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Starbucks Corp. (SBUX)

Q1 2020 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good afternoon. My name is Hector, and I will be your conference operator today. I would like to welcome everyone to Starbucks Coffee Company's First Quarter Fiscal Year 2020 Conference Call. All lines have been placed on mute to prevent any background noise. After the speakers' remarks, there will be a question-and-answer session. [Operator Instructions]

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

Durga Doraisamy

Vice President-Investor Relations, Starbucks Corp.

Good afternoon, everyone, and thank you for joining us today to discuss our first quarter fiscal year 2020 results. Today's discussion will be led by Kevin Johnson, President and CEO, and Pat Grismer, CFO. And for Q&A we will be joined by Roz Brewer, Chief Operating Officer and Group President, Americas; John Culver, Group President, International, Channel Development and Global Coffee & Tea.

This conference call will include forward-looking statements, which are subject to various risks and uncertainties that could cause our actual results to differ materially from these statements. Any such statements should be considered in conjunction with cautionary statements in our earnings release and Risk Factor discussions in our filings with the SEC, including our last Annual Report on Form 10-K.

Starbucks assumes no obligation to update any of these forward-looking statements or information. GAAP results in fiscal 2020 include several items related to strategic actions, including restructuring and impairment charges, transaction and integration costs and other items. These items are excluded from our non-GAAP results. Please refer to our website at investor.starbucks.com to find the reconciliation of certain non-GAAP financial measures referenced in today's call with their corresponding GAAP measures. This conference call is being webcast, and an archive of the webcast will be available on our website through Thursday, February 27, 2020.

Finally, for your calendar planning purposes, please note that our second quarter fiscal year 2020 earnings conference call has tentatively been scheduled for Tuesday, April 28, 2020.

I will now turn the call over to Kevin. Kevin?

Kevin Johnson

President, Chief Executive Officer & Director, Starbucks Corp.

Well, good afternoon, and welcome. Q1 was an exceptional quarter for Starbucks. The positive business momentum we've created over the past fiscal year continues with the strong start to fiscal 2020. These results were fueled by a healthy balance of comparable sales growth and new store development, as well as continued expansion of our Global Coffee Alliance with Nestlé. I'm especially pleased that we delivered meaningful margin expansion in the quarter, even as we continued to invest in the key areas to support sustainable growth, first and foremost, in our partners, as well as in beverage innovation and digital customer relationships.

Given the strength of our Q1 results, we had intended to raise certain aspects of our full year financial outlook for fiscal 2020. However, due to the dynamic situation unfolding with the coronavirus, we are not revising guidance at this time and as we get more clarity on the situation, we will transparently communicate with investors.

Our immediate focus is on two key priorities in China: first, caring for the health and well-being of our partners and customers in our stores, second, playing a constructive role in supporting local health officials and government leaders, as they work to contain the coronavirus. That said, we remain optimistic and committed to the long-term growth potential in China, a market, we have been in for more than 20 years.

Before I hand over to Pat, who will provide more detail on our Q1 financial performance, let me share some highlights for the quarter, which provide powerful evidence of the unique strength of our brand. I will also outline additional steps we are taking that continue to elevate Starbucks in ways that will inspire our partners and deepen our relationship with customers.

In the first quarter, Starbucks delivered global revenue growth of 9%, excluding the 2% impact of Streamline activities. This was led by strong comp sales growth of 5% and net new store growth of 6% over the last 12 months. At the forefront of these results were our two lead growth markets, the US and China, along with Channel Development.

The US grew revenues by an impressive 9% in Q1, led by comp sales growth of 6%, including comp transaction growth of 3% for a third consecutive quarter. With the two year sales comp of 10% for the past two consecutive quarters, it is clear that our focus on the customer experience, beverage innovation, and digital customer relationships is working. At the center of this are our Starbucks partners and the investments we continue to make in them. It is no coincidence that following last September's leadership experience where we hosted 12,000 Starbucks field leaders and outlined a series of partner-focused initiatives and investments. Our partners delivered one of the most successful US holiday seasons in the history of the company.

Our partners in China also delivered a solid quarter with revenues increasing by 15% in Q1, excluding a 2% impact of foreign exchange, fueled by a 16% increase in net new stores over the past 12 months and a 3% increase in comp. And for the fourth consecutive quarter, we grew total transactions at a double digit percentage pace in the strategically important market. On every market visit I make to China, I experience firsthand the passion, innovation and commitment our partners demonstrate each and every day, and I'm proud of them. Given the purposeful and highly differentiated partner investments, it is no surprise Starbucks was recently named China's Best Employer by Aon Hewitt for the fifth consecutive year.

Finally, on the strength of our channel partnerships with Nestlé and Pepsi, our Channel Development revenue grew 5% in Q1, when normalized for the 7% impact of the Tazo and Global Coffee Alliance transitions, boosting our share of the coffee market outside of specialty retail. This is another example of the strength of the Starbucks brand that continues to expand globally, reaching more customers through more channels.

Collectively, these results demonstrate that we are on the right track with our Growth at Scale agenda. I am especially grateful to all Starbucks partners around the world, who celebrate coffee and human connection and whose passion and commitment to the Starbucks mission and our company values are creating long-term sustainable value for all stakeholders.

As we approach the 50th anniversary of Starbucks in 2021, I am optimistic about the future. Why? Well, when I step back and look at the quarter, I see multiple proof points of the unique strength of our brand, strength that is derived from targeted investments that bolster our competitive position in a high growth category, enabling us to unlock the full potential of one of the world's most admired and trusted brands.

In the US, customer connection scores reached another all-time high in Q1, as our dedicated store partners continue to elevate the Starbucks Experience and deliver the very best moments with our customers each and every day. We realize this is a key differentiator for Starbucks, and we continue to make investments in partner hours, benefits and training. There is no doubt that our partners and the investments we make in them are at the core of creating the unique Starbucks Experience that fueled our Q1 performance.

Additionally, our brand equity research in the first quarter confirmed that Starbucks continues to lead consumer perceptions of specialty coffee retail concepts in the US, well ahead of other brands, including so-called third-wave, independent and local coffee concepts. This is aided in part by our proprietary beverage innovation and our unique ability to personalize hand-crafted beverages at scale. We strengthened this competitive advantage in Q1 by extending our Cold Brew platform and Cold Foam options with two new seasonal beverages, Pumpkin Cream Cold Brew and Irish Cream Cold Brew, which together contributed to our traffic growth for the quarter. Notably, for five consecutive quarters, our comp growth has outperformed the external indexes and benchmarks we track in the restaurant and QSR space.

