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Starbucks Corp. (SBUX)

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MANAGEMENT DISCUSSION SECTION

Operator: Good afternoon. My name is Devon, and I will be your conference operator today. I would like to welcome everyone to Starbucks Coffee Company's Fourth Quarter and 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 would like to turn the call over now to Durga Doraisamy, Vice President of Investor Relations. Ms. Doraisamy, you may now begin the conference.

Durga Doraisamy

Vice President-Investor Relations, Starbucks Corp.

Good afternoon, everyone, and thank you for joining us today to discuss our fourth quarter and 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 & Cocoa.

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 and Quarterly Report on Form 10-Q.

In addition, we estimate the impact of COVID-19 by comparing actual results to our previous forecast. These forecasts were created prior to the spread of the virus, were based on information available at the time, and on a variety of assumptions, which we believe were reasonable. 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.

For certain non-GAAP financial measures mentioned in today's call, please refer to our website at investor.starbucks.com to find the corresponding GAAP measures as well as a reconciliation of these non-GAAP financial measures with their corresponding GAAP measures.

This conference call is being webcast, and an archive of the webcast will be available on our website through Friday, November 27, 2020.

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

Kevin Johnson

President, Chief Executive Officer & Director, Starbucks Corp.

Good afternoon, and thank you for joining us today. 2020 has been an extraordinary year, as together everyone on this planet has been navigating a global pandemic and all of the implications that come along with it. This shared experience gives us much to reflect upon, learn from, and be inspired by.

I am very proud of how Starbucks partners responded, pulling together to support one another, creating safe and familiar experiences for our customers, and serving communities. Starbucks partners who proudly wear the green apron have been at the forefront of these efforts, and I am enormously grateful for the courage, compassion, and dedication that they've shown throughout this journey. They inspire me and fuel my positive outlook for the future.

There are three words that I hope you take away from today's call: confidence; resilience; and optimism. Let me explain. First, in the most dynamic of times, Starbucks is consistently executing. Our recovery is progressing extremely well, as evidenced by better-than-expected sales and profits in the fourth quarter, which gives us great confidence going forward. Second, we have accelerated several growth strategies and are innovating rapidly to adapt to new customer behaviors and preferences, building a new level of resilience for the future.

And third, Starbucks partners have risen to the occasion, which, coupled with an innovation agenda that elevates the customer experience, introduces exciting new beverages, and extends our digital customer relationships, leaves us very well positioned and gives me a tremendous sense of optimism for fiscal '21 and the future of the Starbucks Coffee Company.

In these unprecedented times, Starbucks is more focused than ever on making the investments necessary to position our brand and our company for long-term success. We will maintain our disciplined approach to investing behind our best-in-class digital ecosystem and aligning our product portfolio, store base, and partner-led customer experience with evolving preferences and consumption patterns. Our track record of delivering across these areas underpinned the resilience of our business during this pandemic and will support Starbucks continued leadership.

Let me begin in the US. I could not be more pleased with our US sales recovery, which progressed faster than we anticipated in our final quarter of fiscal 2020. We finished the quarter with a comparable store sales decline of 4% for the month of September, a vast improvement from the approximately 65% decline we experienced at the depth of the pandemic only five months ago. Fourth quarter comparable store sales declined 9% in the US relative to the same quarter in the prior-year, well above the better end of our guidance range.

Importantly, transaction volumes in the US climbed steadily throughout the quarter as we methodically and carefully restored in-store seating with approximately 63% of our US stores offering limited seating as we exited the quarter.

Ticket growth was relatively stable across the quarter at approximately 20%, remaining meaningfully above historical levels, aided by continued strength in our drive-thru channel, where customers tend to place larger orders.

Central to the strength of our US recovery has been a relentless focus on rapid innovation, adapting and adjusting to new customer behaviors, while continuing to drive the three strategies that are fundamental to our Growth at Scale agenda: elevating the customer experience; driving relevant beverage innovation; and expanding digital customer engagement.

The first pillar of our Growth at Scale strategy, customer experience, is a key competitive differentiator for Starbucks and something that is paying dividends as customers, now more than ever, are seeking the comfort and care that Starbucks uniquely provides.

As customers continue to adapt to work-from-home and study-from-home realities, they crave safe, familiar, and convenient experiences and have shifted their buying behavior accordingly. And we've adapted rapidly to meet those evolving needs.

Broadly speaking, we've seen US transactions migrate from dense metro centers to the suburbs, from cafés to drive-thrus, from early mornings to mid mornings, with outpaced recovery on the weekends.

We've adjusted our operations to match these new customer behavior patterns, including multiple new protocols to provide a safe experience for our partners and customers. And this has resulted in customer connection scores which are well above prior-year levels.

By caring for our partners since the start of this pandemic, providing them with economic certainty at a time of great vulnerability, we successfully maintained very high levels of partner engagement. And this is paying off in the form of high quality customer experiences, those best moments that inspire Starbucks customers to continue coming back.

As evidence of these traffic shifts, US sales comps were solidly positive for our drive-thru locations and suburban stores for the fourth quarter and the month of September, respectively.

Although this was offset by negative sales comps in our dense metro stores, particularly on weekdays, those numbers reflect the fact that approximately 3% of our stores were temporarily closed across the entire quarter, effectively weighing down the market comp by about two percentage points.

To increase throughput and accommodate higher transaction volumes at our suburban locations, we've rolled out curbside pickup to approximately 800 US company-operated locations and are on track to be in nearly 2,000 stores across the US by the end of fiscal 2021.

We've also introduced hand-held point of sale devices to about 100 stores with the goal of deploying these devices to approximately 400 additional stores by the end of Q1. And we are continuing to restore in-store seating across all of our stores in the US as conditions allow.

Building on the strength of our customer experience, differentiated products continue to be an important traffic driver as well, encompassing seasonal favorites as well as new innovations. The re-launch of our Pumpkin Spice platform in late August was a catalyst to our Q4 results, with Pumpkin Cream Cold Brew, which was first offered last year actually out-selling Pumpkin Spice Latte this season, leading the entire Pumpkin platform to a record high in average daily units.

Our cold beverages continue to resonate with customers, led by Starbucks Refreshers and Cold Brew with both delivering double-digit growth in Q4 and buoyed by positive year-over-year growth in Frappuccino beverages. These results reflect not only the appeal of our products, but also the effectiveness of our marketing campaigns, which reinforce the trust and familiarity of the Starbucks brand at a time when customers are craving a return to normalcy.

And finally, as customers are increasingly seeking convenient and contactless experiences, our expanding drive-thru presence and industry-leading mobile platform, our primary vehicles to increasing convenience in digital customer engagement have been instrumental to the strength of our recovery. As evidence of this, approximately 75% of US sales volume in Q4 was drive-thru and mobile orders.

Although this was meaningfully down from 90% in Q3, reflecting a sizable shift to on-premises occasions in Q4 as we progressively restored seating in our cafés, this is notably higher than pre-COVID levels at approximately 60% of sales.

Moreover, our mobile order transactions continue to grow, increasing from 18% in Q2 to 24% in Q4, aided by continued improvements to our mobile app as well as an increased messaging across our marketing channels to drive further awareness, introducing more customers to our mobile app, which drove engagement to mobile order and benefited us operationally.

Of course, another key driver of increased digital customer engagement is our Starbucks Rewards program. In Q4, Starbucks Rewards drove 47% of US company-operated tender for a second consecutive quarter, up from 43% in our fiscal Q1 prior to the onset of COVID-19.

Importantly, Starbucks Rewards contribution improved throughout the quarter and returned to pre-COVID levels, mainly driven by recovery in member spend and higher Mobile Order & Pay usage, as I outlined previously.

Additionally, our 90-day active Rewards member base increased by 3 million members in Q4, approaching pre-COVID levels at 19.3 million, up 10% from the prior-year.

The successful launch of Stars for Everyone in mid-September was a key highlight in the quarter. The momentum we saw in the number of customers who downloaded the Starbucks app in Q3 continued throughout Q4, and the number of active customers who joined the Starbucks Rewards program grew slightly in Q4 relative to Q3, likely helped by the late quarter launch of Stars for Everyone.

These early results indicate that the flexibility of Rewards payment options, including the removal of the stored value card requirement to earn stars is resonating with customers. This gives us optimism regarding our ability to meaningfully grow the number of 90-day active Starbucks Rewards members in fiscal 2021.

