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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 Third Quarter Fiscal Year 2021 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 Greg Smith, Vice President of Investor Relations. Mr. Smith, you may begin your conference.

Greg Smith  
Vice President, Finance, Starbucks Corp.

Good afternoon, everyone. Thank you for joining us today to discuss Starbucks' third quarter fiscal year 2021 results. Today's discussion will be led by Kevin Johnson, President and CEO; and Rachel Ruggeri, CFO. And for Q&A, we will be joined by John Culver, Group President, North America and Chief Operating Officer; Mike Conway, Group President, International and Channel Development; and Belinda Wong, Chairman and Chief Executive Officer, Starbucks China.

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. Starbucks assumes no obligation to update any of these forward-looking statements or information.

GAAP results in fiscal 2021 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 a reconciliation of those non-GAAP measures to their corresponding GAAP measures.

This conference call is being webcast, and an archive of the webcast will be available on our website through Friday, August 27, 2021. For your calendar planning purposes, please note that our fourth quarter and fiscal year end 2021 earnings conference call has been tentatively scheduled for Thursday, November 4.

Finally, I want to take a moment on behalf of the company to recognize the contributions of Durga Doraisamy, a Starbucks Investor Relations partner of 7 years, including as the Head of IR for the past 2.5 years. Durga recently left Starbucks for an exciting opportunity overseas, and we extend our deepest thanks for all she has done on behalf of the company, our partners, and our shareholders.

I will now turn the call over to Kevin.

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

Well, thank you, Greg. I, too, want to wish Durga and her husband well as they begin a new adventure in London. Durga leaves the team and our investor community in great hands with you, Greg, and thank you for stepping in to lead Investor Relations while we search for a permanent replacement for this important role.

Well, good afternoon, everyone, and thank you for joining us today. As we celebrate Starbucks' 50th anniversary, we are reminded of the increasing premium on genuine human connection, which has always been at the heart of Starbucks. If there is any lesson we can take from this past year, it is that our promise to uplift the everyday through authentic human connection over coffee is enduring and has never been more valuable and sought after. As humans, we belong together, and Starbucks was built for this moment.

Now, with customer mobility increasing, we are at the beginning of what we describe as the great human reconnection. The reopening of markets is translating to incredible increases in demand for Starbucks as people are again on the go, reconnecting, and socializing with one another. Human connection is the very foundation of the Starbucks experience.

The differentiated experience we create for our customers, strengthened through the actions we’ve accelerated over the past year, enables us to meet our customers wherever they need us to be. That experience is core to who we are at Starbucks, and it drove significant momentum through Q3. That experience is also a direct reflection of the 400,000 green apron partners, who continue to make every moment right.

It is our partners who deliver the elevated and uplifting experiences for each of the millions of customers we serve every day. Our partners make the difference. They are the heartbeat of Starbucks, and for that I am incredibly proud.

Now let me take you through Q3, which is highlighted by record-breaking results, fueled by the continued strength of the Starbucks brand around the world. The impressive momentum Starbucks saw in Q2 accelerated through
Q3, in which we delivered record revenue of $7.5 billion, up 78% year-on-year, and a record non-GAAP EPS of $1.01. Additionally, two-year comparable store sales improved sequentially, led by an incredible overall performance in the US, as well as significant net new store growth in China, where we reached over 5,100 stores during the quarter and the double digit growth and continued share gains that our channels business delivered in the at-home market.

Our performance globally reflects the strength of our diverse portfolio and the benefits of scale as we once again exceeded our expectations for the quarter despite inflationary pressures and ongoing pandemic-related restrictions in certain global markets. Our focus combined with our unwavering commitment to innovating and elevating the Starbucks experience as our key differentiator has proven successful time and time again. All of this gives us confidence to raise guidance for the balance of the year and further positions the company for solid long-term growth.

In the US, our momentum accelerated in Q3 posting year-on-year revenue growth of 90% and two-year revenue growth of 16%. Comparable same-store sales grew 83%, and importantly, two-year comp grew 10%. This is at the high end of our long-term annual comp-growth target of 4% to 5%. We posted these results even with mobility restrictions still impacting some US geographies, with industry-wide pressure in pockets of the supply chain, and with our in-store cafe seating not yet fully reopened.

Not only have we posted incredible results as we emerge from the pandemic, our internal research also confirms Starbucks has gained meaningful market share in the US. And the momentum we have created is sustainable. In fact, Starbucks’ competitive share is the highest this year that it has ever been in the away-from-home coffee and tea category.

Simply put, our green apron partners are delivering an experience that customers are craving, and the growing opportunities to serve our customers with the unmatched experience Starbucks offers gives us resounding confidence in the strength of the brand and the growth potential ahead.

One powerful example of innovation that is fueling our momentum is our beverage portfolio which, when coupled with our unparalleled ability for customizing hand-crafted beverages, separates Starbucks from the competition. The investments we have made over the past few years innovating and expanding our coffee-forward cold beverage platform continue to boost sales and draw new customers to Starbucks.

We continue to see strong demand for Starbucks Cold Brew, Nitro Cold Brew, and Starbucks Refresher beverages while Iced Shaken Espresso alone contributed more than a third of the Iced Espresso growth in the quarter. The cold category represented 74% of beverage sales in Q3, growing 10 percentage points over the past two years.

With the wide range of beverage options both cold and hot, our customers love personalizing their drinks. Over the last two years, we have seen a meaningful increase in customizations such as adding cold foam or a shot of espresso. Additionally, alternative dairy offerings represent nearly 25% of milk-related beverage sales, up from prior year. These innovative offerings in cold and alternative dairy are particularly attractive to millennial and Gen Z customers and are aligned with our focus on the well-being of people and the planet.

With premium customization of beverages coupled with operational improvements, the growth of both hot and cold beverages in stores is enabling margin expansion despite some continued inflationary pressures, which Rachel will discuss in more detail. In addition to beverage platform innovation, extending the in-store experience with digital customer relationships continues to extend our reach, deepen engagement, and enhance the
customer experience, further differentiating Starbucks and offering customers ever-increasing choice as to how they engage with the brand.