Our brand strength was also evident on the digital front in Q1. In the US, we added a record 1.4 million customers to our 90-day active Starbucks Rewards member base, ending the quarter with 18.9 million active members, a 16% increase over prior year. This is important, because we know from experience that when customers join our Rewards program, their total spend with Starbucks increases meaningfully. We also know that Starbucks is increasingly valued for convenience, as the mix of Mobile Order & Pay transactions in the US grew to 17% in Q1. And our industry-leading digital platform will further differentiate us from the competition over time.

Our digital progress in China was equally compelling and is resonating with the digitally savvy Chinese consumer. Proprietary research in Q1 showed that Starbucks remains the country's most beloved coffee brand and customers' first choice for away from home coffee. In the first quarter, sales from China's mobile orders jumped to 15% of total revenue, up from 10% in the past quarter, with 9% coming from delivery and 6% from mobile order and pickup.

Underpinning these results was the continued growth of China's 90-day active Starbucks Rewards members, reaching 10.2 million customers in Q1. That's 40% growth over the prior year, when the program was relaunched. Our first quarter digital strength in China was further evidenced by record sales on Alibaba's Singles' Day shopping festival, the number one card position on Tmall, and the leading brand on WeChat social gifting platform.

Over our 20 years in China, we've established unparalleled brand stature by delivering a unique premium experience to our customers. Outside of specialty coffee retail, the power of our brand was demonstrated by the continued expansion of our Global Coffee Alliance with Nestlé, now in more than 40 markets, including the additional five new markets we entered in Q1, with product sales significantly ahead of expectations. Every customer interaction in our stores establishes customer affinity and brand loyalty, with the Global Coffee Alliance then acting as a brand amplifier, bringing Starbucks coffee to new channels and new markets.

Our Starbucks Reserve Roasteries are also important brand amplifiers. In November, we opened our Roastery in Chicago, our sixth Roastery globally, to a phenomenal customer reception. Since the opening, the store continues to gain international attention, attracting an average of 10,000 visitors a day, with a peak of more than 21,000 visitors in a single day. I want to thank our Starbucks partners who work in the Chicago Roastery as well as the City of Chicago for the warm welcome and spectacular response to the opening of the world's largest Starbucks.

These proof points provide clear evidence that the Starbucks brand is not only strong, but it is getting stronger through the focus and discipline of our Growth at Scale agenda. In fact, just last week, Starbucks was named one of Fortune's Most Admired Companies for the 18th consecutive year.

In summary, I could not be more pleased with our Q1 results and how they reinforce the unique strength of Starbucks, but make no mistake, we do not take this for granted. We will continue to take clear and decisive steps to build our brand for the future, focusing on our competitive advantages, investing in our partners as they create those unique Starbucks Experiences for our customers, driving beverage innovation and enhancing digital relationships. And while we do this, we are further amplifying our brand through the Global Coffee Alliance and committing to an even higher level of social responsibility with bolder aspirations for environmental sustainability.

As many of you've seen, last week we disclosed an ambitious, multi-decade aspiration for Starbucks to become a resource-positive company, which means, we, as a company, want to give more than we take from the planet. We thought long and hard about this aspiration and are being deliberate in our approach. Over the past year, we conducted a rigorous environmental sustainability study in partnership with third-party advocacy groups. We embraced science-based targets and utilized industry experts to audit every aspect related to Starbucks' impact on climate, water, and waste.

We've shared the sustainability baseline report and our aspirations transparently on our website, knowing that this will not be easy. The journey will not be linear. It will require innovation, many industry partnerships, alignment with other like-minded companies, public policy support, and engagement of Starbucks partners and customers. This will challenge us in new and different ways and will require transformational change and measured risk-taking. We start this journey understanding our footprint, building upon our decade of experience in sustainability, and committing to lead on something that is important to all of humanity, taking care of our planet. And we invite others to join us.

As announced last week, we will be transparent in reporting short and long-term progress against our goals, and we will start with preliminary targets for 2030 that will be the focus of our research and operational plans going forward. Then, on Starbucks' 50th anniversary in 2021, we will formalize our 2030 environmental goals and our strategies based on what we have learned between now and then.

As we embark on this journey, we will prioritize, sequence, and balance our investments as we do across every aspect of our business. We remain committed to our ongoing double digit EPS growth model. We have momentum, our brand is strong, and we will continue to responsibly grow our business by staying true to our mission and values, doing the right things to care for and inspire our partners, creating great Starbucks Experiences for our customers, and pursuing a bold aspiration for the planet.

In closing, I would again like to thank my fellow Starbucks partners around the world. I have the privilege of sharing all your good work on these calls, and it is an honor to serve you and all of our stakeholders. I would also like to reiterate our support for the ongoing work as we respond to the coronavirus in a thoughtful and responsible way to protect our partners and support health officials and the government as they work to contain this public health risk. Starbucks has made a donation to the Red Cross to help support these efforts. We are making decisions real-time to ensure the health and well-being of our partners, and I am proud of how Starbucks China is navigating a very dynamic situation.

Now, I'll turn it over to Pat for a deeper dive into our Q1 financial results and an update on our fiscal year 2020 outlook. Pat?

Patrick J. Grismer

Executive Vice President & Chief Financial Officer, Starbucks Corp.

Thank you, Kevin, and good afternoon, everyone. I am pleased to report non-GAAP EPS of $0.79 for our first quarter of fiscal 2020, exceeding our expectations and reflecting a meaningful margin expansion in each of our operating segments. This represents a 16% increase year-over-year, when excluding an $0.08 headwind related to a lower income tax rate in fiscal 2019. These results underscore the strength of our brand globally and the outstanding underlying momentum across our business as we continue to execute our Growth at Scale agenda.

I will first take you through our Q1 fiscal 2020 operating performance by segment, followed by an analysis of our consolidated margin performance. I will then share some perspective on our outlook for the full fiscal year.

Our Americas segment delivered revenue growth of 9% in Q1, primarily driven by 6% comp sales growth and net new store growth of 3% over the past 12 months. Our US business delivered an impressive 6% comp sales growth in Q1, driven equally by transactions and ticket. These results were driven by an improved partner-led in-store experience, a strong beverage lineup, and increased digital customer engagement.

Beverage led our comp growth for a sixth consecutive quarter, driving approximately 5 points of comp sales growth, with strength across all beverage categories with food contributing the remaining point. Our cold platform continues to resonate with customers during all seasons and was our primary growth engine for the quarter led by cold coffee. Importantly, the growth in cold beverages in Q1 occurred in all dayparts and all regions, reflecting a broad appeal across our customer base.