Before moving on from our US business, I'd like to remind you that, as we announced in June, we are in the midst of accelerating the transformation of our dense metro business by closing lower performing stores, while continuing to capture that traffic where customers need us to be, including existing drive-thru stores, new formats such as curbside, and more efficient Starbucks Pickup locations. We expect much of this work to be completed in the next 12 to 18 months.

At the same time, we remain focused on our strategy of developing drive-thru locations, largely in suburban and semirural locations. Extending the reach of the Starbucks brand with high volume, high margin stores providing our customers the convenience they are seeking. We continue to grow our delivery business through our partnership with Uber Eats, providing customers the ultimate form of convenience. I could not be more excited about the upward trajectory and level of innovation we're seeing in our US business.

I'll now move on to China. Our second lead growth market. Building on the positive momentum in Q3, China demonstrated sequential improvements in monthly comparable store sales across Q4, delivering minus 3% for the quarter. This was in line with our expectations, led by initiatives very similar to what I described in the US: outstanding customer experience; new product innovation, notably our new Tea Cloud platform; and continued expansion of our digital platform.

But what's most remarkable about the recovery in China in my view is the rapid re-acceleration of new store development, which is our number one driver of growth in China. I'm pleased to say that, despite the challenging

environment imposed by the pandemic, we crossed both the 4,600 and the 4,700 store milestone in Q4, opening almost 260 stores in the fourth quarter alone. That's an impressive 581 stores or 14% growth in the last 12 months. This is an incredible achievement by the team considering we temporarily paused new store development activity in China for a couple of months starting in late January. Our disciplined approach to store development is paying off as these new stores are off to a strong start, with early returns substantially in line with pre-COVID levels.

As part of our store development program in China, the local team has innovated a new retail format that caters to the needs state of convenience: Starbucks Now, which is very similar to Starbucks Pickups in the US. With speed and agility, Starbucks China opened 40 Now stores in fiscal 2020 with a presence in nine Chinese cities. Early results are very encouraging, and the team is increasing the pace of development for this innovative concept.

On the digital front, we saw continued strength in our mobile platform in China with mobile order sales mix more than doubling in the past 12 months to 26% in Q4 with 13% coming from delivery and 13% from Mobile Order & Pay, well above the mid-teen levels we saw pre-COVID. The digital innovations we launched in China throughout fiscal 2020, including a new WeChat mini-program and the enhanced Starbucks Rewards program, along with our digital partnership with Alibaba, have fueled customer engagement and strong sequential growth in active Starbucks Rewards members.

In Q4, China's 90-day active members increased 36% over Q3 to 13.5 million, representing 34% growth over the prior-year. As with the US business, I'm incredibly proud of the continued recovery and industry-leading innovation in China. The customer trends we are seeing in specialty retail extend to coffee at home, where demand remains elevated through the pandemic. We're applying our innovation mindset and agility to our Channel Development business to capture share in at-home coffee and to maximize reach of the Starbucks brand across all channels and platforms.

In the US, Starbucks' share of total packaged coffee grew significantly in Q4, with 17% growth in dollar sales, outpacing the coffee category which grew 9% in the quarter. Consumption of our domestic ready-to-drink coffee products grew 15% in Q4. Somewhat offsetting this strength was softness in the Foodservice business as offices, hotels, colleges, and entertainment centers continued to experience low levels of traffic.

Through the Global Coffee Alliance with Nestlé, we accelerated growth and innovation, while maintaining our commitment to sustainability in Q4, including the introduction of nondairy Starbucks Creamers with 100% recyclable packaging to our full portfolio of at-home products. We entered nine new markets in the quarter, bringing Starbucks at-home coffee presence through the Global Coffee Alliance to 62 markets in just 24 months.

We also continue to meet customers where they are through our global ready-to-drink portfolio, notably the continued performance of Ready-to-Drink Nitro Cold Brew, the number one innovation in the category this year, exceeding expectations. Overall, we are very pleased with the accelerated expansion of the Starbucks brand around the world through the Channel business. This is truly a brand amplifier.

In summary, the Starbucks brand is stronger than ever. Our business recovery is progressing well. And through rapid innovation, we've built a new level of resilience for the future. We believe that the investments we made to protect our partners' well-being and provide them with economic certainty combined with our principled approach to decision-making and transparency of our communications have built trust with all stakeholders and will pay dividends long into the future.

I opened my remarks by suggesting three words for you to take away from this call: confidence in our strategy; resilience built from our innovation agility that continues to drive our business recovery; and optimism about fiscal '21 and the future of Starbucks. I close by adding one additional word for all Starbucks stakeholders to take away from today: gratitude.

None of this would have been possible without the positive spirit and incredibly hard work of our 400,000 green apron partners around the world who serve our customers each day. They live our company mission and values every day. Partners are the heartbeat of Starbucks, and they fill me with gratitude and inspiration. Thank you, partners.

Let me now hand the call over to Pat to discuss our financial performance for Q4 and fiscal 2020, as well as our guidance for fiscal year '21. Pat?

Patrick J. Grismer

Executive Vice President & Chief Financial Officer, Starbucks Corp.

Thank you, Kevin, and good afternoon, everyone. As Kevin shared, we are delighted with the performance of all our operating segments driving a strong finish to our fiscal 2020. For the quarter, Starbucks reported global revenue of \$6.2 billion, down 8% from the prior-year. We estimate the COVID-19 impact on Q4 consolidated revenue to be approximately \$1.2 billion, driven by modified operations and reduced customer traffic.

Q4 EPS was considerably higher than the guidance range we provided on our last earnings call, driven by faster than expected sales and margin recovery as well as a lower tax rate from the impact of certain discrete items. Q4 GAAP EPS declined from \$0.67 in the prior-year to \$0.33, inclusive of higher-than-expected restructuring and impairment costs related to the acceleration of our strategy to reposition and restructure our company-operated store portfolio in the Americas. Q4 non-GAAP EPS was \$0.51, down from \$0.70 in the prior year. The estimated negative impact of COVID-19 on Q4 EPS was \$0.35.

I will now provide some segment highlights and discuss consolidated margin performance for Q4 and will then provide guidance for fiscal 2021, including the expected impact of the 53rd week. Starting with the Americas, at \$4.2 billion, Americas Q4 revenue was 9% lower than the prior-year, primarily due to a 9% decline in comparable store sales as well as lower product sales and royalty revenues from our licensees as a result of the COVID-19 outbreak.

We estimate the Q4 decline in Americas revenue and operating income attributable to COVID-19 to be approximately \$830 million and \$400 million, respectively. This equates to a flow-through rate on lost sales of about 48% in Q4, essentially returning to the segment's typical 50% variable flow-through rate. This is a significant sequential improvement from Q3, reflecting a decrease in catastrophe wages and enhanced pay programs as well as an increase in labor efficiency.

Relative to the prior year, Americas Q4 non-GAAP operating margin contracted 350 basis points to 16.7%, primarily due to the impact of COVID-19, including sales deleverage and additional costs incurred as well as growth in retail partner wages and benefits, partially offset by improved labor efficiency.

Importantly, Americas sales and profitability trended positively across the quarter with sequential improvements each month. The US posted a comparable sales decline of 4% in September, improving from minus 11% in August and the business achieved positive profitability in every month of the quarter.

Moving on to International, including a 2% VAT benefit, the segment's comparable store sales of minus 10% in Q4 reflects faster-than-expected sales recovery in Japan, boosted by successful seasonal product promotions and strong drive-thru performance.

I would now like to highlight the fourth quarter performance of our lead international growth market, China. For the month of September, China's comparable store sales were up 1%, including a four percentage point VAT exemption benefit, reflecting a slight sequential improvement to August's comp on a like-for-like basis. For the fourth quarter, China's comparable store sales declined 3%, including VAT favorability of four percentage points.

International's Q4 revenue of \$1.5 billion was a 5% reduction versus the prior-year, primarily due to the 10% decline in comparable store sales. Also contributing to the decline were lower product sales to and royalties from our licensees due to COVID-19. We estimate that the COVID-19 impact on the decline in International's Q4 revenue and operating income was approximately \$300 million and \$150 million, respectively.

International's flow-through rate on lost sales improved from roughly 55% in Q3 to approximately 50% in Q4, primarily due to higher labor efficiency and lower waste, partially offset by a reduction in certain temporary benefits, including government relief programs. International's Q4 non-GAAP operating margin declined by 540 basis points from the prior-year to 16.3%, primarily due to the impact of COVID-19 largely stemming from sales deleverage and non-restructuring store asset impairments as well as strategic investments, mainly technology and digital initiatives.