We again added over 1 million new active Starbucks Rewards members in the quarter. With over 24 million active members now representing 51% of all spend in our US stores and up 8 percentage points over pre-pandemic levels, our ability to engage has never been higher. More and more of these customers are embracing experiences that effortlessly fit their lifestyle. With drive-thru representing 47% of transactions and mobile ordering for in-store pick-up, delivery, or curbside at 26% of transactions, we are leveraging all channels to better serve our customers.

While it is very clear that our Rewards program has accelerated our recovery in a meaningful way, where Q3 really stands out and what adds to our confidence is the acceleration we saw in our non-Rewards customers. While Rewards spend grew at a rapid mid-teens rate quarter-over-quarter, for the first time in 11 quarters non-Rewards spend growth outpaced SR spend. This is further evidence of the great human reconnection. The rapid reengagement of non-Rewards customers not only propelled our record results, but also underscores the strength of the brand and the growth potential ahead.

And finally, we continue to make meaningful progress to reposition our US store portfolio through trade area transformation, which is now nearly 80% complete. In the past 12 months, we have opened 554 new stores combined with in-store seating and drive-thru service. This portfolio repositioning and new-store formats have increased drive-thru store performance to 75% of our total US sales, a number that continues to rise as we increase efficiency.

The improvements and additions we are making to our portfolio today will provide benefits for years to come.

With our focus on the customer experience, new beverage innovation, and digital customer relationships, we continue to increase share of customer occasions, while also contributing to a rapidly growing market for all things coffee.

Moving on to China, where we posted a very positive result with year-on-year revenue growth of 45%. Remarkably, total revenue in China has grown 23% in just two years as we continue to play the long game. And we are on track to open more than 600 net new stores this fiscal year. In Q3 alone, we opened 162 net new stores that continue to deliver best-in-class new store profitability and returns.

We ended the quarter with 5,135 stores, and we are well on track to operate over 6,000 stores by the end of fiscal year 2022. In addition, we posted 19% same-store comp growth in Q3 and saw sequential acceleration of our two-year comp when excluding the impact of value-added tax.

Furthermore, we gained strong momentum with sequential improvement on every key metric on a two-year basis, including total revenue growth, store-traffic recovery, and margin expansion. The health of our business in China is strong, and we've never been more confident in the long-term growth opportunity.

In addition to significant new store growth and sequential acceleration of two-year comps in China, we are expanding digital customer relationships and engagement by creating new occasions and experiences that make mobile ordering even more convenient and personalized. This has resonated strongly with our customers in China, propelling mobile ordering to 34% of sales, significantly higher than the 23% in the prior year and more than double pre-COVID levels.
Starbucks Rewards continues to aggressively expand our digital ecosystem across major platforms, driving 90-day active members to an all-time high of 17 million, a 4% increase over previous quarter and a 71% increase versus prior year. Gold members, a very important cohort, are engaging Starbucks at pre-pandemic levels.

Our performance in China is a testimony to the unparalleled strength of the Starbucks brand and our enduring relationship with our Chinese customers. Our rapidly growing store footprint, market-leading digital ecosystem and customer engagement, robust innovation pipeline, and the enduring love and loyalty for the Starbucks brand in China are all unmatched.

I have full confidence in the strength of the Starbucks brand in China and across all our international markets. There should be no misunderstanding of how big and robust our business in China is and will be. These are still early days, and our strategies are clearly working. Starbucks is uniquely positioned for success in China well into the future.

With phenomenal strength and growing momentum in our retail business, let me now move on to our channel development segment that also continues to exceed expectations. Over the past three years, we have made significant progress expanding our reach and amplifying the Starbucks brand through CPG, single-serve coffee, ready-to-drink, and food service. I attribute our success to the power of the Starbucks brand, the bold innovation that attracts new coffee lovers into our categories, and the caliber of our strategic business partners globally.

In Q3, Starbucks retained our number one brand position in total US at-home coffee and further expanded our leadership position versus other brands. The Starbucks brand continued to increase share in the total US category, impressively adding 1 percentage point over the prior year despite lapping a strong comp.

The Global Coffee Alliance with Nestlé is a powerhouse, and we continue to see strong performance across all aspects of the key strategic relationship. Earlier this year, building on the success of the Starbucks by Nespresso platform, we expanded and introduced Starbucks by Nespresso on the Vertuo line, which is already exceeding six-month distribution and velocity targets. In addition, the combination of strong CPG performance combined with a steady recovery in food service gives us added confidence.

In ready-to-drink, Starbucks is the number one premium brand globally, with our North American Coffee Partnership with PepsiCo growing 19% in consumption and our international ready-to-drink business growing double digits in EMEA and China Asia-Pacific. These channels amplify our brand in more than 80 markets around the world, offering millions of customers at home and at work options that complement their Starbucks in-store experience. And just yesterday, we announced plans to reach new markets and grow our Starbucks ready-to-drink portfolio with Nestlé, who will now serve markets across Southeast Asia and Latin America.

Our channel development strategy to amplify the brand while growing share of at-home occasions continues to attract new customers to Starbucks with unparalleled choice, while driving best-in-class returns.

The key takeaway from today’s call is this. We look to the future with as much conviction as ever in our strategy, as this quarter represents the beginning of a multi-year tailwind for Starbucks that is powered by three factors.

First, the total coffee addressable market is large and growing rapidly. The market is expected to grow to well over $400 billion in size globally over the next three years. That represents a compound annual growth rate of 8% to 9% as the market rapidly recovers from the global pandemic. Second, within this large and growing market, consumer preferences continue to shift from mainstream robusta coffee to premium arabica coffee where Starbucks is the leader. Third, and perhaps most important, Starbucks has rapidly adapted to new consumer
behaviors and strengthened key points of differentiation. Our focus on the customer experience, relevant new beverage platforms, and expanded digital customer relationships are translating to increased consumer preference and deeper customer engagement.

The combination of a highly differentiated brand experience, a continued consumer shift to premium arabica coffee, and a large and growing addressable market is a powerful trifecta that provides our business with a multi-year tailwind. These factors, reinforced by the results of this past quarter, give us confidence that this is just the beginning of what is about to unfold.

And with that, I will turn the call over to Rachel, who will walk you through details of our Q3 results. Rachel?