Following the success of our fall seasonal offerings at the start of the quarter and building on the success of last year's season, our holiday platforms delivered strong performance that exceeded our expectations. Returning favorites such as Peppermint Mocha and new innovations like Irish Cream Cold Brew created momentum throughout the holiday period.

And, as Kevin mentioned, our Starbucks Rewards loyalty program continued to gain momentum, building on the launch of multi-tier redemption last April. Our reimagined Happy Hour resonated well with customers, driving additional member growth, and gift card activations delivered their strongest year-over-year dollar growth in four years.

Ticket growth of 3% for the quarter was led by pricing, beverage attach, and food. We saw transaction growth in both the morning and afternoon dayparts for a third consecutive quarter and our highest quarterly peak transaction growth in three years. These improvements would not have been possible without the dedication of our green apron partners who continue to accommodate higher volumes, while elevating the customer experience.

And finally, America's non-GAAP operating margin expanded 50 basis points to 22.0% in Q1 driven by sales leverage and supply chain efficiencies, partially offset by growth in wages and benefits and to a lesser degree investments in labor hours and inflation and occupancy costs.

Moving on to International, the segment delivered revenue growth of 10% in Q1, excluding a 6% unfavorable impact of Streamline-related activities. This was led by 11% net new store growth over the past 12 months. International's comp sales growth of 1% in Q1 was adversely impacted by 2 points due to a soft quarter in Japan, which was lapping 6% comp sales growth from last year. China, our lead international growth market, delivered solid comp sales growth of 3% in Q1 including 1% comp transaction growth. Continued expansion and strong performance of mobile ordering as well as the up-level Starbucks Rewards program were primary drivers of these results.

At the end of the first quarter, mobile order and pickup had been rolled out to more than 100 cities, encompassing more than 90% of our store base, just seven months following the launch of the program, and we expanded delivery to 130 cities, covering more than 80% of our portfolio.

International's non-GAAP operating margin increased by 170 basis points to 21.4%. When excluding the 70 basis point impact of Streamline-related activities, non-GAAP operating margin expanded by 100 basis points, driven by sales leverage and supply chain efficiencies, partially offset by unfavorability in product mix and strategic investments, notably in-store and digital initiatives.

On to Channel Development, revenue declined 2% in Q1 as we lapped two items that benefited fiscal 2019, the sale of Tazo branded products to Unilever and transition activities related to the Global Coffee Alliance. When excluding the 7% adverse impact of these items as well as Global Coffee Alliance transition activities in fiscal 2020, revenue increased by 5% in Q1, led by strong underlying growth in the Global Coffee Alliance. The segment's non-GAAP operating margin improved by 70 basis points over the prior year. Normalizing for the 20 basis point impact of the transition activities, I just mentioned, Channel Development's operating margin expanded 90 basis points in Q1 driven by favorable distribution efficiencies and business mix.

Finally, at the consolidated level, non-GAAP operating margin of 18.2% in Q1 increased by 80 basis points year-over-year primarily driven by sales leverage and supply chain efficiencies. The favorability from these items was partially offset by growth in wages and benefits and to a lesser degree by rent inflation and investments in store labor hours. I am particularly pleased that we delivered meaningful margin expansion, while also continuing to invest in our partners, our stores, and our digital capabilities to keep the Starbucks brand strong and relevant. To a great extent, this reflects our ability to drive improvements in margin from sales leverage, as well as supply chain and G&A efficiencies and to reinvest a meaningful portion of that upside in our key brand differentiators which strengthen our competitive position and fuel long-term sustainable growth.

Now moving on to our guidance for fiscal 2020, given the strength of our first quarter results, we had intended to raise certain aspects of our guidance for the full fiscal year. However, as Kevin mentioned, given the extraordinary circumstances that are rapidly developing in China, we are simply reaffirming our original guidance and will provide an update when we have better visibility to the impact of coronavirus. The magnitude of the impact will depend on the duration of store closures as we work with local authorities to manage the situation and protect our partners and customers.

At present, we are unable to reasonably estimate the impact to the business. Notwithstanding the fact that our China business represented only 10% of our global revenues in the first quarter of fiscal 2020, we expect these events to have a material impact on our International segment and consolidated results with the second quarter and full year of fiscal 2020. In any event, based on what we currently know, we expect the impact to our business will be temporary. Our brand is very strong in China, and our confidence in the profitability and growth potential of this business is undiminished.

To summarize, we are very pleased with our first quarter performance and view these results as further validation of our strategy to grow Starbucks at scale with greater focus and discipline. We appreciate the hard work of our

Starbucks partners who deliver these results in a manner that remains true to our company's mission and values, which is the core of our business.

And with that, Kevin and I are happy to take your questions, joined by Roz Brewer and John Culver, as Durga outlined at the top of our call. Thank you. Operator?

QUESTION AND ANSWER SECTION

Operator: [Operator Instructions] Your first question comes from John Glass from Morgan Stanley. Please proceed with your question.

John Glass
Analyst, Morgan Stanley & Co. LLC

Q

Thanks very much. Could you maybe just help us understand or dimensionalize the impact of China a little bit more? First, just when the stores were closed, those stores that aren't closed, maybe magnitude of what you think the sales declines are currently? And do you continue to pay employees? I assume you do, but just clarify that. And then finally, is delivery an offset? Is there a delivery business that can offset some of the closures? Or has that also been curtailed by this outbreak?

Kevin Johnson
President, Chief Executive Officer & Director, Starbucks Corp.

A

Thanks, John. We'll have John Culver kind of give you a little bit of color on the day-to-day in China, and then Pat will follow up on the second part of your question related to the implications. John?

John Culver
Group President-International, Channel Development and Global Coffee & Tea, Starbucks Corp.

A

Yeah. John, obviously Kevin reiterated the fact that we're focused on making sure we're taking care of our partners, their health and well-being as well as the customers. In terms of the closures, what we have seen is that over the last few weeks, I would say, that as the situation has accelerated, we've taken action to close stores, both working with the local government and the direction that they've given us, but then also proactively closing stores in the country. As we shared, we currently have over half our stores closed in the market. We are assessing this each and every day. We do have delivery available to customers from stores that are remaining open. But, again, this is something that we continue to assess every day.

And let me just reiterate, this is a very complex situation, and I'm working very closely with Belinda and the team in China to navigate this changing environment. And as a company, we've navigated complex situations before, and in China we feel there is no other company that's better positioned to navigate this, given our relationship that we – and trust we've been able to build with our partners and the relationship and trust that they've been able to build with their customers.

