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Starbucks Corp. (SBUX)

Q4 2023 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Hello. My name is Kevin and I'll be your conference operator today. I'd like to welcome everyone to Starbucks Fourth Quarter and Full Fiscal Year 2023 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 Tiffany Willis, Vice President, Investor Relations. Ms. Willis, you may now begin your conference.

Tiffany Willis

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

Thank you, Kevin, and good morning, everyone. Thank you for joining us today to discuss Starbucks fourth quarter and full fiscal year 2023 results. Today's discussion will be led by Laxman Narasimhan, Chief Executive Officer; and Rachel Ruggeri, Executive Vice President and Chief Financial Officer.

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 and our earnings release and risk factors discussed in our filings with the SEC, including our latest 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 fourth quarter and full fiscal year 2023 and the comparative period includes 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.

All numbers referenced on today's call are on a non-GAAP basis unless otherwise noted or there is no non-GAAP adjustment related to the metric. For non-GAAP financial measures mentioned in today's call, please refer to the earnings release on our website at investor.starbucks.com to find reconciliations of those non-GAAP measures to the corresponding GAAP measures.

This conference call is being webcast and an archive of this webcast will be available on our website through Friday, December 1, 2023.

Also, for calendar planning purposes, please note that our first quarter fiscal year 2024 earnings conference call has been tentatively scheduled for Tuesday, January 30, 2024.

And with that, I'll now turn the call over to Laxman.

Laxman Narasimhan

Chief Executive Officer & Director, Starbucks Corp.

Thank you, Tiffany. Good morning, everyone. Welcome to Starbucks' fourth quarter and fiscal year 2023 earnings conference call.

Thank you in advance to those who will join us this afternoon where we will share an update on our long-term strategies and celebrate the launch of holiday at Starbucks.

Before we get started this morning, I'd like to express my deepest gratitude to our Starbucks partners around the world for a very successful fiscal year 2023. I've learned through connecting with so many of you how our Reinvention Plan has continued to be well-executed, giving us great momentum in this early stage of our transformation at Starbucks. I have discovered how our brand is uniquely delivered in our stores and digitally through our extraordinary partners, and the tremendous headroom we see for our global business.

Turning now to our business performance. Rachel and I will share details of our strong results delivered in the fourth quarter and fiscal year 2023. We will also share our confidence in the company's long-term opportunity with guidance for fiscal year 2024. What you will take away from this call today is that we have great momentum, fueled largely by our Reinvention Plan. We're seeing the work pay off through improved partner and customer experiences as well as captured improvements in efficiency and margin.

We believe this bodes well for this next year and for years beyond. To deliver our long-term sustainable growth, we are focused on five areas. You will hear more on what we call our Triple Shot Reinvention and our continued momentum this afternoon. The discussion will provide a more detailed outlook on our three core and two enabling priority areas.

First, we will elevate the brand through our stores. Second, we will strengthen and scale in digital. Third, we will become truly global. Fourth, we will unlock efficiencies, including outside a store. Finally, we will reinvigorate the partner culture at Starbucks.

In the fourth quarter, our total company revenue reached a record $9.4 billion, representing an 11% increase year-over-year. Full year revenue reached a record of $36 billion, representing 12% growth year-over-year for fiscal 2023, or 14% when excluding the 2% impact of foreign currency translation, aligning our revenue growth at the high-end of our guidance range. Equally impressive, our global comparable store sales increased 8% year-over-year, both for the quarter and the fiscal year 2023, driven by a healthy mix of ticket and transaction growth.

We grew earnings per share by 31% to $1.06 for the quarter, and by $0.20 (sic) [20%] to $3.54 for the fiscal year; again, aligning to the top-end of our guidance range. Importantly, we grew margin by 310 basis points for the fourth quarter and 100 basis points on a full year basis. And we did all this while growing our global store count to over 38,000, in line with our store growth guidance of 7% in fiscal year 2023.