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

Thank you, Kevin, and good afternoon, everyone.

I'm thrilled to share with you the results of this milestone quarter, delivering record revenue and record non-GAAP EPS only four quarters after the depth of the pandemic. Over the past year, we have proven our ability to differentiate ourselves with the unique and personalized experiences we create for Starbucks customers whether in our stores, through our app, or down the grocery aisle leading to this quarter's impressive results.

Starbucks global revenue reached $7.5 billion in Q3, up 78% from the prior year, far surpassing the pre-pandemic quarterly record set in Q1 fiscal 2020 driven largely by the incredible performance in the US, our largest market. Q3 non-GAAP EPS was $1.01, up from the loss of $0.46 in the prior year driven by faster than expected margin recovery in the Americas due to sales leverage from lapping prior-year COVID-19 impacts and the benefit from continued strength in average ticket. Our Q3 EPS includes $0.09 of benefit related to discrete tax items, most of which was originally anticipated in Q4 as referenced on our previous earnings call.

The investments we have made in our business have made Starbucks stronger, more resilient, and positioned for long term growth. This powerful momentum gives us the confidence to meaningfully raise our EPS outlook for the full year, as I will explain later.

I will now take you through our Q3 fiscal 2021 operating performance by segment, followed by an analysis of our consolidated margin performance.

Our Americas segment which fueled our record quarter delivered revenue of $5.4 billion in Q3, 92% higher than the prior year primarily driven by an 84% increase in comparable store sales including 82% comp transaction growth. As Kevin mentioned, US comparable store sales growth reached 83% in Q3 driven by a material improvement in transaction comp of 80%.

Average store transactions continued to grow and ended the quarter at nearly 90% of pre-pandemic levels, presenting further opportunity to return to and grow beyond FY 2019 levels. As transactions have grown, we've maintained the strength in average ticket, up 1% over the prior year, remaining significantly elevated as many key post-pandemic consumer trends have continued. Growth of cold beverages and customization coupled with sustained strong beverage attach and record food attach in Q3 all contributed to the strong ticket and give us confidence in our ability to maintain a meaningful portion of the ticket gains over the coming quarters.

Americas Q3 non-GAAP operating margin expanded to 24.7%, up more than 200 basis points from Q3 of fiscal 2019 largely driven by sales leverage on our product and distribution costs, including waste favorability, the
benefits of SKU rationalization over the prior two years, and favorable sales mix shift. Pricing and the benefits of trade area transformation also helped offset the sizeable investments in wages and benefits, as well as higher supply chain costs due to inflationary pressures. While we're thrilled with our margin performance in Q3, we expect it to moderate slightly in Q4 primarily due to the growing impact of inflation coupled with incremental investments critical to our continued growth, which I'll discuss in a moment.

Moving on to International, the International segment delivered revenue of $1.7 billion in Q3. Excluding a 10% favorable impact of foreign currency translation, the segment's revenue grew 65% over the prior year, reflecting a 41% increase in comparable store sales inclusive of a 5% adverse impact from lapping the prior-year VAT benefit. Strong sales growth from our international licensees as well as 8% net new store growth over the prior – over the past 12 months also contributed to this growth.

Kevin spoke to our performance in China. In addition, the International segment performance was adversely impacted by virus resurgences in Japan with a state of emergency severely limiting consumer traffic during most of the quarter. It's important to remember that the vast majority of international markets in which we operate are behind the US in terms of both vaccination and mobility, so revenue recovery is predictably lagging in those markets. Still, our partners in every market remain focused on what they can control and what they do best. The moments of connection they are providing our customers during these challenging times will support growth as vaccination rates improve.

International non-GAAP operating margin rose to 22.5% from minus 2.7% in the prior year mainly driven by sales leverage from lapping the impacts of COVID-19 as well as store labor efficiencies across our company-operated markets and larger government subsidies. On a two-year basis, these temporary subsidies provide an approximately 200 basis point benefit in the quarter, boosting the segment’s non-GAAP operating margin close to its pre-pandemic level of 22.7% in Q3 fiscal 2019.

On to Channel Development, revenue was $414 million in Q3, a decline of 7% from the prior year primarily driven by Global Coffee Alliance transition-related activities including a structural change in our single-serve business. When excluding the approximately 20% adverse impact of these transition-related activities, Channel Development’s revenue increased by 13% in Q3 mainly driven by growth in the Global Coffee Alliance product sales and our ready-to-drink business.

The segment’s non-GAAP operating margin expanded to 46.7% in Q3 from 35.6% in the prior year. Normalizing for the 700 basis point impact of Global Coffee Alliance transition-related activities I just mentioned, Channel Development’s operating margin expanded 410 basis points in Q3 driven primarily by the strength of our ready-to-drink business. We expect the impacts from the transition to be substantially completed by the end of fiscal 2021.

Finally, at the consolidated level, our non-GAAP operating margin was 20.5% in Q3, up from minus 12.6% in the prior year. The year-over-year increase in our operating margin for Q3 was primarily driven by sales leverage across the P&L as we lapped COVID-19 impacts and related costs as well as pricing in the Americas. These were partially offset by additional investments in retail store partner wages and benefits, which remain a strategic priority for us to support our world-class partners.

Given the strength of our performance in Q3 and the optimism we have for the fourth quarter, we're pleased to update our guidance across a number of key areas. We expect the momentum we have seen in the US underpinned by the ongoing great human reconnection to continue, and as a result, we expect both Americas and US comparable store sales growth in Q4 in the range of 22% to 25%. This corresponds to a two-year comp range for Q4 of 11% to 13%, reflecting further sequential improvement from an already strong level of 9% in the
Americas in Q3. As a reminder, the two-year comps we are monitoring are calculated on a multiplicative basis instead of an additive basis as described in today’s earnings release.

For the International segment where sporadic virus resurgences continue to impair consumer mobility in some markets, we now expect comparable store sales to grow mid to high-single digits in Q4. For China, we expect comparable store sales to be roughly flat in Q4. Similar to the Americas, these ranges for both International and China translate to a meaningful sequential improvement in two-year comp from Q3 to Q4 despite the challenging market dynamics expected to linger in Q4.