We will remain transparent as the events continue to unfold, but we do have complete confidence in the decisions that we're making, and we will continue to provide complete support for our partners and for the people of China as they navigate this situation. We've been in the market for 20 years, and we have built an admired and trusted brand. And we will continue to play the long game in China as we navigate in the coming weeks and months.

Patrick J. Grismer
Executive Vice President & Chief Financial Officer, Starbucks Corp.
A

And, John, this is Pat. Just to build on what John has said, it really is difficult to say at this juncture what the impact to our business will be and how it will show up in our financials, given the fluidity of the situation. The business impact is largely a function of two things: the number of stores closed and the duration of closure. And with respect to the duration of closure, it's not entirely in our control. I would say to a lesser extent, the financial impact is a function of how we manage wage costs during the period of closure. So we're simply not able to provide a reasonable estimate at this point in time. We will need to move beyond the extended Chinese New Year holiday season to assess how the situation may be stabilizing and what the implications are for store closures.

We're probably looking at early March at the earliest to reasonably assess the implications for revenue, operating income, and EPS for our second quarter and for the full year. At the very latest, we'll provide an update in conjunction with our Q2 earnings release on April 28. Our commitment is to maintain transparency with investors, and as and when we have a reasonable basis for estimating the financial impacts for the quarter and year, we will communicate that information.

But importantly, we do expect the impacts to be temporary. Our long-term double digit growth model is fully intact, and, of course, we will gain the benefit of lapping these temporary impacts next year.

Operator: Your next question comes from David Tarantino with Baird. Please proceed with your question.

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

Hi. Good afternoon. And, Pat, maybe just following-up on some of those questions around the guidance, would you be willing to share where your guidance would be without this China issue, so that we can understand where the baseline of the underlying business is, especially if you want to assume that it's temporary?

Patrick J. Grismer
Executive Vice President & Chief Financial Officer, Starbucks Corp.
A

Yeah. I'm not going to provide details as to the magnitude of the guidance raise that we had planned or the specific line items, but I'm happy to share that we would have raised guidance or operating margin and for EPS on the strength of our Q1 results and visibility to some balance of your benefits. But given the uncertainty of the coronavirus situation in China and its impact to our near-term results, which we expect to be temporary, we felt it was best to defer any change to our guidance until we had better visibility to full year results, including the impact of coronavirus.

And as I said before, we're committed to being responsibly transparent with our investors, and we'll provide an update when we have reasonable confidence behind our numbers, because it would not be helpful to speculate at this time. But we could not be more pleased with our Q1 results across the board, the overall underlying momentum in our business, and the confidence that that gives us behind our ability to deliver better than expected results, setting aside this new issue that has emerged in China.

Operator: Your next question comes from the line of Sharon Zackfia from William Blair. Please proceed with your question.

Sharon Zackfia
Analyst, William Blair & Co. LLC
Q

Hi. Good afternoon. I am not going to ask a China question. I actually wanted to talk about the Americas and the decline in G&A dollars year-over-year. I know it was modest, but if you could kind of talk about that, whether that was just timing. And then on Channel Development, I think you had expected revenue to go down somewhere between 7% and 9% this year. It was obviously a lot less in the first quarter in terms of the degree of decline. Is there something that's changed there? Is it a timing dynamic? More weighted to the back half for the declines? Any commentary would be helpful.

Patrick J. Grismer
Executive Vice President & Chief Financial Officer, Starbucks Corp.
A

Sharon, this is Pat. I'm happy to take both questions. First of all, with respect to the G&A, we are very pleased with the progress that we are making across the company in delivering our G&A efficiency commitment. As a reminder, we had committed to reduce by 100 basis points G&A as a percentage of system sales. That is not something that we routinely report because we don't report system sales, but a good proxy for that is non-GAAP G&A as a percentage of revenue and we do report that. We've added that to our supplementary schedules in our earnings release. And we have seen meaningful efficiencies emerge in the first quarter, and we expect that to continue balance of year. That's on the back of very significant work over the last 12 to 18 months to realize productivity in our G&A, not just in the Americas, but really across all of our segments and certainly at Corporate.

And then with respect to the Global Coffee Alliance, we did see better than expected results in the first quarter. We did anticipate a decline for the first quarter and for the full year, but our better than expected results in the first quarter resulted from outperformance, specifically in the Global Coffee Alliance. So we could not be more pleased with how our products are performing as we continue to partner with Nestlé, and we anticipate that was going to be one of the aspects of our improved guidance for the year is better than expected revenue growth from our Channel Development segment.

Kevin Johnson
President, Chief Executive Officer & Director, Starbucks Corp.
A

John, you might want to comment on the new markets and...

John Culver
Group President-International, Channel Development and Global Coffee & Tea, Starbucks Corp.
A

Yeah. And so, Sharon, we couldn't be more pleased with the performance of the Channel Development business, in particular the Global Coffee Alliance. Through the quarter, we saw acceleration into 40 markets around the world where we have our products available through grocery as well as foodservice. We also are on path by the end of this quarter that we're in to be in over 50 markets.

Our product sales continue to be significantly ahead of expectations, both in terms of packaged coffee, Nespresso capsules, as well as Dolce Gusto. When you look at our core business here in the US, Starbucks brand outgrew the total category for coffee. Roast and ground share grew 80 basis points. K-Cup share grew 40 basis points. And we've got some exciting new items that are coming up.

Later this spring, we previously announced that we're launching premium soluble coffee, which will – we're excited about and a big opportunity internationally with that. And then the launch that we had with our creamers of four flavors we're now expanding to an additional two new flavors given the recent success.

So the Global Coffee Alliance itself is performing very well around the world, and it's helping us continue to grow the Starbucks brand and amplify the brand, as Kevin highlighted in his comments earlier.

Operator: Your next question comes from John Ivankoe from JPMorgan. Please proceed with your question.

John Ivankoe
Analyst, JPMorgan Securities LLC

Q

Hi. Thank you. I was hoping to get an update on Deep Brew, especially as we come into April and I think lap some changes around the change in the AI machine that delivered some customized loyalty to customers as well as the change in the My Starbucks Rewards program, maybe as a slightly separate, but related question, how much, I guess, confidence do you have as we do get into some of the strength that we saw in fiscal 2019 that we can lap some of those significant changes in the consumer offerings?

Kevin Johnson
President, Chief Executive Officer & Director, Starbucks Corp.

A

John, I'll let – I have Roz give you a little perspective on Deep Brew and how it's influencing our performance.

Rosalind Gates Brewer
Chief Operating Officer, Group President & Director, Starbucks Corp.