Demand for Starbucks remains strong around the world. Here in the US, our largest market, we saw momentum sustained throughout the quarter. Revenue for the quarter was up a record 12%, underpinned by 8% comps. We had a remarkable fall launch that led to record-breaking average weekly sales.

Our 90-day active Starbucks Rewards members reached a new record this quarter of nearly 33 million 90-day active members, and setting records in spend per member and total member spend. Customers remain loyal to a favorite four menu classics that have stood the test of time, including the Pumpkin Spice Latte, which celebrated its 20th anniversary.

In addition to very strong performance in our core offerings, we also saw strong performance with new offerings, including our apple-inspired beverages and food items. The results from the quarter, including the dynamic ways we are driving ticket growth, give us great confidence in our menu innovation on both an individual product and overall portfolio level. We have proven that complementary, yet competing, products and flavors can successfully co-exist, such as pumpkin and apple, with the right menu innovation, marketing mix and strategic pricing strategies.

As customer demands have evolved, we delivered more beverages, food, and personalization and customization across existing and new formats to meet their expectations and grow the business. Our continued investments in our partners, equipment, supply chain and technology are paying off, evidenced by a margin expansion across North America to 23.2% this past quarter.

Timed with our busiest Cold Foam promotion of the year, the recent rollout of our new portable cold foamers to all US company-operated stores enhanced productivity in the fourth quarter and lessened the strain on our partners, while continuing to meet the high cold beverage demand. In support of the continued growth in cold beverages, we delivered over 550 new nugget ice machines and remain on track with installation prioritized for our most ice constrained stores in fiscal year 2024.

Clover Vertica, our on-demand, single-cup brewer is now installed in over 600 of our stores across the US, and we continue the on-schedule rollout of the Siren System cold and food stations, prioritizing new stores and renovation locations. Our portfolio and pipeline management of new equipment design and rollout plans are robust and enabled us to deliver our results.

We have created a more stable environment in our stores. Hours per partner increased in the quarter by 5% as we continue finding schedules that fit our partners and customers' needs. Turnover was down in the fourth quarter by 10%, while barista tenure increased by 16% for the quarter. Customer connection scores also improved in the quarter relative to this time last year. We did all of this by investing over 20% of this year's profits back into our partners and stores, through wages, training, equipment and new store growth. All this is further evidence that our strategy is working.

Turning to International, in the fourth quarter, we saw record store growth of nearly 600 stores across the segment, with International store count remaining higher than that of the US. We also experienced record double-digit revenue growth internationally in the quarter with continued growth across every key market around the world.

Our comparable same-store sales in our company-operated markets for both the UK and Japan, remained well-above historical averages in fiscal year 2023 with growth attributed to higher profitability and higher productivity store formats, as well as elevated digital and partner experiences.

We saw strong customer demand for our beverage and food offerings around the world with record global demand for our pumpkin platform. And in our International license markets, Starbucks Rewards programs grew by 4 million 90-day active members, now contributing to 30% of total sales, up 9 percentage points in just one year, driven by the growth for Starbucks Digital Solutions.

Supported by our strong brand globally, outside of China, our International segment is well ahead of the growth pace we indicated at last year's Investor Day with focused growth in our company-operated markets and motivated business partners powering our licensed stores.

Turning to China. We were pleased with our performance in the quarter, delivering revenue growth of 8% from the prior year, or up 15% when excluding approximately 6% impact of foreign currency translation. This is further supported by a comp of 5% squarely in line with our expectations. Full year revenue grew to $3 billion, up 3% from the prior year, or up 11% excluding approximately 8% impact of foreign currency translation with comp of 2%.

Our performance in China improved sequentially quarter-over-quarter with the revenue in the second half of the year 20% higher than the first half, reflecting our growth momentum. These results underscore the strength of beverage and food offerings, the success of our market strategies and the powerful execution unleashed by our partners in China as we capture the abundant opportunities in front of us.