On to Channel Development, revenue was \$464 million in Q4, a 9% decline from the prior-year, primarily due to Global Coffee Alliance transition-related items, including a structural change in our single-serve business. Excluding these transition-related items, Channel Development's revenue declined by approximately 1% from the prior-year, reflecting the adverse impact of COVID-19 on the segment's food service business, partially offset by growth in at-home coffee and ready-to-drink.

Channel Development's Q4 operating margin expanded by 510 basis points to 42.7%, mainly due to a business mix shift driven by the strength in our Ready-to-Drink products as well as the structural change in our single-serve business. At the consolidated level, non-GAAP operating margin was 13.2% in Q4, down from 17.2% in the prior-year.

Unsurprisingly, much of the year-over-year reduction in our operating margins for Q4 was due to sales deleverage attributable to COVID-19 as well as growth in wages and benefits and non-restructuring store asset impairments and strategic investments, partially offset by labor efficiencies and supply chain savings. We estimate the COVID-19 impact to Q4 non-GAAP operating income to be roughly \$550 million.

In relation to the \$1.2 billion of COVID-19 impact on Q4 consolidated revenue that I mentioned earlier, this equates to a flow-through rate of approximately 46% on lost revenue, which is close to the 50% variable flow-through rate that we typically observe in our business.

I will now provide guidance for fiscal 2021. Starting with the key driver of our growth; comparable sales growth for our company-operated stores. Barring any new significant and sustained waves of COVID-19 infections and/or global economic disruptions, we expect global comparable store sales growth of 18% to 23% in fiscal 2021, fueled by sustained improvement in comparable store transactions across both of our key markets; the US and China.

These estimates are based on the experience we've gained from navigating the impact of COVID-19 for the past nine months, including the more resilient operating protocols that we've built into our business as well as the traffic-driving initiatives and innovations that we've planned for the year ahead.

For the Americas and the US, we expect comparable store sales to grow between 17% to 22% in fiscal 2021 and we continue to expect to achieve full comparable store sales recovery in the US by the end of our fiscal second quarter. This assumes that we are able to continue to restore café seating and operating hours at our US stores nearing full capacity by the end of the second quarter.

For the International segment, we expect comparable store sales to grow between 25% and 30% in fiscal 2021. This estimate is predicated on COVID-19 impacts continuing to lessen in Japan as well as China's current operating environment remaining substantially unchanged with full seating and regular operating hours in almost all locations.

We continue to expect China's comparable store sales to fully recover by the end of our first quarter, excluding the benefit from the temporary VAT exemption, which we will continue to expect will expire in January. For the full fiscal year in 2021, we expect China's comparable store sales to grow between 27% and 32%.

Moving on to the next key growth driver; retail store development. Although we expect to open more stores globally in fiscal 2021 than we did last year, targeting approximately 2,150 new store openings compared to about 2,000 in fiscal '20, we expect store closures to increase versus prior-year from approximately 600 in fiscal '20 to about 1,050 in fiscal '21. This is primarily due to the accelerated repositioning of our US store portfolio and the restructuring of our Canada business. But also reflects a slightly higher pace of closures in our international licensed store portfolio. As a result, we expect to add approximately 1,100 net new Starbucks stores globally in fiscal 2021, down from approximately 1,400 in fiscal 2020.

For the Americas, we expect new store openings to be approximately 850, located mostly in the US with roughly 800 store closures across the segment in fiscal 2021 yielding approximately 50 net new stores. The closures are part of the trade area transformation initiative that we announced in June to accelerate the evolution of our store footprint in dense metro centers, clearing the way for the development of new, more efficient retail store formats that cater to customers' increasing desire for convenience, while also improving trade area profitability.

Compared to the plans we announced in June, our guidance for fiscal '21 reflects an additional 200 store closures in the Americas company-operated store portfolio based on our current outlook on store performance, mostly in dense metro centers where there is the potential for sales transfer.

For International, we expect to open approximately 1,300 new stores in fiscal '21 and close approximately 250 stores, yielding 1,050 net new stores next year, including approximately 600 net new stores in China.

This reflects a slower pace of international licensed store development as well as a slightly higher pace of international licensed store closures relative to fiscal 2020, in part due to the impacts of COVID-19 resulting from the relatively slow pace of recovery in many markets outside the US. Importantly, we believe these impacts are temporary, and we expect the pace of global net store development to return to our long-term growth guidance of 6% to 7% annually in fiscal 2022.

We expect Channel Development's revenue in fiscal 2021 to range between \$1.4 billion and \$1.6 billion, including the 53rd week. The anticipated decline in the segment's revenue from \$1.9 billion in fiscal 2020 is primarily attributable to a structural change in our single-serve business that was announced in February, pursuant to an

arrangement between Nestlé and Keurig Dr. Pepper, resulting in a more royalty-based revenue construct for Starbucks that took effect last month. We do not expect the profitability of our single-serve business to be materially impacted by this change. Adding it all up, we expect consolidated revenue to range between \$28 billion and \$29 billion in fiscal 2021, including approximately \$500 million attributable to the 53rd week.

Let's move on to fiscal 2021 operating margin. Globally, we expect operating margin in fiscal 2021 to improve significantly over the prior-year, driven primarily by three tailwinds, partially offset by incremental strategic investments in our business. The three tailwinds are: number one, sales leverage, as we continue to recover from the impacts of COVID-19; number two, the absence of certain COVID-19-related expenses unique to the prior-year; and number three, ongoing supply chain efficiencies.

The strategic investments are concentrated in three areas: number one, enhanced partner wages and benefits; number two, technology to drive further digital customer engagement, expand retail sales and improve store operating efficiency; and number three, environmental sustainability, primarily within our supply chain to reduce waste, water consumption, and carbon emissions. These investments are spread across our product and distribution costs, store operating expenses, and G&A.

Let me add one additional point to the operating margin equation for fiscal 2021. We expect commodities to have minimal year-over-year impact on our product and distribution costs. At this point, our overall coffee needs are mostly price-locked for fiscal 2021.

Combining the impact of all these margin drivers, we expect non-GAAP operating margin in fiscal 2021 to be between 16% and 17%, starting well below the lower end of this range in the first half of the year and rising above the upper end of this range in the back half of the year. Similarly, we expect our retail operating segments to deliver significant margin improvement on a non-GAAP basis as fiscal 2021 progresses.

For Channel Development, we expect operating margin to exceed pre-COVID-19 levels and approach the mid-40s, driven by the structural change in our single-serve business which I just described.

Below the operating income line, we expect interest expense to be between \$470 million and \$480 million in fiscal 2021 versus \$437 million in fiscal 2020. The increase is driven by debt issuances totaling \$4.75 billion in the past eight months.

Importantly, we remain committed to our BBB+/Baa1 credit rating and leverage cap of three times rent adjusted EBITDA. While the impacts of COVID-19 have resulted in the company exceeding that leverage cap, we view these impacts as temporary and we expect our leverage to return to near targeted levels in the latter part of fiscal 2021 as our operating cash flow continues to improve and we extinguish upcoming debt maturities.

Based on the strength of our cash flow, I'm happy to report that we paid off a \$500 million term loan in Q4, and as we previously announced, our board of directors approved a 10% increase to our quarterly dividend, representing the 10th consecutive annual increase since Starbucks commenced paying a dividend in 2010.

As to our tax rate in fiscal 2021, we expect our effective GAAP and non-GAAP tax rates to be in the mid-20% range. This compares with GAAP and non-GAAP tax rates of 20.6% and 20.7%, respectively, in fiscal 2020, which benefited from certain discrete tax items that are not expected to repeat to the same degree in fiscal 2021.

Finally, we currently expect the suspension of our share repurchase program to continue through the balance of fiscal 2021. We expect capital expenditures in fiscal 2021 to total approximately \$1.9 billion, slightly higher than

what we spent in fiscal 2019. The increase is primarily attributable to two things: number one, the re-acceleration of new store development following a temporary pause during the pandemic; and number two, an expansion of our global supply chain, notably the development of the Coffee Innovation Park in China that we announced earlier this year.

Finally, at this juncture, we foresee minimal impact from foreign currency movements in fiscal 2021. When you add it all up, we expect GAAP EPS in the range of \$2.34 to \$2.54 in fiscal 2021, including approximately \$0.10 for the 53rd week. We expect non-GAAP EPS in the range of \$2.70 to \$2.90 in fiscal 2021, including again approximately \$0.10 for the extra week, demonstrating further recovery and approaching pre-pandemic levels.