A

Thanks, John, for the question. So, first of all, I wanted to ground everybody in what's happening in some of our equipment innovation. And one of the strongest pieces of innovation that we're seeing is combining our Mastrena II machine, which is our espresso machine, which we installed about 1,900 units last year. We've got 4,000 of those coming this year, and those machines are AI-enabled. And so that is where we will see the most significant deliverable around how we will integration AI into understanding how to deliver the best coffee experience and also reducing the amount of time it takes to deliver and then giving us a chance to provide a variety of coffee to our customers. So you'll see that come through.

There's also other innovation happening around Deep Brew. It will show up in various aspects of the business, but the equipment position is our strongest position right now. In addition to that, when we talk about the things that have happened in our loyalty program, we did see some significant improvement in this quarter. Right now we finished this quarter at about 18.9 million growth, and that's a 16% improvement versus last year in our active Starbucks Rewards members. It's the strongest growth rate we've seen in three years. So the work that we've done in our multi-tier redemption is also allowing us to grow our member base. We've got an increase of annual member growth of 2.7 million members. And we're also seeing all-time records in that area as well. It's enabling us to do really creative work with how we reimagine our Happy Hour performance, making sure that we are understanding what the customer needs.

There's a lot of customer insights that comes out of the work that we do as we grow our member base. We're also seeing that our loyalty programs and the new membership behavior that we're seeing, which contributed 2 points of the 6% comp for the quarter. So we are learning from what's happening as we align AI to our equipment, and then the work that comes out of our loyalty programs and getting us closer to customers' expectations. And it's making a difference.

Operator: Your next question comes from Jeffrey Bernstein from Barclays. Please proceed with your question.

Jeffrey A. Bernstein
Analyst, Barclays Capital, Inc.

Q

Great. Thanks very much. Just a broader question on China learnings. Putting aside the coronavirus, clearly there's lots of competition in the market, I think oftentimes coming in on the lower end in terms of experience and perhaps customer affluence. So I'm just wondering, what learnings would you say you've taken from this competition to better your positioning? It seems like you had a slowdown a year ago, and now it seems like trends are moving in the upward direction, again, I'm just wondering if you can provide some clarity in terms of which two or three initiatives would you say maybe you took some learnings from some of that competition to better yourself in the market. Thank you.

Kevin Johnson
President, Chief Executive Officer & Director, Starbucks Corp.

A

John, why don't you take that one.

John Culver
Group President-International, Channel Development and Global Coffee & Tea, Starbucks Corp.

A

Well, Jeffrey, I think there's a couple of things around what we're doing in China. First and foremost, focusing on the premium quality of the coffee and our ability to hand-craft the beverages for customers to the way they want it. We feel that there is no other competitor in China that is able to do it and replicate it at the level that we are, as signified by more than 7 million customers we serve a week across the 4,300 stores. In addition, you then have the opportunity of developing these relationships between our partners and our customers. And our partners are truly the differentiating factor in terms of bringing the Starbucks Experience to life for our customers. And when you go to China and you experience our people and their passion for coffee and their passion for service to customers, that is a true differentiator that we have in the market.

You then put all that together in the third place, and the beauty of our stores, the inviting environment, the way in which we show up in the third place, we have an environment that customers come to and want to be with their family and friends. Now what we've done is we've also enhanced that with the digital experience. And we had a great quarter as it relates to digital. We now have 90-day actives grew 40% year-over-year to 10.2 million, that's nearly double from where it was a year ago.

We've also gone through and built out Mobile Order & Pay capability as well as delivery. So mobile orders in total reached more than 15% of sales mix in the quarter compared to 10% in Q4, so 9% being delivery, 6% being Mobile Order & Pay. And we're continuing to build out these digital relationships with customers.

Then you couple all that with the Global Coffee Alliance and our RTD business in China. There is no other company brand in China that has the distribution points that we have. We have over 100,000 points of distribution of the Starbucks brand in China, and our partners are bringing it to life every day. And it's their passion and their commitment that is making us successful and will continue to make us successful.

Kevin Johnson
President, Chief Executive Officer & Director, Starbucks Corp.

A

Let me just add to John's comments and share a perspective, Jeffrey. I think, look, throughout history, we've had many, many competitors enter the market. Look, coffee is a large and growing addressable market, and we stay focused on the premium experience and the unique differentiators that, we believe, create Starbucks. And if you look throughout history, there's a consistent pattern. In most all cases, our competitors shift to focusing more on the value play, and you see that time and time again. And I think we continue to see that trend.

So the lesson for us is, continue to amplify those unique differentiators that make us Starbucks. And that's why as you think about the Growth at Scale, we really, as John said, amplify the customer experience we create in the store. We amplify the quality of our coffee and the beverage innovation that we provide, the fact those beverages are hand-crafted and personalized for each and every customer, and then we extended that in-store experience to a digital customer relationship.

And that mix of ingredients are what differentiates us, and we feel confident that we understand them. We don't compromise those, and we stay focused on playing our game. It's worked in the past. It's working today, and it will work in the future.

Operator: Your next question comes from Matthew Difrisco from Guggenheim Securities. Please proceed with your question.

Matthew DiFrisco
Analyst, Guggenheim Securities LLC
Q

Thank you. I just had a couple of follow-ups. With respect to China, thank you for sharing that about the 10% of global revenue. Is it correct then I guess to also assume – in your past Analyst Days you've obviously shown how strong of a market and the opportunity and the returns there. That also would then by default have a higher contribution to the income, I suspect? And then if you could comment also, is this – the travel restrictions, are they having any sort of impact also on the ability to meet those growth targets? I know you have 600 stores planned for that country. Is that something also that's sort of been halted during this timeframe as well?

Patrick J. Grismer
Executive Vice President & Chief Financial Officer, Starbucks Corp.
A

Yeah. Matthew, this is Pat. With respect to the first question, China's operating income as a percentage of business unit operating income globally is slightly higher than the 10% that it represents of revenue. And over to John for the second piece.

John Culver
Group President-International, Channel Development and Global Coffee & Tea, Starbucks Corp.
A

Yeah. Matthew on the store side of it, I think it's too early to tell. We're committed to the numbers that we previously communicated around store growth in China, and we'll continue to build beautiful stores and accelerate the growth of the brand. Suffice it to say new stores contribute 80% of our revenue growth in the market, and it's an important component and one that we'll continue to focus on with the team there.

Operator: Your next question comes from Dennis Geiger from UBS. Please proceed with your question.