We continue to see strength from coffee-forward innovations, delighting our customers, with locally relevant product innovation like the moose espresso and the smaller-sized Intenso range, a first in the world. We're also seeing higher food sales with tremendous headroom in this area driving both transaction and ticket opportunities.

In Q4, we saw continued momentum across the omni-channel experiences of Starbucks in China, with strength in-store, through Mobile Order & Pay, mobile order delivery, e-commerce and in channels. China now has over 21 million active loyalty members, representing 22% year-over-year growth, with many members skewing younger to build our next generation of customers.

In the quarter, we opened a record 326 net new purpose-driven stores in China, reaching 13% net new store growth over the prior-year to over 6,800 stores at the end of fiscal year 2023. The outstanding financial returns of new stores give us confidence we will reach our goal of 9,000 stores by 2025, opening nearly 1,000 net new stores every year.

Finally, the September opening of the China Coffee Innovation Park designed to be our most energy-efficient and sustainable coffee manufacturing and distribution center in the world further signals our commitment to the largest consumer market in the world and the growth of our business in China for China. We look forward to sharing more on the headroom we see in China later today.

The momentum against the backdrop of headwinds in China this past year give us optimism in our position and affirm our distinctive competitive advantages for our business. These advantages include our uplifting partners, including our China leadership team, our distinctive stores, our vertically integrated and highly digitized efficient operations and our relevant innovation. We will maintain our leading position in the premium market as we continue to grow and scale across our current portfolio and through new tiers of cities in this growing market of coffee drinkers.

Finally, our channel business continues to elevate the Starbucks brand around the world, at home and on-the-go, creating Starbucks moments for consumers outside of our retail stores. We are the number one ready-to-drink brand around the world. Notably, in the fourth quarter, we celebrated our five-year partnership with the Global Coffee Alliance with Nestlé. This Nestlé relationship, which includes We Proudly Serve Food Service locations as well as additional partnerships such as our North America channel partnership with PepsiCo and international partners like Tingyi and Arla have helped us grow our customer touch points and is now in nearly 90 markets around the world.

For fiscal year 2023, we saw notable growth in our leading channel market position as well as accretive brand equity as we continued to be recognized for our innovation. Some notable accolades include awards in China, ready-to-drink select, in the Europe, Middle East, Africa, multi-serve business as well as achieving 1 billion in servings in Korea and selling out of grab-and-go in Japan.

In closing, while navigating an environment of unprecedented volatility throughout fiscal year 2023, we've finished our fourth quarter and full year strong, delivering on our guidance. Our Reinvention is moving ahead of schedule, fueling revenue growth, efficiency and margin expansion. Notably, we continue to see the positive impact of our Reinvention on our partner and customer experiences, proof points that we can continue to innovate, grow and strengthen our business while creating value for all.

Looking ahead, we remain fully optimistic about our headroom across the US and internationally and we see limitless possibilities across all areas of the business. While the global business environment remains uncertain, we are confident in our ability to adapt and innovate, to meet evolving consumer needs. We will continue to invest in our partners, to expand upon our Reinvention and to deliver on our sustainability as social impact initiatives all while driving long-term growth.

We feel very good about the business momentum for next year, the continued strength of the brand and the opportunity for growth in the years ahead. I look forward to sharing greater detail around these strategies for growth with you later this afternoon. Our performance this past year and the plans ahead give us great confidence in the multiple paths we have in front of us to achieve our long-term results.

I will now hand the call over to Rachel to walk you through further details of the fourth quarter and fiscal year 2023 results as well as our fiscal year 2024 guidance. Thank you, all, for joining us this morning and we look forward to seeing you this afternoon. Rachel?

Rachel Ruggeri

Chief Financial Officer and Executive Vice President, Starbucks Corp.

Thank you, Laxman, and good morning, everyone. I'm very pleased to discuss our strong Q4 and full fiscal year 2023 performance which delivered on our full year guidance shared at our 2022 Investor Day. Our fiscal year

2023 double-digit earnings growth was a direct result of both double-digit revenue growth and margin expansion as our focus and disciplined execution of our Reinvention delivered tangible financial results.