Based on the outlook for the segments, we now expect Q4 consolidated comp growth in the range of 18% to 21%. On a two-year basis, this equates to a range of 7% to 10%, a considerable sequential increase from the Q3 two-year comp of 4%.

Moving on to retail store development, although we expect approximately 1,100 net new stores globally in fiscal 2021, we now anticipate a slight shift between our segments. For the Americas, we now expect the total store count in fiscal 2021 to remain roughly flat to prior year as the new store openings are virtually offset by higher than normal closures reflecting the continued progress of our accelerated trade area transformation initiative. For International, net new stores for fiscal 2021 are expected to increase to approximately 1,100 from 1,050 in the original guidance.

With the updated comp sales and the store growth outlook, we are also tightening our guidance for full year fiscal 2021 consolidated revenue to a new range of $29.1 billion to $29.3 billion from $28.5 billion to $29.3 billion. This includes Channel Development’s revenue which is now expected in the range of $1.5 billion to $1.6 billion for full year fiscal 2021 compared to the previous guidance of $1.4 billion to $1.6 billion, reflecting the segment’s strong performance to-date. As a reminder, our fiscal 2021 consolidated revenue guidance range is inclusive of approximately $500 million for the 53rd week.

Additionally, given the faster than expected margin recovery to-date, we are raising our consolidate GAAP operating margin outlook for the full year to approximately 17%, up from the previous range of 15% to 16%. Our consolidated non-GAAP operating margin is now expected to reach approximately 18% in fiscal 2021, up from the previous guidance of 16.5% to 17.5%, reflecting the momentum we saw in Q3 and expect in Q4.

Our operating margin is tempered a bit by two factors that we see growing in relevance in Q4 and into fiscal 2022. The first is our latest view on rising global inflation requiring continued incremental investments to support our growth. The second is our strong commitment to increasing wages of our store partners making deliberate investments towards an hourly wage for $15 in the US in line with the announcement we made in November of last year. As Kevin mentioned, our green apron partners are fundamental to the Starbucks experience and are critical to our long-term success. These important wage increases coupled with continued investment in digital initiatives and operational efficiencies will further solidify the foundation for our next stage of growth.

Given the accelerated timing of certain discrete tax benefits in Q3 I noted earlier, which were originally anticipated in Q4, we now forecast our Q4 non-GAAP effective tax rate to increase to the low 20% from our previous outlook of high teens. For fiscal 2021, our GAAP and non-GAAP effective tax rates are expected in the low 20% range, revised from the previous guidance of low to mid 20%.

Summing this all up, driven by the tremendous momentum we’ve seen as customers return to our stores propelling our record results in Q3, we are raising our full year fiscal 2021 EPS guidance. Our new fiscal 2021 GAAP EPS guidance range is $2.97 to $3.02, up from $2.65 to $2.75 previously. Our fiscal 2021 non-GAAP EPS
is now expected to be in the range of $3.20 to $3.25, up from our prior range of $2.90 to $3.00. This predominantly reflects our better than expected performance to-date as well as the improved outlook for Q4 barring any new significant and sustained waves of COVID-19 infections and any major economic disruptions. As a reminder, our fiscal 2021 GAAP and non-GAAP EPS guidance ranges include approximately $0.10 of benefit for the 53rd week.

Consistent with our past practice, we will provide guidance for fiscal 2022 on our Q4 earnings call. However, I should note that the earlier than expected margin recovery we saw in Q3 and expect in Q4 was not contemplated when we provided our fiscal 2022 EPS growth outlook at our December Investor Day. We are pleased with the strength of our business and will provide our FY 2022 outlook during our Q4 call. Importantly, our ongoing commitment to the double-digit non-GAAP EPS growth at scale remains strongly intact.

To summarize, Q3 performance exceeded our expectations with record revenue and earnings underscoring the resilience and power of our brand, which remains as relevant as ever. While temporary marketplace dynamics will impact our business until the global pandemic is behind us, the enduring strength of the Starbucks experience fueled by our incredible partners around the globe remains intact, thriving in this moment of human reconnection and continuing to guide our long-term growth. As always, the credit for our success this quarter and in the future belongs to our Starbucks partners around the world who proudly wear the green apron. They have our greatest respect and appreciation.

And with that, Kevin and I are happy to take your questions, joined by John Culver, Michael Conway, and Belinda Wong. Thank you. Operator?

**QUESTION AND ANSWER SECTION**

**Operator:** Thank you. [Operator Instructions] Your first 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 specifically on the China market. Kevin, I know you mentioned you’ve never been more confident. With that said, I think everyone would agree it’s a very volatile market, whether you think about it politically or consumer-wise.Obviously, competition is intense, and we know it is your highest growth market for Starbucks. And clearly 100% company-operated, so a major market for you.

With that said, the third quarter comp shortfall and seemingly significant reduction in the fiscal 2021 guidance, I'm just wondering whether you're concerned at all about that? It sounds like from your commentary not so much. I'm just wondering maybe you can give some color, or Belinda perhaps, in terms of what you attribute the slowdown, what you expect to continue? Whether maybe China is seeing a virus uptick? Or whether, I don’t know, some people are fearful that there’s consumer pushback on certain US brands? Just trying to get a sense for what’s changed of late in the China market, and yet still confidence quite high longer term. Thank you.

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

**A** Yeah. Jeffrey, thanks for the question. Let me share some thoughts, and then I'll hand it over to Belinda to comment a bit further. Jeffrey, we've been in China now for over 20 years, and every step of the way we have
built Starbucks in China for China. And the brand resonates with our customers in China. So I think that's number one.

Number two, we are in a market-building mode right now, where most of our growth comes from the new stores that we open. And the fact that the new stores that we have been opening are performing at some of the highest AUV levels of prior generations gives us confidence that we are continuing to expand our reach and presence in China. I think those two things.

Certainly, from a geopolitical standpoint, we've got businesses in 84 markets around the world, so we constantly deal with geopolitical situations. And I'd say, there's not a geopolitical situation that has really impacted us in China over the last couple years. And I don't really foresee that happening, as long as we continue to stay focused on what we do and what we do well, which is create a great experience for our customers in China, take care of our Starbucks partners who proudly wear the green apron in China.