Dennis Geiger
Analyst, UBS Securities LLC
Q

Thank you. I just wanted to ask a bit more about the continued strength of US traffic. Maybe, Roz, can you talk a bit more about where that's coming from? How much of it is higher frequency from existing customers versus maybe some new customers? And any other observations or insights that you could share? And then I think you've touched on the drivers, but if there is anything you can get into more on how much of it is experience versus digital versus the beverage innovation that you feel is driving that traffic piece, if you can dive into that any more. Thank you.

Rosalind Gates Brewer
Chief Operating Officer, Group President & Director, Starbucks Corp.

A

Sure. Thank you, Dennis. So, a couple of things. You heard Kevin, in Kevin's remarks that we achieved the 6% comp in this quarter, 5 of those 6 points came from beverage growth. So beverage innovation is a large part of the work that we're doing that also is impacted by the work we're doing in in-store innovation also and the efficiencies that we're building there and then the digital relationships.

If I could go a little bit further into the efficiencies that we're seeing in the store, we are actually doing a large amount of work around creating and improving productivity in the stores. And in many cases, this is not productivity driving activity by taking hours out and really reducing our cost position in the stores, it's actually to allow our partners to spend more time with our customers. So we're seeing record scores at this time of customer connection scores in our stores. These are record numbers. We believe it's a multitude of things, dealing with reducing the amount of tasks, the menial tasks that our store managers and our baristas have to do in our stores.

In addition to the equipment improvements that we're seeing, we have Nitro Cold Brew across all of our stores right now. When we put in the Mastrena II machine, we're seeing operational efficiencies. It's a lower profile machine. It allows our partners to see over the bar and interact with the customers. We're actually seeing a significant amount of work coming out of the work we have learned through our digital relationships. So we know more about who is coming in the morning.

Kevin's remarks also reveal that we are growing in every daypart. We're also seeing a significant growth pattern in our cold coffee. And so that includes all cold beverages, meaning tea as well. And we're seeing cold beverages grow in the morning and the afternoon occasion. We're seeing also, too, the work – if you recall when we began to grow and change our program in loyalty around multi-tier redemption, we are seeing growth with the occasional customer. And there is some connection between cold coffee, afternoon occasion, and the occasional customer. We are seeing growth after 11 o'clock in the afternoon with the occasional customer and with cold coffee.

So we think that it's that combination that's really happening for us, Dennis, in terms of the beverage innovation. So right beverage for our customer base, improving the work that our partners have to do in our stores, so that they can interact with the customers and improve customer engagement, and then learning from our digital relationships and understanding how to market to our customer base and bring them in the store. And a great example of that is our reimagined Happy Hour. And so we're doing, we're combining these three initiatives together, and we are convinced that this work and the discipline around it is really driving our comp performance. And we can see this in future quarters ahead of us.

Operator: Your next question comes from the line of Sara Senatore with Bernstein. Please proceed with your question.

Sara Harkavy Senatore
Analyst, Sanford C Bernstein & Co., LLC

Q

Hi. Thank you. I have a question and then a quick follow-up. Just on the margins, you had said that, that was a place where you would have probably raised guidance. I think in general, Pat, you've said you wanted to be conservative on guidance. But could you just talk a little bit about whether the beat versus expectations was in fact just how you positioned the guidance? Or whether there are some surprises in there? Supply chain, obviously the comps were a bit better than you would, I think, have expected or the long-term algorithm would suggest. So if you can just talk about where the margin upside with maybe some specific initiatives or sources would be?

And then just my follow-up is, you had said that the wide-scale closures in China and the store closures to be the primary driver of the impact on the business. So does that suggest that, for the stores that are remaining open, you're not really seeing a change in trend in the China stores? I would have thought there would be more of an impact on consumer confidence broadly. Thank you.

Patrick J. Grismer
Executive Vice President & Chief Financial Officer, Starbucks Corp.

A

Thank you, Sara. I'll take both questions and then pivot to John for additional color on China. First of all, with respect to margin performance in the quarter, we were really delighted with our overall margin outcome in Q1. And what was better than expected was, to your point, higher than expected comp growth, and with that strong sales leverage, contributing positively to margin. We also had stronger than expected benefits from our supply chain. Part of that was a function of the fact that in the US, we had such strong sell-through for our food, beverages, and merchandise in holiday that we did not incur the level of inventory reserves that we've seen in the past. So a number of initiatives came together to deliver really strong margin performance in Q1, and that was the overriding contributor to what we had planned by way of a margin guidance raise for the full year.

With respect to China and the drivers of the business impact, I highlighted that the number of stores and duration of closure are the two primary drivers of the business impact. That's not to say that there aren't other drivers or other considerations here. And certainly the reduced retail footfall that we're seeing across the country in the wake of the efforts taken to contain the virus and how customers generally are a bit reticent to perhaps visit commercial centers versus previously is another factor. So it is a contributing factor, but the big factor really is the duration of closure, and I'll really pivot to John for additional color on that.

John Culver
Group President-International, Channel Development and Global Coffee & Tea, Starbucks Corp.

A

Yeah. So, Sara, obviously we're tracking customers and transactions in our stores that we have open. And we look at that each and every day. I would say that, versus historical levels, it definitely has slowed down from – and Pat gave you a little bit of color on that. We look at this each and every day. We've taken action in our open stores to adjust operating hours. We've also gone in and adjusted some of the product offerings based on supply chain availability. And then we've also taken a look at specific trade areas, where we can consolidate the stores into one store that's meaningful and reaches customers.

So a lot of different actions are being taken, but as Pat shared, the majority of the impact will come from the closed stores. But this is something we assess every day. As you're aware, Chinese New Year has been extended, and we're continuing to watch this very closely with the team in China.

Operator: Your next question comes from David Palmer with Evercore ISI. Please proceed with your question.

David Palmer
Analyst, Evercore ISI

Q

Thanks. Just a follow-up on the US and the beverage contribution of 5 points which is certainly much higher than it was a couple years ago. If we look back that far, it feels like the Frappuccino platform has stabilized, and we've seen the benefit of some of the newer cold beverage platforms like Cold Brew and Nitro and perhaps with the help of Foam more recently. Could you talk about the biggest contributors to the improvement if we kind of look at this from a multi-year perspective? And if we're looking forward in a similar way, could you talk about the biggest contributors to beverage growth going forward and how you feel about the pipeline of beverage news kind of keeping this energy going in the beverage side? Thanks.

Rosalind Gates Brewer
Chief Operating Officer, Group President & Director, Starbucks Corp.

A

Yes, David. Thanks for the question. So, a few things. If you recall, last year this time we were probably issuing a lot of LTOs, limited time offers. Some of that was Frappuccino based. We were not penetrated with enough Nitro equipment technology in the stores, and Nitro, we knew, was a growing category. So what you're seeing right now is our execution of putting Nitro in every one of our buildings in the US and so that's a big transition that we've made.