Our Q4 consolidated revenue reached a record $9.4 billion, up 9% (sic) [11%] from the prior-year, or up 12% when excluding a 1% impact of foreign currency translation. As Laxman mentioned, the US business delivered strong performance with record-breaking average weekly sales from an overwhelmingly successful fall launch and our International business was also strong with China performing in line with our expectations.

Combined, this resulted in a consolidated comparable store sales growth of 8% and net new company-operated store growth of 7% globally over the prior year, as well as sustained momentum in our global licensed markets.

Q4 consolidated operating margin expanded 310 basis points from the prior year to 18.2% exceeding our expectations primarily driven by increased efficiency throughout our US stores as our strong execution on Reinvention amplified results even greater than we anticipated coupled with sales leverage and pricing. Margin expansion continued to be partially offset by our investments in store partners as well as higher G&A costs and supportive Reinvention.

Q4 EPS was $1.06, up 31% from the prior year driven by strong performance across our segments, especially the US, as its results were bolstered by the amplified success of our Reinvention.

For fiscal year 2023, our consolidated revenue reached a record $36 billion, up 12% from the prior year, or up 14% when excluding approximately 2 percentage impact of foreign currency translation. Consistent with our guidance, our revenue growth included 8% comparable store growth and 7% net new company-operated store growth over prior year, as well as ongoing contributions from our global licensed store businesses.

Our fiscal year 2023 consolidated operating margin was 16.1%, up 100 basis points versus prior-year and EPS of $3.54 was up 20% over prior-year, above our recent guidance of 16% to 17%.

I'll now provide segment highlights for Q4. North America delivered another quarter of record revenue with $6.9 billion in Q4, up 12% from the prior-year driven by a combination of an 8% increase in comparable store sales consisting of 6% and 2% growth in average ticket and transactions respectively as well as net new company-operated store growth of 4% over the prior-year and contributions from our licensed store business, which continues to benefit from increased travel.

When considering growth from all stores, comp, new, and licensed, we were pleased to see more than two-thirds of our growth came from transactions, mix, attach and customization, which we collectively call demand.

Our US business delivered 8% comparable store sales growth in Q4 primarily driven by strong ticket performance with 6% comp growth, which benefited from volume, mix, attach, customization and pricing. Our customers continued to favor more premium beverages creating a new normal as it relates to mix and customization. To fuel this, we continue to lean in with innovation offering our Iced Pumpkin Cream Chai Tea Latte which boosted tea sales, as well as Pumpkin Cream Cold Foam which has become a customization favorite with our customers.

In addition to our beverage success, we also had another record quarter of food attach driven by both our core breakfast sandwiches and promotional items, such as our Baked Apple Croissant. The success we're having in driving incremental spend gives us confidence that we're delivering meaningful value and a differentiated experience to our customers.

Transaction comparable sales growth in the quarter was 2% which, combined with another quarter of record ticket, drove multiple record average weekly sales, including delivering our six highest sales weeks ever driven by our successful fall launch. Demand continued outside of our promotion windows, which translates to future opportunity as we leverage targeted offers to our most loyal customers, increasing efficiency as we create a more personalized experience.

As it relates to demand, it was another record-breaking quarter for key aspects of our Starbucks Rewards program, active members, spend per member and total member spend, which all surpassed previous highs. To further illustrate the strength of demand, we saw total customer growth among our occasional customers as well. Collectively, this demand speaks to the stickiness of our business. That, coupled with increased customer connection scores and growth across transactions, mix, customization and attach, all leads to a durable and growing business.

US licensed store revenue remain strong in Q4, up 18% from the prior year, benefiting from consumers adopting pre-COVID routines of summer and business travel and expanded digital offerings, such as MOP in airports and curbside at select retailers enabling us with more ways to meet our customers where they are supporting increasing demand.