And we're bullish. We continue to invest, whether it's the investment we're making in new stores, whether it's the Coffee Innovation Park, the first sustainable roasting plant that we're building in China, the work we're doing with coffee farmers in Yunnan. And I'd sort of look at the – this navigating the – some of the implications of COVID as just being short term. And so that's why I kind of look at it from a very bullish perspective long term.

So let me hand it over to Belinda. Belinda, I'll let you comment a bit further on Jeffrey's question.

Belinda Wong  
Chairman and Chief Executive Officer, Starbucks China, Starbucks Corp.

Thank you, Kevin. We achieved 19% comp in Q3 despite COVID resurgence in the south. Now if you exclude the adverse impacts from lapping prior-year VAT exemption benefit, our comp grew actually 24% in the quarter.

Our previous comp guidance has assumed a shorter timeframe for the lifting of travel restrictions and also less of the uncertainty that we have faced in the market. And hence, we are adjusting our comp guidance to reflect the uncertainties. Now make no mistake that the short-term volatilities that we're facing today are only temporary. The recovery, as we've always said, will continue to be nonlinear.

Now one point that you have to fully realize is that we have fully regained our pre-COVID pace of store development. And Kevin spoke about the achievement that we achieved in Q3. And we are well on track to open more than 600 net new stores this fiscal year and operate 6,000 stores by the next fiscal year.

And on top of that, yes, we are delivering best-in-class storefront profitability and returns. We are meeting the year one new store performance guidance that we provided during last Investor Day. And please note that our focus in the past decade has always been about total revenue growth and reaching new customers, for them to trial the Starbucks experience and coffee in China market.

And majority of our total revenue growth and close to 70% of that comes from new stores. This huge runway for growth in China due to growing coffee consumption and the addressable market, rising middle class population, and disposable income. So we're still in very early chapters of our growth story here in this market.

My personal on-the-ground experience and what I see here in the market gives me full confidence in the resiliency and the dynamism of the Chinese consumer economy. No other F&B retailer or specialty coffee brand possess our speed, quality, coverage of our national footprint, our market-leading digital ecosystem and customer
engagement, our robust innovation pipeline, and the strength of our brand. These are all unmatched in China. And we are well-positioned than ever to continue to win in this market.

We will focus on what we can control. Our strategies are clearly working. So we are playing the long game here and ready and excited to capture the additional growth opportunity once the international travel restrictions are lifted and the pandemic is behind us. Thank you.

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

Thank you, Belinda. I think Rachel had one other comment to add, Jeffrey, to your question.

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

Yeah. Thank you. Jeffrey, I just wanted to reiterate two quick points, one of which is our double-digit EPS growth at scale that we’ve committed to, as you know, is – one of the key building blocks to that is our unit growth, as well as our comp growth. And so that unit growth in China continues to be important not only for this year, but for our long-term equation.

The other thing that I would point out is the guidance that we gave for Q4 on comp for International and China. It implies a sequential improvement on a two-year basis from Q3 to Q4. So I think it’s important to show that we’re continuing to be optimistic and showing continued momentum in the business for the remainder of this fiscal year.

Operator: Your 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.

Hi. Good afternoon. I wanted to ask about margins. And I think at the Analyst Day back in December you laid out an outlook for long term operating margins in the 18% to 19% range. And now this quarter that you just reported, very comfortably above that. So I wanted to ask, Rachel, if you had an updated view on what the right profile for the business should be, as we think about looking forward? And how you sort of factor in some of the investments that you talked about earlier?

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

Sure. The way I’d think about it is – let me put it into a little bit of context is, in Q3 our margin was incredible. I mean, we – from a standpoint of both – across all of our markets, we saw margin expansion versus prior year and even against FY 2019. And a big driver of that was our sales leverage, as well as comping over COVID impacts broadly, pricing. But it did help to offset some accelerated investments we’d made in wage as well as inflationary pressures.

When we think about Q4, we would expect, as we’ve guided, we guided our margin to increase from 16.5% to 17.5% going to 18% for the balance of the year. So, this shows our optimism and the continued momentum in the business. But what I’d caution is there is a slightly lower relative to the performance we saw in Q3 based on increasing costs that we see related to inflation as well as the continued investments that we need to make in our business. Those investments were critical to our recovery, but they’re more important even foundationally for our growth.
And so, as we think about FY 2022, we're not going to provide guidance for FY 2022 today. That will be on our Q4 call to give us time to complete our annual operating plan which we're in the process of right now, but if you think about that, some of what we guided at Investor Day from that growth in FY 2022 has been pulled forward into FY 2021. But I want to be clear that we remain committed to double-digit non-GAAP EPS growth. So, we're committed to that. When you think about that margin that we laid out at Investor Day, that 18% to 19%, that was up from 17% to 18% that we had guided previously. That accounted for the benefit that we're seeing from the investments we're making. So, it just again reiterates the importance of those investments.

And so, when we think about that guidance at Investor Day, what it allows us to do is modestly expand margins while continuing to invest. And, again, we'll provide further guidance on FY 2022 at our Q4 call, but that's how I'd put it into perspective.

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

John Ivankoe
Analyst, JPMorgan Securities LLC

Hi. Thank you. It's actually an average ticket question, both for the US and for China. I mean, I think it probably would have been a rational expectation to think lapping a 27% ticket from the second quarter – excuse me, the third quarter of 2020 would have basically been impossible, and yet you were able to do that for all the reasons that you pointed out. Yet I would have thought as people came back in the morning and migrated more towards single-order transactions just by definition that would have fallen. So, can you kind of give some more color around maintaining that average ticket? I think there was a comment made in the prepared remarks about maintaining a significant portion of that pricing, but whether in fact it can be 100% of the ticket lift that you got over the past five quarters or so.

And secondly, China was the inverse of that. Even if I adjust for the VAT benefit from the previous year, the ticket was actually down in China, which isn't very common especially in an inflationary environment. If you could talk about the China ticket as well, and for both businesses, just your attitude on overall menu pricing, given what is your inflationary cost pressure that's something that consumers may expect as well as higher pricing, whether that's something that may accelerate as well on the menu for both businesses? Thanks.