For Q1 specifically, we expect GAAP EPS in the range of \$0.32 to \$0.37 and non-GAAP EPS in the range of \$0.50 to \$0.55, reflecting our current stage of recovery.

Given this expectation for Q1 EPS and combined with the normal seasonality that tends to dampen our EPS in Q2, we expect meaningfully higher EPS in the third and fourth quarters compared to the first two quarters of the year.

So, let me wrap things up. We are delighted with the pace of business recovery in fiscal 2020 and the momentum that it provides for fiscal 2021. We remain confident in the strength of our brand and the durability of our growth model, and we are committed to making the investments necessary to sustain our competitive advantages, reinforced by the consistent execution of a focused agenda.

On that note, I would like to express my appreciation to our green apron partners who deliver the Starbucks customer experience in a manner that is truly unmatched and exemplifies our company's mission and values which are the foundation of our business.

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] Our first question comes from the line of John Ivankoe with JPMorgan. Please proceed with your question.

John Ivankoe

Analyst, JPMorgan Securities LLC

Q

Hi. Thank you very much. Obviously, there's a lot to unpack in the call, and congratulations on the progress that you've made.

The question was really on US segment margins, but I think I can apply it to China here as well. A lot of companies have embarked on simplification efforts that have driven margins. You very specifically have not, as you've continued to give the customer the choice that they expect. But you have had a very significant shift in Mobile Order & Pay, which I assume could potentially be leading to some of the labor efficiencies that you alluded to a couple of times in the call.

So, the question is, as we kind of think about you getting back to previous margins that were achieved in both of those segments, what type of an average unit volume may be relative to 2019, do you think you need to achieve to get back to previous margins? And are we in an environment on average unit volume recovery where we can potentially start, you're talking about some relatively near-term peaks?

Kevin Johnson

President, Chief Executive Officer & Director, Starbucks Corp.

A

Thanks, John. We'll hand that to Pat to handle. Pat?

Patrick J. Grismer

Executive Vice President & Chief Financial Officer, Starbucks Corp.

A

Yeah. Thank you, John, for the question. So, with respect to the impact of the increase in our digital business on our labor productivity, we've been very pleased with the growth of our digital business.

But even as that has increased, and even as some of our café seating has remained closed, we've added operational complexities to the business, like enhanced and more frequent cleaning and managing social distancing in our cafés, including as customers come in for Mobile Order & Pay pickup. And that is to ensure safety in our stores for both our partners and our customers, which has been instrumental to our ability to welcome customers back to the business.

And so this tended to offset some of the improved labor productivity that we would have otherwise realized. And as a result of these new operational complexities, along with the incremental investments we're making to enhance partner wages and benefits, our fiscal 2021 margin guidance reflects that labor recovery will trail sales recovery with overall labor productivity returning to pre-COVID levels by Q4.

But I do want to clarify that the team remains very much focused on ensuring that we are driving enhanced productivity in our stores. And that's largely through the redesign of in-store operating routines as well as the introduction of new technologies as we continue to automate tasks.

So, it's really through a combination of how we've responded to the new operating environment to provide that safe and welcoming store atmosphere that our partners and customers require, along with how we're able to benefit from sales leverage as we recover our business.

Now, you asked what is the average unit volume that we would need to achieve and how that compares to fiscal 2019? As you know, we're anticipating that we will have fully recovered comparable store sales by the end of our fiscal second quarter, but there will be a two-quarter lag beyond that, because of the dynamics I mentioned before we expect to see full margin recovery, and that includes the improved labor productivity.

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

Jeffrey A. Bernstein

Analyst, Barclays Capital, Inc.

Q

Great. Thank you very much. Question on the unit growth side of things, maybe China and then more broadly. But China specifically, I think your guidance culminates in like 12% plus unit growth in fiscal 2021, which looks like it's a step down from the prior 15% plus. And I know you talked about the global unit growth is falling a little short of your 6% to 7% as well.

So, specific to China, do you think you're going to get back to that 15% plus post-COVID? Or is it maybe more or the low of large numbers whether there's any gating factors being partners or real estate or demand? And kind of in that context, I'm just wondering, as everyone talks about the better opportunity from independent store closures and more attractive real estate, whether you're seeing either of those things at this point. Thank you very much.

Kevin Johnson

President, Chief Executive Officer & Director, Starbucks Corp.

A

Thanks, Jeffrey. I'll hand it over to John Culver. John, do you want to take that?

John Culver

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

A

Yeah, Jeffrey. For China, we actually have accelerated store growth. We had a record quarter, opened 259 stores in Q4, and feel very good about our year-over-year growth from the store count perspective at 14%. We do see a pathway back to getting back to the historical levels. We're guiding to the 600, but we're continuing to look for new opportunities to go faster where it makes sense.

At the same time, we're innovating from a concept standpoint with Starbucks Now and the acceleration of that, and we're encouraged by what we're seeing thus far. And then as you look at the new stores and the performance overall, we are seeing emerging back into those historical return trends, and that gives us a lot of room for optimism in terms of the store growth model.

So we are fully committed to accelerating growth. We're going to be opportunistic about it. We believe in the number that we're committed to, and where we can get back more, we will go after it. We've had ongoing discussions with landlords as part of that, and they're looking to partner with us for the relevant sites and to continue and to grow our business. So for us, we will continue to push hard on store development. It accounts for roughly 75% to 80% of our total revenue growth. So we see this as a big piece, given the long runway we see there.

Patrick J. Grismer

Executive Vice President & Chief Financial Officer, Starbucks Corp.

A

And Jeffrey, this is Pat. Just to build on what John has said, I think it was a couple of years ago at our China Investor Conference that we talked about a longer term goal of reaching a 6,000 stores in China by the end of fiscal 2022. We remain optimistic that we will achieve that number and that does imply that following fiscal 2021 we will see an acceleration on the pace of new unit development in China.

Operator: And our next question comes from the line of Mr. John Glass with Morgan Stanley. Please proceed with your question.

John Glass

Analyst, Morgan Stanley & Co. LLC

Q

Thanks very much. I also wanted to ask a question about unit development in the Americas and maybe the closures. Is your thinking – thought changed on the closures, about 800 closures in the US to get to a net of 50? I think originally you talked about 400 in the US and 200 in Canada. Were you including the licensed in that, for example, or is that just an acceleration of the total company closures?

And can you also talk about where you are in developing that new prototype? I can't remember if it's Starbucks Now or Starbucks to-go. But where are you in that evolution if you open more stores? And how do you think about that in the equation for 2021 development?

Kevin Johnson

President, Chief Executive Officer & Director, Starbucks Corp.

A

Yeah, Roz, do you want to take that?

Rosalind Gates Brewer

Chief Operating Officer, Group President-Americas & Director, Starbucks Corp.

A

Yeah. Thanks, John. Good question. So, concerning the number of store closures in the US, we remain pretty much in line with historical levels at, as you stated, about 850 new stores, 800 closures. What we've learned, as we've gone through the COVID process, we are learning more about where our customers are returning to access their coffee. So we've accelerated the closures that we have planned for the US stores.

Part of this is also to learning what our new formats can offer us. And so you asked a question about our new formats. We are increasing the number of units that we have in the new format. For instance, it also includes new channels as well. So we have curbside stores at about 800 in the US, 2,000 of those by the end of 2021. We actually are working on restoring seating in our stores. We have roughly 65% of our stores with restored seating.

And so, as we move forward, we have opened three of the new units that we have in the New York area and one in Toronto area, and we're accelerating that throughout this year and adding more of those units as we go throughout the year. But we...

John Glass

Analyst, Morgan Stanley & Co. LLC

Q

And those are called Starbucks Pickup.

Rosalind Gates Brewer

Chief Operating Officer, Group President-Americas & Director, Starbucks Corp.

A

Those are Starbucks Pickup stores, and we will continue to deliver those as we go throughout the year.

Patrick J. Grismer

Executive Vice President & Chief Financial Officer, Starbucks Corp.

A

And, John, just to build on what Roz has said with respect to the composition of our store closures as we reposition the portfolio, when we announced our trade area transformation back in June via our 8-K, we talked about 600 closures in the Americas. That was 400 in the US and 200 in Canada, all company-operated stores. And so with the incremental 200 store closures that we've announced, that's about 100 in the US and 100 in Canada.

