.

Now, so that's Project Rainbow, what we've done in-store. Now, again, I won't go into it, because you've heard it before. The coffee innovation part that we also just opened, that's our manufacturing that gives us – that is now giving us the fully integrated supply chain and that's going to give us a lot more productivities as well, going forward.

Laxman Narasimhan
Chief Executive Officer & Director, Starbucks Corp.

A

You should know, I've been to China twice in the last five months and the second trip that I went to, which is probably the sixth week that Arthur was in, I took him with me. And he spent all his time basically looking to see what that system is and seeing how we can actually, in some ways bring it here, because I think it's entirely possible.

Yes, in the back, please. Go ahead and then we come back here.

Q

Laxman, there's been a few questions about refranchising China. I kind of wanted to flip it the other way. I think one of the biggest maybe stamps that your – not predecessor, but Kevin Johnson put on the business was actually consolidating the business in the two bets on the US and on China. I'm curious, it seems like one of the big focuses today is on highlighting the growth in international outside of China. That's like an incremental message you're trying to get across today. Have you considered whether or not you want to do equity bets around the world outside of just the US and China and almost flip kind of what Kevin Johnson did on its head? I'm just curious if that's something you've considered. Any thoughts on it? Thanks.

Laxman Narasimhan
Chief Executive Officer & Director, Starbucks Corp.

A

No, we haven't considered a full equity flip. We have not. But because part of it is we have great partners in various parts of the world. And what they have done is they've come to us, shown what is it they can do, the kind of returns they can get, they've great management teams, we bet on those management teams and the fact is, in India, for example, we have a joint venture, right. We've a 50/50 joint venture in India. So the real thing we're focused on is global growth.

As coffee culture expands in various parts of the world and if you take a look at the strength of the brand, we are now in 86 markets. And many of these markets, we're not as fully penetrated as we could be. The question is, how do we take up the trajectory of our presence in these markets, particularly as they continue to grow? So it is, in fact, a third leg of the stool that I am highlighting, right. You've clearly got the US. You have got China, and we can do this in the most capital efficient manner. We will.

Yes, please. Right here. Right there.

David Palmer
Analyst, Evercore ISI

Q

Yeah. Thanks. Dave Palmer, again. I think investors are often scared of a recession with Starbucks. They fear that at least an economic slowdown is looming that the brand will – would fare any fraction as badly as it did in the Great Recession. And so I wonder, there are also some fast food players out there that are already seeing slippage in the low income cohorts out there. So they're already speaking to weakness or areas of that. So I was wondering if you could maybe address that head on. Are you seeing any signs of weakness out there? I know you just had a great quarter, but perhaps if you slice that, you can see something different. But – but more importantly, how could you adjust better than maybe the old Starbucks back in 2007-2008 did with the mix you got a digital tool today.

Laxman Narasimhan
Chief Executive Officer & Director, Starbucks Corp.

A

Sure.

David Palmer
Analyst, Evercore ISI

Q

Thanks.

Laxman Narasimhan
Chief Executive Officer & Director, Starbucks Corp.

A

It's a great question, Brady.

Brady Brewer
Chief Marketing Officer and Executive Vice President, Starbucks Corp.

A

Yeah. So I guess the headline answer to that is our transactions are strong and growing. And as recently as the last quarter, we're seeing that true. So it has not shown up in our business as it has shown up in the businesses in the market. I mean, what we've seen macro level wise across the landscape of consumers in the US is the consumers are fairly stable, where they're choosing to splurge is experience over durable goods. And when they're talking about experiences, they're talking about travel and restaurants and bars. And the younger you go, the more likely they are to splurge in restaurants and bars as the one place where they want to spend. So Starbucks is the beneficiary of that.

Our business has not been impacted. Transaction is strong and growing and we have more customers than ever. A record number of customers coming to Starbucks.

What I'd say versus the 2007-2008 is back to that digital customer relationship that we have with a rewards program, with the products that we have that they can't find anywhere else. It's a very resilient brand, even more resilient than 2007, 2008, 2009, because we didn't have those tools to the level we have them today. So product quality, product innovation, a rewards program that engages. We feel good going into uncertain times, as always, about the resilience of the brand.

Laxman Narasimhan
Chief Executive Officer & Director, Starbucks Corp.

A

Great. Perhaps if we could go to the last two questions, is that okay? Maybe come down here first and then over there. Is that all right? Yeah. We're going to you next. Perfect.

Jon Tower
Analyst, Citigroup Global Markets, Inc.

Q

Hey, got a simple one. Jon Tower, Citi. Just curious, the long-term same-store sales target that you outlined, the 5% or greater over time. I'm just curious if you could break down how you're thinking about the components of that? Obviously, there's, you know, puts and takes in terms of what's playing in different times across the globe. But 5% on a business this large seems like a big number over the long term. So I'm curious to hear your thinking around it.

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

A

And just as it relates to the 5% comp?

Jon Tower
Analyst, Citigroup Global Markets, Inc.

Q

Correct.

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

A

Yeah. I would say we think about that comp largely as a combination of increasing traffic. But also I think what's different when you think about even the past versus today is that we have an ability to drive comp through more strategic pricing. So our ticket can be not from typical pricing moves we've done in the past, but more around increasing attach, our ability to continue to drive more premium beverages, but also the concept of customization. So when we think about that 5% comp, we have more of a balanced opportunity for growth between traffic and a higher ticket related to these areas of opportunity that we've seen come to life in the past couple of years and accelerated.