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

John, thanks for your question. We'll have John Culver take the US, and then Belinda can take China. And, Rachel, you can add any additional. So, John?

John Culver
Group President, North America and Chief Operating Officer, Starbucks Corp.

John, appreciate the question. And it's a great question. Let me give you a little context. We continue to see strong sales recovery in the rural and suburban areas of the business, and in particular drive-thru, where drive-thrus are most common. That is helping us to drive larger orders and higher ticket. We saw record ticket in the quarter from an overall US perspective.
Now, we’re also, at the same time, as the customers become more mobile and start coming back into the central business district and the urban core, we did achieve a positive comp for the first time in that trade area since Q1 of FY 2020 which gives us even more optimism for the future recovery of the business.

Now, as that recovers in the central business district and urban core, what we do expect is that the customers will begin frequenting those stores in those areas, and as part of that, transactions will increase but ticket will moderately decrease. And it will balance itself out over time. We see great opportunity to continue to drive transactions in our stores.

Right now broadly across the US business we’re operating about 90% of pre-COVID transaction levels, so we’ve got a lot of room to go, to grow back to a more normalized rate pre-pandemic-wise as it relates to transactions, and as we do that, we do expect the tickets to moderately decline during that time.

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

Belinda, do you want to take China?

Belinda Wong  
Chairman and Chief Executive Officer, Starbucks China, Starbucks Corp.

Hi. My turn, right, Kevin?

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

Yes.

Belinda Wong  
Chairman and Chief Executive Officer, Starbucks China, Starbucks Corp.

China. Okay. Great. Q3, 9% AT drop, but a majority of that, the 6%, is really from what you just said, John, on the 6% VAT lapse. So, the AT drop is really just a negative 3%. So, one thing yet you have to note is that we’re seeing the acceleration of our digital mobile ordering sales mix, the delivery portion of it. We’re seeing great uplift on our AT versus the store transactions. So that is a good thing.

And in terms of your question on the inflationary pressure, it does exist but to a much lesser extent as comparing to the US, and in this fiscal year, we’re able to net off any increases by our own operational efficiencies or any savings that we were able to achieve due to our volume increase. So, thank you.

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

And I just want to add a little further clarification around that. I mean both good points from Belinda and John. What I would say is, broadly in the US, part of the function of our comp and our ticket going to 1% is just our year-over-year lap. Our actual ticket continues to be at one of our highest levels, and it’s our third consecutive quarter. And we continue to see, as John mentioned, as we see more single-beverage transactions, we expect our ticket to moderate, but we do believe that our ticket will remain elevated – slightly elevated compared to where from a pre-pandemic level. And drivers of that are the attach that John spoke about, as well as the continued attach we see in food, our ability to continue to move customers to our cold beverages which have a more premium price, in addition to our promotion offerings and our customization. Those are other ways that we’re further evolving our ticket across the US and Americas space.
And what I want to just point out is that the margin that we're guiding to for the balance of the year saying increasing to 18%, again up from the 16.5% to 17% on a – 17.5% on a non-GAAP basis that we previously guided, part of that growth is really coming from an elevated ticket. It's not the only thing, but it's one of many. And it continues to be one of many levers to help us support not only inflationary pressures and the headwinds that we have from that, but the continued investments that we need to make in our business. So, it continues to be a critical part of our equation, and it's reflected in the guidance that we've provided.

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

And let me just sort of close. I know, there's been a lot written in the press about the cold weather that's hit Brazil and the implications on the C price of coffee. And so just to give you some context on the increasing C price of coffee, you should know that over the years we've created a very thoughtful approach to how we source, warehouse, and use hedging techniques to ensure we always have supply of premium Arabica green coffee at an attractive cost basis. In fact, we purchase green coffee 12 to 18 months in advance, and we never stopped buying green coffee through the pandemic.

So, as a result, we currently have over 14 months of price-forward coverage, which means we have price locked on our coverage for the next 14 months, which gets us through the rest of fiscal year 2021 and most of fiscal year 2022. And I think we may be the only large buyer of green coffee that uses this approach, and that will serve us well as it gives us a significant advantage relative to our competitors who if they don't buy this far in advance will certainly not have that cost structure that we put in place.

And so I just wanted to comment on that since it's been in the press and kind of relates to your question, John, on inflation.

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

John Glass
Analyst, Morgan Stanley & Co. LLC

Thanks very much. My question, Rachel, and maybe others, is just on what is the aggregate amount of inflation you're actually facing in your P&L? I know you talk about inflationary pressures, but some companies talk about the aggregate inflation. You can talk about wages. Is there inflation coming in the supply chain, is there a way to quantify that?

And how do you think about pricing in that context? Are you willing to take an unusual amount of pricing relative to history to offset that, or do you find there's other places in the P&L? I mean, it's notable that some of your peers are taking significant amounts of pricing now. They feel like they have that power. We thought Starbucks had that power, but maybe use it more judiciously? But is your frame of how you think about pricing changing because of this environment?

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

Yeah. I think I'd start first with the inflationary pressures that we saw. So in Q3 we had outstanding performance, but within that we covered headwinds in the Americas business of about 70 basis points. And we expect
headwinds related to rising costs and inflationary pressures to continue into Q4 which is reflected in the guidance that we've given.

Now, some of the ways that we not only offset headwinds such as inflation but also the investments we're making are price, and we've always been very thoughtful and measured in the pricing actions we take so that we don't inhibit growth. And I would say our pricing strategy hasn't fundamentally changed. We're very surgical in nature. We look on a store by store basis, and we leverage analytics and insights. And importantly, what our analytics and insights show us is that we do have pricing power, and we see that in the premiumization of our beverages, the gravitation towards our promotional offerings. And this is our opportunity to be able to leverage price in those ways, which is one of the reasons why we talk about our ticket continuing to stay elevated, not at the rate that we have today but slightly elevated.

But pricing will be one of many levers that we use to offset these headwinds. For example, we'll continue to drive customization with our customers, continue to drive our customers to our cold beverage offerings where we have a more premium nature, continue to drive beverage and food attach when and where possible. Those are ways to continue to have an elevated ticket. So through pricing, an elevated ticket, we'll also continue to look at efficiencies in our supply chain as well as efficiencies in G&A. So this particular quarter, we saw our G&A returning to pre-pandemic levels, and we'll continue to find efficiencies in G&A over time with our goal to be able to grow G&A less than our revenue growth as another way.