And part of the reason why we've taken that up is that, as our team has started the process of repositioning the portfolio over the course of the summer, accelerating the strategic plans we already had in place, what we've learned is that we've been able to manage the closures much more efficiently than we had originally anticipated. And that's largely about the average lease exit costs.

So with this new information, we were able to go back and take a look at the portfolio along with insights we have into how the dense metro trade areas are performing, and identify an incremental 200 store closures that would create shareholder value through our ability to capture sales transfer from the stores that are closing at nearby locations, while also reducing cash operating losses at underperforming stores, avoiding future CapEx that we'd otherwise have to spend to remodel some of these stores, and that more than pays for these lease exit costs per unit. And so the additional experience just over the course of the summer put us in a much stronger position to move even more rapidly with the strategic transformation of our estate.

And the thing I would point out that is a big benefit of that and certainly working in our guidance is a meaningful improvement to not only our Americas operating margin, but then how that flows through to the enterprise. At the enterprise level, it's on the order of 40 basis points. So we're really pleased with how our team has been able to respond to their learnings over the course of the summer and put together even more aggressive plans that are going to put us in a much more profitable position and also structure the business for stronger growth going forward.

Operator: Our 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

Thank you. And I hope you can hear me. I've been having a little bit of trouble. I wanted to ask about same-store sales targets. I think the implication is that next year volumes would be somewhere between flat with 2019 and up 5% in the US. Considering that you started 2020 with a plus 6%, is that conservative?

And also, as we think about ticket versus traffic, you said that some of it is obviously COVID-related the higher ticket, but you also get higher ticket from just drive-thrus. So, is it possible that comp recovery is perhaps less traffic-driven than we might expect considering what happens in this past year? Thanks.

Kevin Johnson

President, Chief Executive Officer & Director, Starbucks Corp.

A

Pat, why don't you start and let Roz then add some color to it?

Patrick J. Grismer

Executive Vice President & Chief Financial Officer, Starbucks Corp.

A

Thanks, Kevin. Thank you, Sara. As to the total comp expectations for next year, I think in the current environment, notwithstanding the fact that we are very pleased with the strength of our recovery thus far, there is significant uncertainty as to how things are going to unfold, whether as a consequence of the progression of the pandemic or what may be happening in the broader economy and how those two are linked.

As we've thought about what is an appropriate level to target, we've been able to leverage models that our team has built. We have an artificial intelligence data analysis team that does extraordinary work to help inform not only how we operate our stores based on prevailing conditions at each and every store, but also what we're expecting next year to look like for each and every store, taking into consideration both internal and external variables. And based on those projections, it's fair to say that we have hedged somewhat to be appropriately conservative in the current environment.

And based on our progress to-date, we remain very pleased, and that includes a faster-than-expected acceleration over the course of the summer yielding what we consider to be very strong results for our fourth quarter that has provided significant momentum as we enter this year.

So, I would say that on balance our expectations are somewhat conservative, but appropriately so in the current environment, and that remains our guidance policy, is to communicate outcomes that we have reasonable degree of confidence we can deliver against. And I think our experience here in the last year through the depth of the pandemic has reinforced our ability to do that pretty well.

I'll ask Roz to comment on the second part of your question in relation to ticket growth, and what's driving that and how we see that trending into next year versus traffic.

Rosalind Gates Brewer

Chief Operating Officer, Group President-Americas & Director, Starbucks Corp.

A

Yes. And there's two things I'll do. First of all, in terms of returning transactions back to our stores, there's four areas we're looking at, and I'll start there. First of all, looking at increasing the members in our loyalty program, we introduced the new Stars for Everyone program in mid-September, and that is moving in the right direction. We're pleased with what we're seeing so far.

Secondly, as we just talked about, repositioning our store portfolio to better meet our customers where they are today, and more importantly, where they'll be in the future so it's good for us now and good for the future work that we need to do for our customers. And then also enhancing our engagement of our partners, and we know when our customers and our partners connect, the experience and the best moments in our stores yield benefits for us. And then lastly, leveraging our robust pipeline of beverage innovation, which we've seen in our fall outline of the Pumpkin Spice products, and that's going forward.

In terms of the work that we're doing in terms of ticket, ticket has been enhanced. We're looking at ticket at about \$21 (sic) [21%] right now. And so what's happening there is that during the time of the pandemic, we reduced our reliance on price, and so we're just now reintroducing price. But we're keeping price in the range of 1% to 2%. So,

we continue to see beverage in terms of the size of the beverage, so larger sized beverages, multiple beverages, and then food attached. And so ticket continues to be strong for us, and we're projecting to hold that through the year.

Patrick J. Grismer

Executive Vice President & Chief Financial Officer, Starbucks Corp.

A

And, Sara, just to provide a little bit more fabric on some of the numbers – and I believe Roz may have inadvertently said \$21. She meant 21%.

Rosalind Gates Brewer

Chief Operating Officer, Group President-Americas & Director, Starbucks Corp.

A

Yeah, 21%. I'm sorry.

Patrick J. Grismer

Executive Vice President & Chief Financial Officer, Starbucks Corp.

A

But just to help you understand some of the underlying drivers, at the onset of COVID, ticket comp in the US company-operated stores accelerated to 25%, well beyond what we had expected. And that was driven primarily by a shift in sales mix toward our drive-thru and MOP channels, where average spend tends to be higher, in part due to a higher incidence of group orders.

Now in the fourth quarter, ticket growth moderated as compared to those previous highs, but it remained well above pre-COVID levels in a range of 3% to 4%. And that's where it came in at 21% for the quarter. And that was driven by order consolidation, a mix shift to higher-priced cold beverages like our Refreshers and Frappuccino, and an increase in upsizing as more customers treated themselves to Ventis and Trentas.

We do expect further moderation of ticket growth in future quarters, particularly as we lap the US onset of COVID-19 in the latter part of our fiscal second quarter. I would say that our average ticket has also benefited from a customer appeal of our plant-based offerings, which are premium priced.

Specifically, we're seeing positive momentum in the alternate dairy space, as its share of US company-operated net sales nearly doubled in the quarter, and this includes the impact of modifiers for alternate milk. And with the addition of oat milk in fiscal '21, we expect to see ongoing ticket benefits from premium product innovation and modifier growth.

Maybe a couple other things I think you may find interesting in terms of how this relates to how consumer behavior is changing and how it's showing up in our business. Remote working has shifted urban transactions to the suburbs, and this has led to higher order consolidation, as customers who previously purchased for only themselves are increasingly buying for others.

And then as they're coming, they're not just adding beverages for the larger party size, but food attach is at record highs. And it continues to grow. In fact, it's grown the fastest in drive-thru and MOP, we think because menu visibility is clearly sparking trial with personal recommendations which will accelerate in the new year and even larger unlock moving forward.

Now, while beverage attach has trended down slightly through the quarter, which we continue to expect will happen as our transactions grow, food attach actually grew, and we believe that trial is the start of routine. So, we see this as a very encouraging development.

And I guess the last thing I would say is that our innovation and our promotions are resonating with customers, giving us optimism as we head into the holiday. Now, we enjoyed strength in new products like the Impossible Breakfast Sandwich and also our new breakfast wraps, plus growth in Refreshers, and those are giving existing customers reasons to visit more frequently.

And it's giving new customers reasons to visit. We're excited with the momentum we saw from our fall promotion, and so that gives us confidence that as we move into the month of November with our holiday promotion, we will sustain the momentum.

So, variety of things related to the ticket growth that give us reason for optimism as we enter the new year. But again, we expect that to moderate as we start to lap the more material impacts of COVID in the back half of the year as our traffic continues to grow.

Operator: Our next question comes from the line of David Tarantino with Baird. Please proceed with your question.

David E. Tarantino

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

Q

Hi. Good afternoon. I had a question I guess about the US comp trend exiting the quarter. And it was a pretty impressive move from August to September, so I was wondering if you could maybe piece together the factors that drove that step change in the comp. And then, if you're willing, is that the trend that you're seeing so far in the current quarter?

And, Pat, if you can maybe just help us understand what you're assuming for the current quarter in that EPS guidance?

Kevin Johnson

President, Chief Executive Officer & Director, Starbucks Corp.

A

Roz, why don't you add some color on the action that you think drove that and then Pat can follow-up on David's second question.