Laxman Narasimhan
Chief Executive Officer & Director, Starbucks Corp.

A

Thank you. We'll go to the back.

Q

Thanks, Laxman. Here, I mean, North America hitting 18,000 stores plus early next year, US 16,000 stores. At the long-term goal of 20,000-plus stores. Can you elaborate on if we are really this close to the saturation? Or do you guys have planned to revisit the portfolio like closed on low performing stores like probably replace it with higher volume stores? And then also on the peak margins commentary returning back to that, like do you have a timeline in mind and how we get there? And a quick follow-up to that on the G&A, Laxman, did you get a chance to revisit the G&A structure like probably as a percentage of revenues on a per company store basis, thank you.

Laxman Narasimhan
Chief Executive Officer & Director, Starbucks Corp.

A

You know what you've asked three questions. So with that why don't I go to you for the first one? Go ahead on the number of stores.

Sara Trilling
Executive Vice President & President-Starbucks North America, Starbucks Corp.

A

Just a couple of thoughts on growth. I mean, one of the things that I want to come back to really is the purpose defined strategy, because what we're doing is we are moving forward with stores that really complete. They don't compete, right, with our existing stores.

Again, if you think about what's happening with convenience, specifically the growth in drive-thrus, the growth in Mobile Order and Pay, it is just so clear that, right, there is an opportunity to capture some of that demand in in-fill type stores. So that's a big, big piece of our bet looking forward. So that's everything from pickup stores to drive-thru only stores to double drive-thru stores and even to delivery. Now, we still see a very viable path and we have not come anywhere near to tapping out with our core drive-thru model either. So if I look at what's happening in the center of the country, places like Tuscaloosa and other markets of that scale, there is just so much opportunity. We're welcomed. We're celebrated as a brand in those markets. And I think we've got an offering that continues to be compelling. So, there's no slowing down at this point. And we're really excited about the future in terms of continuing to grow scale and in-store count.

Laxman Narasimhan
Chief Executive Officer & Director, Starbucks Corp.

A

I'm going to turn to Rachel. Your question is point about returning back to the historical margins in time.

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

A

Before I address that, I just want to you asked a point around our stores and potential closures. And it goes back to a little bit about the question. It's what's different from 2008. And even as we continue is we have incredibly strong portfolio across the globe. So, many years ago we had stores that were not performing well. And a couple of years ago when we did our trade area transformation, we really strengthened our portfolio. So we have a very strong and healthy portfolio and that helps support not only the business we have today, but it gives us even more confidence as we continue to grow. As it relates to...

Laxman Narasimhan
Chief Executive Officer & Director, Starbucks Corp.

A

And that is true across the world.

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

A

That's right.

Laxman Narasimhan
Chief Executive Officer & Director, Starbucks Corp.

A

That's not just here. That's across the world.

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

A

Yeah. And as it relates to the margins where we – where I said in my prepared remarks that we would continue progressively expand margin returning to historical levels over time, I think it's – there's a lot of questions around what – we see that 19% to 20% I think our high was like a 19.7% at the total company level when we were in 2019. And what I would say around that is absolutely we have the opportunity to be returning to those levels of margin. But I think what's more important for us is that we continue to be flexible rather than guiding to a margin percent. But ensuring that we expand every year and we will is ensuring that we are flexible so that we can continue to invest in our business, be investments in partners, investments in technology, investments in stores. Those investments are critical to fuel our growth. And so we need to be able to do that and have that flexibility so that we can support the earnings growth that we're guiding to which at the end of the day, right, that's the attractive part of the equation in the end. And to do in a way that's balanced and healthy, I think is really important.

Sara Trilling
Executive Vice President & President-Starbucks North America, Starbucks Corp.

A

And as relates to the closures question, I'm sorry, I forgot to mention that, because we have an always on process for reviewing our store portfolio quarter-by-quarter with a lot of diligence and a strong methodology. And so we're not anticipating anything new and above and beyond in that. It's just going to be a continual process as we continue to reposition our portfolio over time.

Laxman Narasimhan
Chief Executive Officer & Director, Starbucks Corp.

A

I have not forgotten your third question, which was on G&A. I think as Rachel mentioned in her presentation, we did make some choiceful investments in G&A, particularly as we started the reinvention program. And the intention for us is for that to grow slower than revenue growth. So we will see leverage in the G&A line as we go. So hopefully that addresses your question.

Laxman Narasimhan

Chief Executive Officer & Director, Starbucks Corp.

Now, I know there's any other questions in the room, because if there are – if there's anything online and I just want to be respectful. All right. Well, thank you for being for that. Thank you all for being here. We've been up since very early. We were literally in the stores this morning, because today is, in fact, the opening of Holiday. One thing I learned at Starbucks is when you meet people, they'll say, this is my 20th holiday, my 10th holiday or 9th holiday. Well, this is my second holiday and I'm really proud of it. And I was out of the store seeing it. As you'll see, our stores have gone red. And I want to thank of you for joining us here today and for all of you who've dialed in virtually, I want to thank you as well for doing that. We want to express our thanks for your investment, for your attention. Cheers to the great things ahead. And for all those in the room here, I invite you to join the leadership team and I for a mix and mingle immediately outside. We have several partners here who've been wonderful in putting all this together. And I want to thank them as well. Thank you for joining us. And very happy holidays to all of you.