In addition to that, we're seeing benefit from Trade Area Transformation. Our Trade Area Transformation in the Americas and more broadly in the segment delivered almost 80 basis points on margin. That's meaningful. And so we continue as we've optimized that portfolio, that's yet another lever that we're using to help offset not only headwinds related to inflation but also the investments that we know we need to make that are critical to our growth in the future. And those are investments both in wages for our partners as well as investments in our service experience and our throughput as well as investments in digital initiatives. All those are critical for our growth in the future and really are fueling not only our recovery but will fuel the growth for years to come.

So those are important investments for us broadly, and those are the ways we think about how we'll offset those increasing costs while still modestly expanding margin.

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

**Sharon Zackfia**
*Analyst, William Blair & Co. LLC*

Hi. Good afternoon. Rachel, I appreciate you're not kind of redoing the Analyst Day guidance, but I did want to ask a question about development because I think at the Analyst Day you had committed to kind of reaccelerating to 6% to 7% unit growth in fiscal 2022. I wondered if that still held and what the pushes and pulls are there particularly given the labor environment?

**Rachel Marie Ruggeri**
*Chief Financial Officer & Executive Vice President, Starbucks Corp.*

We continue to see unit growth as a meaningful driver of our double-digit non-GAAP EPS growth, so we'll remain committed to expanding stores both in our international market and in our company-owned markets, so our licensed and company-owned. So that will be a continued driver of our growth even with the pressures that we're seeing in labor. And to-date, as Belinda mentioned, we're on track to open more than 600 stores in China. We've
opened close to 500 stores in the Americas segment, and broadly we're going to open a net 1,100 net new stores this fiscal year. So still continuing to have meaningful growth in our stores not only this year but into next year.

Now, the details of what that growth will look like, again, will have to come in Q4 when we provide – in our Q4 earnings update, when we provide more detailed guidance on FY 2022, but you can expect our unit growth continuing to be not only a driver of our earnings but also a critical part of our growth in the future.

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

Yeah. And, Sharon, this is Kevin. I'll just remind you I commented in my remarks that we're 80% through the Americas Trade Area Transformation, which as we get into fiscal year 2022, that puts us back on the front foot for net new store growth in North America. And certainly Belinda and her team in China have already gotten there. So that's going to be very helpful as we go into FY 2022.

Operator: Your 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

Hi. Good afternoon. Thanks for the question. So, Kevin, I wanted to follow-up on your comments around non-Rewards spend outpacing Rewards spend I think you noted for the first time in 11 quarters. Do you expect that to persist in the near term? Or would you expect that relationship to shift back to where you had seen recently, as mobility and routines further normalize?

And then on the elevated non-Rewards spend, are you also seeing increasing conversion of those non-Rewards guests to Rewards members? Thanks.

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

Yeah. Thanks, Chris. I mean, that's the key point. You look at the fact that we've grown our 90-day active Starbucks Rewards members significantly to over 24 million.

And where are we getting those active Rewards members? They are coming from the non-Rewards customers that return into our stores. So I actually think the increase in non-Rewards customers is going to be very helpful to continue to fuel that base of active Rewards members. We know that customers, when they join Starbucks Rewards, they spend more. There's more frequency and more engagement from those customers. And that's why you think over a multiyear period, we have this aspiration to double the number of active Rewards members in North America.

John, I'll let you comment a bit further if you have anything else to add on the US.

John Culver  
Group President, North America and Chief Operating Officer, Starbucks Corp.

Yeah. Chris, the one thing I would add to what Kevin's saying is the success of the Stars for Everyone program that we launched a little over three quarters ago. It makes it easier for people to join the Starbucks Rewards program. It enables customers to make purchases by adding alternative payment options in addition to utilizing
stored value. And really what we're seeing there is that it's helped to drive the 49% increase that we're seeing year-over-year in membership across broadly the Starbucks Rewards program.

To put that into context, we had added nearly 5 million 90-day active members since the beginning of this fiscal year. And what this has done is driven a meaningful increase in the conversion rate for those who join the Starbucks Rewards program. And really while we're not seeing a material shift from customers leaving the stored value program to alternate payment methods, the vast majority of the customers who use these alternative payment methods are new or reengaged members that we're attracting back into the program.

So going forward, we're going to continue to double down on both our Rewards members as well as our non-Rewards members. We see that this as being highly accretive to driving frequency as well as spend. And we see this as being one of the biggest opportunities we have for the long term program growth in attracting those occasional customers into our stores.

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

If I could add just one thing to that, what I would add is that, what we see is, we’ve raised our Q4 guidance. If you look at the guidance we’ve given for Americas and US in Q4, it implies that we’re going to improve on a two-year basis on our comp from Q3 into Q4. And as I mentioned in my prepared remarks, that's implying about an 11% to a 13% two-year comp growth, which is above the 9% we saw in Americas this quarter on a two-year basis and above the 10% we saw in US.

The driver of that is really the fact that in this quarter we saw our customer counts, overall customer counts in line with pre-pandemic levels FY 2019, but where we have opportunity is frequency. And so that frequency is really what helps support our optimism and aligns with the guidance that we’ve provided in Q4.

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

Dennis Geiger  
Analyst, UBS Securities LLC

Great. Thanks for the question. And wondering if you could talk a bit about how important throughput and operations have been most recently in driving sales. And I'm curious sort of on some of the operational adjustments that you've made within the US, the new service channels that you've launched in recent quarters, where you stand right now from sort of a drive-thru throughput perspective? What curbside is doing right now? And then maybe just to kind of look ahead, how much more opportunity there is for these service channels and then the throughput opportunity from here? Thank you.

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

John, you take that?

John Culver  
Group President, North America and Chief Operating Officer, Starbucks Corp.

Yeah. Yeah. Thanks for the question, Dennis. Very excited to talk about this because the US team has done a remarkable job in terms of driving throughput and operational efficiencies overall.
One of the big things to note is that we have returned to pre-pandemic levels in terms of our overall operating efficiencies within our stores, so that's very encouraging to see. The other thing that we've done to drive productivity and operational efficiencies in the store are a couple things.