Rosalind Gates Brewer

Chief Operating Officer, Group President-Americas & Director, Starbucks Corp.

A

Sure. So, going into the fourth quarter, there were several things that helped us with our comp performance. One of those things is increasing the number of stores that we had open, expanding drive-thru performance and actually bringing efficiency to the drive-thru, so that we had better out-the-window performance and putting practices and efficiencies and work into place in terms of labor deployment in those stores. In addition to that, we had great success with introducing our fall beverages around Pumpkin Spice and the Pumpkin Cream Cold Brew product.

And then in addition to that, we also saw improvement as we advanced our seating and returned seating into our stores. We did recognize that our customers began to feel more comfortable coming out. We saw advancements happening in our metro suburban stores, which we already had drive-thru stores located in those areas, in addition to seeing more regular business coming from the morning time to mid-morning and having our baristas ready in the stores at those times.

So, as the customer was adjusting, we were adjusting along with them. And so the combination of our in-store efficiencies, labor deployment, new beverages, in addition to drive-thru effectiveness, we began to see improved comp performance in our stores exceeding fourth quarter.

Patrick J. Grismer

Executive Vice President & Chief Financial Officer, Starbucks Corp.

A

And, David, just to build on what Roz said, Roz nailed it in terms of what the key drivers were of that improvement from minus 11% in August to minus 4% in September. You may be wondering, if we hit minus 4% in September, why are we saying that we won't see full comparable store sales recovery for another six months until the end of our second quarter, that is, the end of March?

And what I would highlight is that the closer we get to full recovery, I would say the harder it becomes to recapture or recover those remaining few percentages. Because when you think back to where we were in the April/May timeframe and how our business progressed across the summer, much of the improvement was attributable to reopening stores and then, as Roz mentioned, reopening seating, alongside all the great operational improvements that our store managers and their teams have brought to life.

Now we're at a point where we have to rely more heavily on some of the newer store innovations in relation to things like curbside pickup or handheld POS at the drive-thru to improve productivity, so we can capture more of the demand that is there at our drive-thru. So, we do expect more gradual improvement from this point forward. Just as our recovery to-date has not been linear, we don't think that it's going to necessarily be linear going forward either.

But what I would tell you is that the strong momentum that we enjoyed exiting September has continued into the month of October. So, we're really pleased with how the first quarter of the new fiscal year is shaping up, but we do expect that the overall pace of progression, that is, the sequential improvements, will taper as we get closer and closer to full recovery. And we're very excited about how things are shaping up overall. Thanks, David.

Operator: Our next question comes from the line of Andrew Charles with Cowen. Please proceed with your question.

Andrew Charles

Analyst, Cowen and Company

Q

Great. Thank you. Roz, can you talk about what you're observing in coffee consumption per capita based on what you observed in the domestic MSR data?

And what I'm trying to better understand is that based on improving sales later in the morning and potentially with either members ordering larger beverage sizes and/or MSR guests visiting more frequently versus what you saw a few months ago, can the argument be made that US consumers are functioning on higher caffeine consumption to help get them through the pandemic, as work-from-home patterns don't seem likely to reverse for the foreseeable future?

Rosalind Gates Brewer

Chief Operating Officer, Group President-Americas & Director, Starbucks Corp.

A

Sure. So, in terms of what we're seeing from customers and their coffee consumption, what we're seeing is that their routines are actually changing, and they're shifting their patterns based on this work-from-home, as you described.

So, we're seeing our morning business shift to mid-morning. We're seeing a shift from our weekday business to our weekends. We've had some extremely strong weekends. And so I think what we're seeing more so in terms of more or less coffee consumption, it is their routines that are adjusting that.

The other thing that we've seen, as Pat talked about earlier, is that we're seeing them buy multiple beverages. So, we do think that we are seeing them buy maybe in group and for family, and also adding food to those orders.

But in terms of coffee consumption, it's hard to say. I do know also, too, that our Ready-to-Drink business – and John might want to talk about that for a minute – is also improving. So, we are holding and retaining our customer throughout the day, if they're at retail or if they're at consumer.

John Culver

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

A

Yeah. Let me just pick up a little bit on what Roz is talking about. We are seeing rapid growth in share gains for Starbucks down the aisle, and Kevin highlighted it that we saw the packaged coffee business here in the US grow 17% in the quarter, far outpacing the category at 9% growth. So, we are getting more than our fair share of that growth.

In terms of the share growth that we're seeing, the Starbucks brand grew 130 basis points. Our roast and ground share on Starbucks grew 160, and our K-Cups share grew 40 basis points.

And then that also translates over into RTD. And in RTD, we saw considerable growth there and in particular strong share gains both across the addressable RTD coffee category at 50 basis points, chilled coffee at 230 basis points gain, and a shelf-stable RTD coffee at 140 basis points gain. So, as consumers are shifting, Starbucks is available. And they're consuming it in their home, and they're turning to us.

Operator: Our next question comes from the line of Chris O'Cull with Stifel. Please proceed with your question.

Chris O'Cull

Analyst, Stifel, Nicolaus & Co., Inc.

Q

Thanks. It's great to hear the company is using or analyzing consumer data to evaluate how consumer behavior has shifted. And I know the company has used the data to help identify store closures and Starbucks Pickup locations, but how is the company using the data to improve comp sales? And do you believe you have a lot of further opportunities toward that effort?

Kevin Johnson

President, Chief Executive Officer & Director, Starbucks Corp.

A

Yeah, Chris. This is Kevin. Let me comment, and then I'll see if Roz and John want to add. But clearly right now what the data is telling us and what we've optimized around are experiences that are safe, familiar, and convenient.

And clearly in the pandemic and part of this is our artificial intelligence tools are monitoring customer behavior and partner sentiment along with data that is fed to us on the spread of COVID to give us insight at a per-store level. But the safe, familiar, and convenient is kind of the three terms that we would characterize globally that customers are looking for.

And that's why, number one, we've deployed these safety protocols consistently throughout our stores. We know how to – if we can turn the dial up and open more seating or open other channels, we do. If we have to turn the dial back in a market or near a store where the virus is spreading, we know how to do that, and we know how to do that at a store level, community level.

The convenient part is artificial intelligence tools and the data has shown us, if we enable the channels of convenience that Roz and John both described in the US and China, whether it's drive-thru, mobile order for pickup, mobile order for delivery, curbside, we enable those channels, and then we find ways to increase the throughput in those channels.

Roz mentioned increasing the out-the-window time at drive-thru, a lot of that has been determined by, we know if we add this handheld point of sale in a drive-thru line and we go out in the line, we can speed up the ordering process which helps us then better serve customers.

So the data is helping us understand where we have opportunities to, first of all, it helps us understand consumer behavior so that we can get the themes that we have to focus on.

When we focus on specific areas of that customer experience, that data is helping inform us where we're making progress and where we're unlocking new opportunities for comp growth. And we're doing that, certainly across the US and China and then leveraging that to help us with the rest of the world.

Roz, maybe you, or, John, if you have other things you want to add, I'll give you an opportunity to comment.

Rosalind Gates Brewer

Chief Operating Officer, Group President-Americas & Director, Starbucks Corp.

A

The other area that we are monitoring very closely in terms of customer preferences is combining what we're learning about the customer with our brand equity work that we do. And it's really fueling our beverage innovation.

To give you an example, the work that we're doing around contributing to the recovery around beverages, if you look at that, we're growing in the cold space, just monitoring the sales rate of cold, and then optimizing the innovation in that area. So, we're using the data to fuel our innovation for the future.

We're also doing that as we look at new ways of managing our equipment. And so when you look at our new equipment that is coming online over this year, it's all AI-enabled. That's also allowing us to learn more about maintenance in the stores and how we apply labor. So, we are actually trying to use the data on so many different fronts to actually improve comp performance and monitor where the customer will be in the future.

John Culver

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

A

And I would just add, Chris, from a China perspective, it is – all the information is telling us it's about the digital footprint and how we engage our customers and make their ability to interact with Starbucks seamless and frictionless. And so a real big focus on Rewards and Rewards members, we up-leveled the program in June. Our Total Rewards members grew 175% year-over-year in the quarter. We're now at 7.2 million members in China. Our 90-day actives grew to 13.5 million or up 34% year-over-year.

And then what we're seeing in addition to that is this translation into the Mobile Order & Pay and Mobile Order & Delivery aspect of the business, and that accounted for 26% of transactions in the quarter for China. And that is up versus the low-single digits prior to pre-COVID pandemic.