North America's operating margin was 23.2% in Q4, expanding 420 basis points from the prior year, driven by increased efficiency in our stores, largely from Reinvention, sales leverage and favorable impacts of pricing, partially offset by continued investment in our partners.

Moving on to International, in the quarter, the segment delivered $2 billion in revenue, up 11% from the prior year, or up 15% when excluding approximately 3% impact from foreign currency translation. Our revenue growth momentum continues off of a remarkable prior quarter and stems from double-digit growth in the majority of our International regions, demonstrating global strength.

The segment delivered a 5% increase in comparable store sales, driven by 6% transaction growth as store traffic increased and digital engagement continued with an increasing Starbucks Rewards member base. In addition, the International segment delivered 12% net new company-operated store growth year-over-year with China contributing a significant portion of store growth, as they had their highest store openings this year, equating to almost four new store openings daily in Q4, exceeding our expectations. Collectively, the segment surpassed the 20,000-store mark with ample headroom for growth across markets in the years to come.

Shifting to China, as Laxman shared, China's revenue in the quarter and on a full year basis grew by double-digits, driven by strength in our new stores and comparable store sales growth of 5%. Importantly, China's average weekly sales grew quarter-over-quarter, in-line with our guidance of low-to-mid single-digit growth. Comparable store sales growth of 5% was driven by strong transaction growth of 8% over the prior year, reflecting the strong brand affinity we create with locally relevant food and beverage, and the consistent experience our partners deliver with every visit, differentiating us in the market.

We continue to see long-term growth in China with significant opportunities in daypart, digital offerings, and store format and, accordingly, continue to make investments for the future of our partners, stores and local community. Notably, in the quarter, as Laxman shared, we opened the Coffee Innovation Park, our largest roasting plant outside of the US, demonstrating our unwavering commitment to our business in China.

Operating margin for the International segment was 15.2% in Q4, expanding 70 basis points over the prior-year, driven by sales leverage, partially offset by digital investments. We are pleased with our margin, reflecting the strength of the business and enabling us to unlock capital to reinvest back in the business to fuel growth.

Shifting to Channel Development, the segment's revenue was $486 million in Q4, essentially flat over the prior year, in line with our expectations. This was driven largely by At-Home Coffee, while proudly holding the number one share position in the category at 16.1%, as well as the number one position in Ready to Drink, achieving our highest share in two years. Our fall launch, in conjunction with our North America Coffee Partnership, drove our performance, resulting in the segment performing better than the overall category.

The segment's operating margin was 55.8% in Q4, up an impressive 520 basis points from prior year and exceeding our expectations, driven by ongoing strong performance in the North America Coffee Partnership. This segment continues to be highly margin accretive to our business and we're excited by the significant profit growth we're seeing in this channel.

Shifting to our fiscal year 2024 guidance, our guidance accounts for the macroeconomic and geopolitical environment as we see it today. Additionally, our guidance does not include any impact from foreign currency translation.

First, let me start with the foundation of our growth: comparable sales growth. We expect fiscal year 2024 global comp growth to be 5% to 7%. While this is a change from our prior-year global comp guidance of 7% to 9%, our comp range, coupled with our strong new store performance and momentum in our licensed business, drives a broader and more durable growth narrative supporting our attractive, consolidated revenue growth.

For color, our fiscal year 2024 US comparable store sales are expected to grow in the range of 5% to 7%, as our business continues to have substantial headroom, spurred by our leading innovation and technology, increasing customer loyalty and strong digital engagement as evidenced by the US finishing fiscal year 2023 with strong performance of 9% comp growth.

Another positive driver of our fiscal year 2024 5% to 7% global comp growth is the performance in China, with comp expected to be in the range of 4% to 6% in Q2 through Q4 with a higher comp in Q1 as we lap prior-year mobility restriction. Such growth is fueled by our increasing digital capability, coupled with the local opportunity we see stemming from our relevant product innovation and purpose design stores, which are resonating with customers and driving engagement.

Our new store performance, combined with our strong China comp guidance, will give another year of double-digit revenue growth in the market delivering on our momentum.