In addition to that, playing into cold coffee and that process of creating and leaning into cold. And what you can see in the future from that is that we do have equipment improvements coming in our Cold Brew technology. Part of that is making sure that we are in stock at all times with this process, and so we actually have the equipment changes coming in the future for that.

I'll also mention, too, that you've seen us add alternative milks to our beverage line which gives us a chance to customize. We know that there is a portion of our customer base that wants more of a healthy-for-you concept, and so you've seen some of the work that we have done to add oat milks regionally across the country. And as that becomes more available in the industry, we will acquire more of that capacity. In addition to that, our hot business is holding very nicely for us.

Also, from a holiday perspective, we introduced beverages that have high demand, if you think about the Irish Cream Cold Brew and then what we were able to do with the Pumpkin Spice category. What also gives us confidence as we go forward is the works that we're doing to make sure that we can deliver on what the customers are asking us for. So you'll see more coming in the alternative milk category for us, and then playing into the cold category.

Also, in terms of what helps us sell beverages is our food attach. We will be introducing a breakfast sandwich this year with a plant-based patty both in US and Canada, and the combination of those pairings is significant for us in terms of how we think about what the customer is asking for us to develop.

I'll also mention that we are seeing still growth in our morning dayparts and with MOP, but it's significant to also mention that in this quarter we opened our first convenience store. So we're seeing increased traffic when we create new formats. Our first introduction to this was in Penn Plaza in New York. I had the chance to visit there in the last 10 days. Customer response is very favorable. It is showing just one more way that our brand is significant to our customer.

Once you exit Penn Plaza Station, you come right up to the store. Customers are responding that it feels like a walk through. It has our latest technology in there from the digital boards that really announce when your drink is ready. It's those kinds of things combined with beverage innovation that give us the confidence that we're listening to our customers and providing them access to our stores, access to our brand, the way they want to acquire their coffee and also listening to them in terms of how we should grow our beverage innovation.

So we are committed to this category of cold coffee and also making sure that we're staying close to what the customer would like to see in what's next in their beverage preference.

Operator: Your next question comes from Eric Gonzalez with KeyBanc. Please proceed with your question.

Eric Gonzalez
Analyst, KeyBanc Capital Markets, Inc.

Q

Hey. Thanks for taking the question. Just have one question on China and then maybe a follow-up. So it seems like you're pushing more aggressively into the lower tier cities where coffee consumption is a little bit lower than it might be in the higher tier cities. So if you can talk about how the return's equation works in those lower tier cities and maybe how the product mix differs in those types of locations?

And then as a follow-up to that, with the delivery driving 9% sales mix this quarter, does that imply that the on-premise business is running negative [ph] if – it's (00:59:05) early days about this time last year in the delivery rollout? So can you maybe talk about why that might be the case? Is it competition, potentially sales transfer? Or is delivery itself cannibalizing your in-store business? Thanks.

John Culver
Group President-International, Channel Development and Global Coffee & Tea, Starbucks Corp.

A

Yeah. Eric, this is John. Just to answer your question, in the quarter, we opened 167 stores, 46% of those were either in Tier 1 and Tier 2 cities. We do see very strong performance in lower tier cities, and we continue to make investments in those cities playing the long game. Clearly when we open our first few stores, there is a lot of demand for Starbucks coming into those cities. As we continue to build out the footprint, what we've seen historically is that the total transactions obviously continue to grow, and volumes show up as very similar to some of our outer Tier 1 cities. So we feel good about our growth in these Tier 4, Tier 5 cities overall.

In terms of the delivery aspect of it at 9%, clearly we see a lot of benefit. It creates a whole new occasion for our existing customers, and it's helping to drive transaction growth in our stores. We have over 3,500 stores in 130 cities, which is 80% of the store base, having delivery available to them. We see it as an incremental for these existing customers as well as attracting new customers. In total, dollar profits continue to increase because of it. It's slightly margin dilutive, but it does provide a higher ticket as well as a higher food attach. And we also see stronger demand in the mornings and during the lunch daypart.

Operator: Your next question comes from Katherine Fogertey with Goldman Sachs. Please proceed with your question.

Katherine Fogertey
Analyst, Goldman Sachs & Co. LLC

Q

Great. Thank you. I have a couple of questions here. So, first of all, on International, stripping out the strength that you saw in China, it looks like the rest of International was pretty weak on the traffic side. So I was wondering if you could walk through dynamics you're seeing in select markets there. And then on the point that was made earlier about the supply chain and having some problems stocking stores in the region in China, for the ones that are open, are you guys seeing difficulty transporting goods and services across the country at this point? And if that is the case, would there be any kind of ripple-through effect to maybe push out of new store openings and unit growth? Thank you.

John Culver
Group President-International, Channel Development and Global Coffee & Tea, Starbucks Corp.

A

Yeah, Katherine. Just real quick on the International side, as Pat highlighted, we had 2 points of impact given the Japan market and what we saw in Japan. And when you look at Japan overall, we had two major factors that influenced the comp performance in Japan. First was, early on in the quarter, we had a devastating typhoon that went through the country, which impacted two full days of sales in the market. The second piece was the increase in consumption tax that took place in early October. The good news that we saw through the quarter is that comps accelerated through the quarter back to more normal levels. So we do feel good about the trends that we're currently seeing in Japan.

When you look more broadly across the International segment and you look at in specifics EMEA and Asia Pacific, we saw strong growth in both of those regions through our license partnerships. UK in particular did very well. We had Middle East in EMEA that also performed well. And then when you go over to Asia Pacific, Korea had another strong quarter, which was great to see. And then we had some smaller markets, Philippines, Indonesia, Australia, and New Zealand doing well as well.

Switching to your question on China on goods and services, we're monitoring each and every day the supply chain challenges. Clearly in Hubei province, that area is impacted the most in terms of supply chain given the limited travel that's taking place in that city. We haven't seen that meaningful impact take hold in other cities. Although, as I shared, we continue to adjust the menus in our stores and the offerings to accommodate any supply chain challenges we have.

Operator: Your next question comes from Greg Badishkanian with Citi. Please proceed with your question.

Frederick Wightman
Analyst, Citigroup Global Markets, Inc.

Q

Hey, guys. It's actually Fred Wightman on for Greg. Just one quick follow-up. In your response to an earlier question as far as the changes to the full year outlook, you had alluded to some additional visibility, I think it was on operating margins or earnings for the balance of the year, what exactly were you referring to there?

Patrick J. Grismer
Executive Vice President & Chief Financial Officer, Starbucks Corp.