So, the digital footprint is something that we are investing heavily in, in China to continue to innovate, continue to rapidly deploy, to engage our customers. And then we've expanded it as well.

We now sit across all of Alibaba's platforms as well as the WeChat platform for delivery. And as part of that, we just introduced social gifting for delivery on the WeChat platform, so really building out that footprint in a big way. Starbucks Now exists in 98% of our stores in China, and then the delivery program itself sits in 84% of our footprint in China covering all our customers. So, digital is a big piece.

The other piece that's emerging is this health and wellness, and we launched the "GOOD GOOD campaign" earlier this year, which is our plant-based beverages as well as food offerings. And in particular, we're seeing great success with oat milk and the success that that's having, and we're seeing this thirst from our customers around healthy options for themselves. So, the team is working hard to develop those.

And then obviously on the store piece, it's the third place environment. How do we continue to innovate around the third place environment, whether it is the Now store? But then also, how are our Reserve stores showing up? And how are we continuing to elevate that brand? Because the third place is still very, very relevant in China.

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

David Palmer
Analyst, Evercore ISI

Q

Thank you. Question on Rewards and digital. Your 90-day Rewards user growth was 10%, and I was just thinking about how impressive that is given the fact that traffic was down 25% due to COVID.

So, I guess the Stars for Everyone is working, and perhaps you think of it this way that it's building your reservoir of digital connections. That's maybe understated by Rewards users on a regular basis, because of course there are these people that have opted out lately due to COVID or had their lives disrupted.

So, are you thinking of it that way? That there is a larger pool of lapsed users that would be an easy get on the back end of this, that are rewards members but not "regular ones"? And do you have a sense of how large that group is? Thank you.

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

A

Roz, do you want to take that?

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

A

Sure. So just to ground in a few data points there, you're right. At the end of September, our 90-day active Starbucks Rewards members grew to about 19.3 million, and that's up more than 10%, as you stated.

So, what we're seeing in that is that we are engaging our occasional customer, and that is something that we have not been able to do before we introduced Stars for Everyone. So, what we're seeing right now is strong activation growth very early on with Stars for Everyone.

We're really optimistic in the ability to gain significantly more members in fiscal 2021 and those 90-day active members. We'll continue to innovate around the convenience and that loyalty piece and attract new customers and fuelling growth in that area.

One of the things that we're seeing is that whenever we introduce new Now to the stores, we have a much broader audience to introduce that to. So, we're seeing quite a bit of pickup there, and we're encouraged by what we see. So, we do expect those numbers to climb, and it is bolstered by Stars for Everyone.

Operator: Our next question comes from the line of Chris Carril with RBC Capital Markets. Please proceed with your question.

Christopher Carril

Analyst, RBC Capital Markets LLC

Q

Hi. Thanks for taking the question. Just on the margin guidance, how does that contemplate the shifts in transaction versus ticket? And I think, Pat, you talked earlier about the growth in food attach. So, assuming that there's maybe perhaps normalization there, how does that impact your margin guidance? And what's implied there?

Patrick J. Grismer

Executive Vice President & Chief Financial Officer, Starbucks Corp.

A

Yeah. Thank you for the question. And as we thought about the evolution of our margins over the course of fiscal '21, we've taken into account several things. The first, and I would say the most important, is how we are rebuilding transactions across the year and how that provides us the sales leverage that we've learned here in recent months is so important to our ability to drive improved profitability of our business.

We further break that down into which channel it's coming through and what the implications are for average spend and then how we see our mix further shifting. So we have taken that into account as we've thought through this range of 16% to 17% overall operating margin for the company for the entire fiscal year, recognizing that we will be below the bottom end of that range in the first half of the year and then above the top end of that range in the latter half of the year. And that takes into account not only the progression of our sales recovery, but importantly, how we are rebuilding margin while continuing to make investments.

The investments are pretty substantial. Just as we invested heavily through the depths of the crisis, we have some pretty significant investments planned for fiscal 2021 behind the things that really drive our business. So we're thinking about what is needed for the long term to strengthen key points of competitive advantage to unlock future sales growth, and that starts with our partners.

So we've planned substantial investments behind enhanced partner wages and benefits. We've planned very substantial investments in technology in order to extend the strength and the growth of our digital platform and how that contributes to our business in ways that both John and Roz have articulated. And then finally, we're making incremental investments behind our bold ambitions in environmental sustainability. Those things tend to be offsets to the sales leverage that we realize as we regrow our business, and then also the ongoing efficiencies that we gain through operating productivity in our stores as well as ongoing supply chain efficiencies.

So, it truly is a mix of sales growth, the composition of that growth in terms of how we see both ticket and transactions evolving over the course of the year, and then taking into consideration the investments necessary to

strengthen the brand for the long term, because we know those investments are important to maintain those key points of competitive advantage.

Operator: Our next question comes from the line of Gregory Francfort with Bank of America. Please proceed with your question.

Gregory R. Francfort

Analyst, Bank of America

Q

Hey. Thanks for the question. I'm going to re-ask Andrew Charles's question a little bit differently. But I guess when we look at the coffee category, you guys in the US are back to almost flat. Dunkin's comping modestly positive. You're pointing out that the grocery store business is up. Where is that share coming from? Is it coming from independent coffee shops? Is it coming from other limited service players? Or are Americans just getting over-caffeinated at the moment? I'm just curious to hear your thoughts on that matter. Thanks.

Kevin Johnson

President, Chief Executive Officer & Director, Starbucks Corp.

A

Well, thanks for the question. I'll kind of go back to some data we shared on the addressable market of coffee at our last Investor Conference. And if you recall, the projection was that the addressable market of coffee was going to be growing at roughly a 5% CAGR year-after-year.

And where I think there was probably a little bit of a blip back in March and April during the period where people were sheltering at home, I don't think that has slowed down the growth for the addressable market of coffee. So, if the question is do we believe the market for coffee is growing and going to continue to grow, the answer is yes.

Then the second part is, how are we doing on gaining share? I think, as John Culver highlighted, when you look at at-home coffee, clearly, the data that we're getting from down the aisle is we are growing significant share in a rapidly growing market for at-home coffee. And if you look at what we've tracked over the last several months where we've grown our same store comparables in the US on a sequential basis, and we track that, we have regained the substantial portion of the share that we probably gave back when we shut down all of our stores in April.

So I think we are in a growing addressable market of coffee. I think we are in a share-taking position. I think the investments that we are making for trade area transformation and everything that we have done to tune the customer experience, the beverage innovation, and our digital customer relationships, we are poised for ongoing share gains in a growing addressable market for coffee.

Gregory R. Francfort

Analyst, Bank of America

Q

Thanks, Kevin.

Operator: Our next question comes from the line of Katherine Fogertey with Goldman Sachs. Please proceed with your question.

Katherine Fogertey

Analyst, Goldman Sachs & Co. LLC

Q

Great. Thank you. It was really helpful the levers of guidance that you provided on the call today. Just curious, though, as we contemplate the potential for second wave or for the virus to kind of resurge or even potentially the consumer spending to weaken from here, what are the levers that you have to pull? How committed are you to these strategic investments? And maybe said another way, should the flow-through be roughly 50%, or are there reasons to believe that it might kind of revert closer to levels that you saw earlier this year? Thank you.

Kevin Johnson

President, Chief Executive Officer & Director, Starbucks Corp.

A

Katie, let me comment, and then I'll hand over to Pat to add to this. First of all, one of the things when I talked about in my comments about resilience, what I believe to be true is we have developed these store protocols that now have been embedded in the operation processes for how we run our Starbucks stores around the world. And those store protocols, they are enabling us to operate in the world of COVID.

And so even in the world of COVID where in certain markets, the curve is increasing, in other markets the curve is flattening, we've been able to see sequential improvements in same store comparables. And I attribute that to the fact that those store protocols we've now operationalized. We know how to keep our partners safe. We know how to serve coffee to our customers in our store and keep our customers safe. And we are staying true to what really drove the turnaround of this company over the last two or three years, which is elevating the customer experience, relevant beverage innovation, and digital customer relationships.

So, if I look at – you think about what could unfold over the next year or so, we're operating in this environment, and I feel very confident we know how to do that, because we've built this new level of resilience throughout the company to do that. That said, many of the investments Pat has described are long-term investments that are going to pay great returns for shareholders years to come. So, for us, it's more about are we building long-term shareholder value versus are we having to tune those investments quarter-to-quarter.