Next, in thinking of our global new store growth, we expect global new store growth of approximately 7% with approximately 75% of the growth still coming from outside of the US, as we continue to focus on our strategic global expansion reaching nearly 41,000 stores globally by the end of fiscal year 2024.

Of the approximate 7% growth, we expect our US store count to grow by approximately 4% in fiscal year 2024, driven by our dynamic portfolio format, expanding our whitespace opportunity. We anticipate China will continue its rapid growth of approximately 13% in fiscal year 2024 given the attractive unit economics of our new stores. We expect the remainder of our growth will be driven by the robust development in our other markets around the world, better leveraging the strength of our brand internationally and becoming more global.

The combination of our global comp growth that I discussed a few minutes ago and our global store growth as well as continued growth in our licensed business sets the foundation of our consolidated revenue growth. For fiscal year 2024, we expect our consolidated revenue growth to continue in the range of 10% to 12% albeit at the low-end of the range. This does not include any impact from foreign currency translation.

We expect the foundational elements of our growth will be partially offset by an expected high-single-digit revenue decline in our Channel Development segment, largely related to the sale of Seattle's Best Coffee and broader SKU optimization. Absent those impacts, Channel Development revenue is expected to be flat year-over-year. We're proud to reinforce yet another year of double-digit revenue growth at the low-end of a 10% to 12% range building on a very strong fiscal year 2023 performance, all of which reinforces the confidence we have in our business and opportunities we see ahead.

Shifting to operating margin. We expect progressive margin expansion in fiscal year 2024, as we continue to deliver efficiency both in and out of our stores inclusive of approximately $1 billion in incremental, high-return, growth-oriented investments balanced across our partners, stores, and customers across wages, new store equipment and enhancements, digital and product innovation and supply chain modernization.

We will also continue our focus and discipline in unlocking strategic efficiencies across our business and have multiple work streams under way to support approximately $1 billion in incremental leverage opportunity. These efficiencies, coupled with sales leverage and strategic pricing, support our continued investment in our business, even as we expand margin and grow earnings over the long-term. We will provide greater detail around our efficiency work streams in our strategy meeting later today. In addition, we expect our Channel Development segment to continue to be accretive to our overall operating margin with operating margin expanding to the high 40% to low 50% range from their favorable portfolio mix.

Moving on to capital allocation. Through a very disciplined approach to capital allocation, our return on invested capital in fiscal year 2023 approached 25%, a meaningful improvement from prior year. Equally important, we expect this upward trajectory to continue in fiscal year 2024. We expect our CapEx in fiscal year 2024 to be approximately 3 billion with over 85% of our CapEx directly invested in our global store portfolio.

We also expect to continue our stable dividend approach and remain committed to targeting an approximate 50% dividend payout ratio displaying our confidence in our long-term growth and attracting a broad investor base which benefits all stakeholders. As one of the highest dividend payers among high-growth companies, we are proud to have recently commemorated our 13th consecutive annual dividend increase with a CAGR of 20% over such period.

Our capital allocation strategy has positioned us well to be able to continue significant business investments while retaining financial flexibility and maintaining our BBB+/Baa1 investment-grade credit rating.

Regarding tax rates in fiscal year 2024. We expect our effective GAAP and non-GAAP tax rates to be in the mid 20% range. This is higher than our fiscal year 2023 GAAP and non-GAAP tax rates of 23.6% which benefited from certain discrete tax items that are not expected to reoccur in fiscal year 2024.

In closing my guidance comments, we continue to expect fiscal year 2024 GAAP and non-GAAP EPS growth to be in the 15% to 20% range. Proudly, we expect our double-digit EPS growth will be a result of a balanced plan, compromised (sic) [comprised] of both revenue growth and margin expansion.

Overall, we are pleased with the durability of our business and strong foundation fiscal 2023 has set for fiscal year 2024 and our guidance is a product of our confidence in our continued long-term growth. We look forward to telling you more about our limitless opportunities in our Afternoon Strategy Meeting.