First, we significantly upgraded our play builder program, which allows us to be more effective in how we deploy our labor. We've also made good investments, strong investments in customer service training. And if you look at it over the last 18 months or so since COVID has hit, about 70%, roughly 70% of our partners have been hired in these last 18 months, and they've been operating in this COVID-restricted environment. So we're reinvesting now in customer service training for our partners as customers become more mobile and frequent in our stores.

Now in addition to the ongoing operations and how our stores and partners are operating, we've also made equipment innovation investments as well that is driving throughput as well as efficiency. The Mastrena 2 espresso machines is a big investment that we're making. We have it deployed in 70% of our US company-operated stores. We'll complete the rollout in fiscal year 2022.

We've introduced a new warming oven, the Merrychef warming ovens, which is an upgrade to our current ovens, that's currently in 20% of our stores. And will be in 35% of the stores by the end of the fiscal year.

And then with the success of cold beverages, and in particular Cold Brew, we've developed a proprietary Cold Brew brewing system through our Tryer Center that's currently in 2,000 US stores, and we'll have it in 75% of our stores by the end of the year. It makes brewing the product more efficient. It is also a more efficient use of partner time, and it fits within the back of the house.

The other big thing that we're rolling out which I'm excited about and our supply chain team has worked with the operations team on is automated inventory ordering. And this is a system that we have been testing. We just recently expanded the test. We're now rolling it out to 1,500 stores this past week. It basically removes the inventory task from our store partners and allows them to focus on their customers and the customer experience. And we expect that this will be fully rolled out in all company-operated stores for food and merchandise items by the end of the calendar year.

And then just one other thing that you asked about, about drive-thru. We're doing a lot of work on drive-thru and revolutionizing the drive-thru experience. So really focusing on decreasing the out-the-window times for the drive-thru experience. We introduced new equipment and technology with handheld order points to target to improve the speed of service.

We've also introduced tech improvements to make the orders more easily managed through consolidation and hand-off, and we're going through and renovating about 150 constrained drive-thru stores to design a new engine, removing pastry cases or repositioning it, and really dedicating a POS system to that drive-thru location. And then we're not stopping there. We're continuing to innovate about what is the next evolution of the drive-thru store for our customers.

So a lot of great work by the teams broadly across operations, store development, supply chain, and the technology team. So hats off to all of them.

Operator: The last question comes from David Palmer with Evercore ISI. Please proceed with your question.

David Palmer
Analyst, Evercore ISI
Thanks. Just a follow-up to John Culver's earlier comment. He mentioned the urban areas getting going potentially with the dynamics around traffic and check. And I'm wondering as you think about going back to school and people perhaps going back to work this fall, is that in any way tied to what Rachel's comment was about the two-year trend perhaps improving by 1 to 3 points as contemplated in the guidance?

And then sort of relatedly, looking back at this last quarter, any time you've done in the past the type of performance you've done in cold beverage and Rewards user growth, I would expect a sequential acceleration. In March, you were doing 11% two-year, and it was remarkably similar this quarter.

Any insights about factors you saw that might have been headwinds that could help us think about how you're going to be doing after this quarter? Thanks.

Rachel, do you want to take the question on the trend that David asked?

Sure. David, just to clarify, we delivered a 10% two-year comp in the US business, our largest market this quarter. We're incredibly proud of that performance, and even with that we're guiding now to our two-year comp from Q3 to Q4 showing sequential improvement. So we're showing that we're expecting — we're implying that we'll have improvement above the 10%, and we've given a range of about 11% to 13% on a two-year basis. So that certainly reflects the momentum we've seen in the business and the momentum we're expecting as we see more customers returning to the stores.

As I mentioned, we had a very similar customer count — overall count in terms of this quarter versus pre-pandemic. But our opportunity really continues to be — we certainly have the ability to bring more customers in, but our opportunity is the frequency of those customers. We ended the quarter at about 90% of where we've been from a transaction standpoint prior to the pandemic, so in FY 2019 levels. And that's really our opportunity, and we've reflected that in the guidance we've given.

But I'll give it to John to add some further commentary on that.

Yeah. I think that we're very optimistic in terms of, number one, customers returning to our stores and our stores being ready with relevant innovation that resonates very strongly with our customers. And nowhere are we seeing that more than with cold, in cold beverages. As we shared, record 74% of beverage sales in Q3. That's 13 percentage points higher than what it was in the previous quarter. It is important to note, and Rachel mentioned this, but I just want to emphasize, cold beverages are generally ticket and margin accretive.

So how do we classify cold beverages? It's Cold Brew, it's Nitro Cold Brew, it's Iced Shaken espressos, and it's Refreshers. And then you couple those products with the ability to customize and personalize to the customers' desires. We've got a wide range of beverage options for customers that are both hot as well as cold, and we're seeing meaningful growth in the customization of our beverages and the modifiers that people are adding to their products such as espresso shots, cold foam, alternate dairy, and really driving awareness of these personalized offerings. And our customers are resonating with that.
So we’re very encouraged by what we’re seeing. We’re very optimistic, but we realize also at the same time that we’ve got to earn our customers’ trust, loyalty, and respect each and every day. And our partners are doing yeoman’s work in terms of creating that great experience that customers have come to expect. So congratulations to them.

**Rachel Marie Ruggeri**

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

That’s right and that’s why I would add that the investments we continue to make are critical. They’re critical for our growth, and they’re critical for us to be able to continue make it easier for our partners to serve our customers as well as making it better for our partners overall.

**Operator:** I will now turn the call over to Kevin Johnson for closing remarks.

**Kevin Johnson**

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

Well, I want to thank you all for joining us today. I think this quarter amplifies the fact that Starbucks is on the front foot, and we are optimistic about the future. I think we’re operating in a large and growing addressable market for coffee, and within that market is a shift to premium Arabica coffee. And you combine that with the strength of the Starbucks brand, I think that creates the trifecta for a multi-year tailwind, and this is just the beginning. So thank you for joining us today.

**Operator:** This concludes Starbucks Coffee Company’s third quarter fiscal year 2021 conference call. You may now disconnect.