Now, we have some flexibility in that, but at the end of the day, we want to play the long game. And we are so well-positioned right now, in my opinion, because we have now adapted the way we operate the company for this world of COVID. We've identified the shifts in consumer behavior. We're rapidly adapting to that new reality. We're investing ahead of that curve in a growing addressable market for coffee, and that just positions us to come out of this gaining massive amounts of share, creating significant shareholder value. And so we're operating playing the long game.

Now, that said, I'll let Pat comment on the part of your question that said, hey, if we hit some unforeseen things, how much flexibility do we have on the cost side? So, Pat?

Patrick J. Grismer

Executive Vice President & Chief Financial Officer, Starbucks Corp.

A

I think Kevin said it really well in terms of the level of resilience that we've built into our business, which gives us the ability to manage much more effectively going forward. And we have seen examples already just in the last couple of quarters, whether in Beijing and Dalian in China or as well as in states like California, Texas, and Florida in the US where, in each case, we've been able to work with local authorities, adjust our store operations as needed. And we've found that the operational disruption of these second waves, so to speak, is less severe than the initial wave in terms of the depth of impact and its duration.

Now, if in fact we see a more significant impact that goes beyond our ability to manage, as Kevin has described, through our ability to dial up and dial back, then I would expect that there would be some margin compression.

We will do our best, as we did through the depths of the pandemic, to slow discretionary spending where it makes sense, to slow CapEx where it makes sense.

But we are absolutely committed to making the investments that we know are essential to our ability to strengthen our brand positioning, to strengthen our key points of competitive advantage that are going to put us in the best position to unlock the full value of the Starbucks brand for the long term. And we have the financial ability, we have the balance sheet to continue to make those investments as we did and ensure that for the long term, we are the best positioned in the category.

Operator: Our next question comes from the line of Dennis Geiger with UBS. Please proceed with your question.

Dennis Geiger

Analyst, UBS Securities LLC

Q

Great. Thank you. Curious if you could frame up whether the bigger opportunity to continue to drive sales is more about the operational adjustments to meet the existing demand or about opportunities to drive new incremental demand, if you can parse that out. I know a lot has been shared on kind of the innovative operational adjustments in recent months to meet that current demand. I know you talked about how the schedule for continued rollout of curbside and handheld, et cetera.

So, just kind of curious, factoring all that in, where we are kind of on that meeting these existing demand timelines, thinking about your employees and your partners doing a better job of being more efficient in this new environment with what they have, plus the new stuff coming. Just curious if you can kind of frame up those two components a bit more. Thank you.

Kevin Johnson

President, Chief Executive Officer & Director, Starbucks Corp.

A

Yeah. Thanks. Roz, why don't you go first? And then let me add another thought.

Rosalind Gates Brewer

Chief Operating Officer, Group President-Americas & Director, Starbucks Corp.

A

Yeah. So, what you're seeing right now is an acceleration of plans that we had that were planned to take place over the next three to five years, and what we're doing is accelerating our innovation, particularly around trade area transformation to reposition our stores for growth.

And so the new formats that you see coming to market were planned for our future growth, and so we're bringing on more productivity within these models. It will help us optimize sales, but actually expand our margin position.

So, you're seeing accelerated innovation right now. We're moving a lot faster and bringing our innovation forward, and that was all based on future growth. So, we're moving in that direction, just at a faster pace.

Kevin Johnson

President, Chief Executive Officer & Director, Starbucks Corp.

A

Yeah. And I'll just add that certainly what we've done with Stars for Everyone and the investments we're making in digital, that's all about long-term growth in relationships. That's why as we launch Stars for Everyone we're tracking the number of new app downloads each week, and we've seen that spike.

We track the number of new Rewards customers we sign up. We've seen that go up. We track the number of inactive Rewards members that we convert to active Rewards members. So, that expanded customer reach digitally is going to be a huge asset even, I'll say, post-COVID or post-vaccine.

But the fact that we're focusing on customer experience, beverage innovation in addition to digital is important for the following reason. People are craving the opportunity to socialize right now, and they can't. Everyone is being careful working from home, schooling from home, being cautious when they go out. So safe, familiar, and convenient is important right now.

But once there's a vaccine and therapeutics that now allow people to feel more comfortable socializing and being part of a community, we predict there's going to be huge, huge demand for that third place experience again. That seating in those stores and people coming to enjoy their beverage and their food with others and socialize in our stores and being part of a community – this is down the road, when there's vaccine and therapeutics, there's going to be a huge, huge wave of demand for that.

And so not only are we laying the foundation with the digital relationships and taking care of our customers with safe, familiar, and convenient, but we are also investing in ensuring that, when that demand unfolds, that third place experience will be at the pinnacle of serving those customers who want to come and be a part of a community and socialize again, because that's something that we all aspire for.

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Operator: Our final question comes from the line of Andrew Strelzik with BMO Capital Markets. Please proceed with your question.

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Andrew Strelzik
Analyst, BMO Capital Markets Corp.

Q

Great. Thank you. Excuse me. That's actually a good segue for my question. I was actually hoping you could share more color on what you observe when you open the lobbies with full or partial seating, things like how quickly customer behaviors change once you do that, how incremental it is to comps, how that check growth of that customer compares to the overall check growth that you shared. And if there is any regional differences or nuances, I'd be interested in that as well? Thank you.

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

A

Roz?

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

A

So, Andrew, in terms of what we're seeing as we reopen seating in our stores, we actually saw, first of all, a great need and demand for this. We immediately saw people working in our stores, bringing their work into our cafés, and sitting for long periods of time.

We had adjusted seating in all of our stores, so there's social distancing in the stores. We also have new cleaning protocols in the stores, so that when someone leaves the table and a new customer comes in, they know that the table is clean.

So the feedback that we're getting from our customers is that they feel safe and clean inside a Starbucks. So, we're providing them safety, we're providing them familiarity, and then we're introducing them to our new beverage lineup. And so we're seeing great customer engagement right now as we open seating.

In terms of regional activity that we're seeing, so in Central Business Districts likely in, like New York Financial District, where businesses haven't opened, as you can imagine, traffic is still slight in some of those stores. That's that 6% that you see that has not reopened.

And then lastly, I would tell you that we are seeing movement towards purchasing your coffee in stores near your homes. So, our metro suburban areas are doing well, drive-thrus are doing well, and actually seating in those metro suburban areas are doing extremely well.

We're also seeing just great customer engagement, even with people still coming through the drive-thru window and taking advantage of the work that we're doing with curbside.

So, it's full engagement, and what we're really pleased about is that you can access coffee just about in any way that you feel safe, and that's the feedback that we are getting from our customers.

Kevin Johnson

President, Chief Executive Officer & Director, Starbucks Corp.

A

Yeah. I'll just reinforce what Roz said, when we opened the café for limited seating, the response is immediate. And the impact on same-store comp is immediate.

Customers are craving that, and we do it in a safe way. And as long as we continue to stay true to our principles about prioritizing the health and well-being of our Starbucks partners and the customers we serve, and partnering with local health officials to help mitigate contain the spread of the virus, and showing up in a positive and responsible way in the communities we serve, as long as we stay true to those principles, provide that great experience, and do it in a safe way, and continue to innovate with relevant new beverages and expand digital, we are well-positioned. And we know how to do this.

Operator: With that, this concludes our question-and-answer session. And I would now like to turn the call over to Mr. Kevin Johnson for any closing remarks.

Kevin Johnson

President, Chief Executive Officer & Director, Starbucks Corp.

Well, thank you, everyone. As we conclude the call today, I want to thank you all again for joining us. As always, we're committed to leading into the future and communicating with all of you transparently and communicating with all our stakeholders transparently, balancing our company's purpose and profit, and keeping you informed of our aspirations and the progress along the way.

To that end, we look forward to hosting you soon and talking about our path forward at our virtual December 9 Investor Day, and we hope you can all join us virtually for that.

And we want to take this opportunity to wish you and your families a Happy Halloween and warm wishes for the holiday season ahead. And, yes. Holiday season is upon us, and next week our Peppermint Mocha returns for its 18th year alongside an exciting holiday menu in our stores.

So, we hope to see you at Starbucks, where we're going to create that safe, familiar and convenient experience for each of you in our stores or at the curbside, or at the drive-thru window, whatever fits your needs. And we hope to bring a little holiday spark to you and your loved ones in the weeks ahead.

So, thanks for joining us.

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

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