A

Yeah. So this is Pat. We see further upside in our Channel Development business specifically. So we have a stronger outlook for full year revenue and flow-through associated with that in Channel Development. There were a couple of other line items where we were anticipating making some adjustments as well. But far and away the key driver of what we had planned by way of a guidance raise was the extraordinary strength of our Q1 results.

Operator: Your next question comes from Andrew Charles with Cowen & Company. Please proceed with your question.

Andrew Charles
Analyst, Cowen & Co. LLC

Q

Thanks. Roz, one of the more impressive drivers of the US same-store sales has been growth in loyalty program with the 1.4 million members added during 1Q, [indiscernible] (01:05:31) highest it's been on record since you guys have been disclosing this. And I was wondering, with this growing base of users, can you talk about the changes in the tactics you're using to market more effectively to these customers to help increase the spend as well as the visitation?

Rosalind Gates Brewer
Chief Operating Officer, Group President & Director, Starbucks Corp.

A

So, yes, Andrew, just a few things there. One is we have a very effective media spend. And so if you go back a year or so ago, we were either – had very small investments in our media spend or not very directed. And so now we are better at understanding almost a one-to-one relationship with that consumer. And so if we have an email address, we can look at their past purchases and then suggest to them what they could enjoy in our stores, and then also to alert them to Happy Hour and other events that are happening in the store. And we didn't have that in the past.

And then in addition to that is when we introduce new items and so what we're seeing from a Cold Brew perspective is also just speaking to them about the new cold beverages. So it's having that one-to-one relationship and access to them and can personalize the offerings that we have to our customer base.

In addition to that, some of the other works that we're doing is to help our partners in the stores understand who is shopping in the stores. And so they know their customers just by the relationships that they've built over the years, but now they know a little bit more about who is shopping in their stores and who is visiting our cafés. And so we share that information with our partners in the stores, and it makes them very effective at the work that they do. And so it's a lot of the insights that we're gathering, we're using it to make our decisions. And also, too, it's fueling how we think about what innovation that we want to build and develop.

And so we're using our insights effectively, learning from our new members that are growing, and then watching the work that we need to do as we look at the multi-tier redemption program, which is still just approaching a year in terms of its full national rollout.

Operator: Your next question comes from Gregory Frankfurt with Bank of America. Please proceed with your question.

Gregory R. Francfort
Analyst, Bank of America Merrill Lynch

Q

Hey. Thank you very much for the question. Just looking back to the US business on, I guess, 18 to 24 months of slowdown in store growth, with that perspective, have you seen maybe less cannibalization from new stores? Or is that something that you guys have seen maybe flow back into comps, and that's part of the reason why they've picked up a few points? Any perspective on that? And then as we look forward, I think we're at the bottom of your 3% to 4% unit growth. Is this kind of how we should think about the longer term framework for [indiscernible] (01:08:24) store growth being in the US? Thanks.

Rosalind Gates Brewer
Chief Operating Officer, Group President & Director, Starbucks Corp.

A

So a few things there in terms of our store growth in the US. And so we're seeing pretty much the same amount of cannibalization in our business. There is no change there. For us, the best investment we could make is our new store growth. We appreciate the return on invested capital that we're seeing with our new store investments, so you'll see that continue.

What we've been doing is really looking at our formats and making sure that, as we add delivery and new stores, we're looking at coverage and how we cover our customer in the United States. One of the things I'll mention is the combination of delivery to our new store growth. We just added a total of 3,500 stores now across 49 markets in delivery. And so we have a broad amount of coverage in the US combining with that. And we still have the estimated number of new stores coming in the US and really advancing our format developments, anything from our new format in terms of the convenience stores, all the way to our Roastery plans. So we are still encouraged by our investments in new real estate, and we're not seeing any shift in cannibalization in our business right now.

Patrick J. Grismer
Executive Vice President & Chief Financial Officer, Starbucks Corp.
A

And, Greg, this is Pat. To build on what Roz has said, we would reaffirm our net store growth guidance for the US at 3% to 4%.

Operator: Your last question comes from R.J. Hottovy with Morningstar. You may ask your question.

R.J. Hottovy
Analyst, Morningstar, Inc. (Research)
Q

Thanks, and thanks for letting me get a question in here. Just one follow-up question for Roz and you kind of hinted on this on the last answer, but one area we haven't heard a lot about is that delivery program. And obviously you've been working with some new restaurant formats and developing that, but just wanted to see if you could provide us an update in terms of where that initiative stands and what takeaways you've had. Obviously you've shared some takeaways from the China in terms of attach rates and new customer growth, but just any takeaways you've seen with the delivery program so far in the US?

Rosalind Gates Brewer
Chief Operating Officer, Group President & Director, Starbucks Corp.
A

Sure. So, yes. We are continuing to expand. Because we're now at 75% US coverage of all Starbucks stores, we are now into a national marketing program, which, if you remember, this time last year we were roughly about 115 stores with no marketing against it. And so we are encouraged to continue to see what happens when we alert the customer that delivery is available at their favorite location. Our stores are equipped from a technology standpoint. The partners are well trained in terms of how to handle the trade-off between the transition of the beverage to the pickup delivery person. So operationally, it's working extremely well. We'll continue to watch it.

One thing I will say about the US business, if you compare it to China in terms of delivery, the adoption rate is still pretty modest in the US. And so we're just moving right along with the customer and making it available to as much coffee coverage as we can in the US. But it's modestly being adopted in the US if you compare it to China.

Operator: Ladies and gentlemen, that was our last question today. I will now turn the call over to Kevin Johnson for closing remarks.

Kevin Johnson
President, Chief Executive Officer & Director, Starbucks Corp.

Well, thank you, all, for joining us on today's call. I want to close by recognizing my Starbucks partners around the world for such a strong Q1 performance and the underlying business momentum that we are building as a company. I also want to recognize my Starbucks partners who are navigating the dynamic situation related to the coronavirus in China. As we deal with these extraordinary circumstances, we will remain focused on caring for the health and well-being of our partners, supporting health officials as they work to contain the coronavirus, and doing all of this staying true to the mission and values that built this great company.

To our investors, I appreciate your patience and understanding as we work through the temporary business impacts in China. We are as confident as ever in the strength and resilience of our double digit earnings growth model for the long-term. And we are committed to maintaining transparency as we gain a better understanding of the magnitude and duration of the near-term business impacts. I serve all stakeholders of this great company, and I'm so optimistic about our future as we continue to build an enduring company. Thank you.

Operator: This concludes Starbucks Coffee Company's first quarter fiscal year 2020 conference call. You may now disconnect.