Before I close and turn it over to Tiffany, I want to thank the more than 450,000 partners who wear the green apron across the globe for their tireless contributions to create the experience that makes Starbucks such a meaningful place for all of our customers. It's because all of you that I have such great confidence in the opportunity ahead. Tiffany?

Tiffany Willis

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

Thank you, Rachel. At this time, we'll proceed with our normal Q&A session, which will last until the top of the hour. And just for clarification, this Q&A session shall be focused on our fourth quarter and full fiscal year 2023 results and fiscal year 2024 guidance. Questions on topics outside of either of those should be held until our Afternoon Strategy Meeting.

Kevin, now please open the call for questions.

QUESTION AND ANSWER SECTION

Operator: [Operator Instructions] Our first question today is coming from Sara Senatore from Bank of America. Your line is now live.

Sara H. Senatore

Analyst, BofA Securities, Inc.

Q

Great. Thank you very much. I had a question about China, please, which I think we've heard the competitive environment there is very intense. And I was just curious if that was perhaps some of what we saw in terms of positive traffic but perhaps a negative ticket. And then some of the investments you're making in perhaps that might be gating factors for margin expansion. The positive same-store sales I think certainly suggest that your business is executing well. But just trying to get a read on competitive intensity, and maybe implications for new unit economics and the margin structure for the business going forward? Thanks.

Laxman Narasimhan

Chief Executive Officer & Director, Starbucks Corp.

A

Sara, thank you for the question. Let me start with the answer here. Our brand in China is known as Xīngbākè, and it uplifts the every day for millions of customers in China and as Rachel said, our business is also strong, 5% comp in Q4. If you look at the first half of the year versus the second half of the year, the growth difference in the second-half is 20% higher than the first.

One thing you should know is that if you just look at the morning daypart, the morning daypart for our business in China now is higher than it was pre-COVID. We have very strong local innovation and to answer your question, if you look at the transactions that Rachel mentioned, we're very comfortable with the food and beverage transactions and what we see there, including the price realization that we have.

The ticket that you mentioned specifically points to merchandise. And what we had in the store, which we're still working through. But we feel very good about the competitive position of beverages, the competitive position of food. We feel very good about the cash returns of the stores that we are opening and they're very strong. The team has done a wonderful job in ensuring that the cost of bills are low with the productivity that we have been able to accomplish in our stores. We feel good about the overall returns that we're getting there. And I'm heartened by how the business is coming together despite all the headwinds that have been there for the last couple of years.

Operator: Thank you. Next question is coming from Jeffrey Bernstein from Barclays. Your line is now live.

Jeffrey A. Bernstein
Analyst, Barclays Capital, Inc.

Q

Great. Thank you very much. Had a question and then just one clarification. The question is on the US comp, Laxman, I think you mentioned momentum sustained through the fourth quarter. I'm just wondering if you could offer any color on whether there's been any change in consumer behavior in recent months for better or for worse. I know there's some concern about affordability into a slowing macro. I was hoping maybe you could prioritize the greatest levers to reaccelerate the US comp if they were too slow.

And my clarification, just Rachel you gave fiscal 2024 guidance. Appreciate the color. I know you mentioned 5% to 7% worldwide comp and 15% to 20% EPS. That worldwide comp is below the current long-term 7% to 9%. Is it fair that those are still the long-term guidance metrics or might those be updated later today? Just trying to clarify the guidance you gave for fiscal 2024 relative to the long-term guidance. Thank you.

Laxman Narasimhan
Chief Executive Officer & Director, Starbucks Corp.

A

Great. I'll take the first question and hand over to Rachel for the second. On the first question, clearly, we're reading all these statements about the macro uncertainty. And it's clear that we're navigating the uncertain economies in markets around the world. But rather than talking about the economy in general terms, let me just speak about what we see with the Starbucks customer.

Customer demand for us remains strong. We're not really seeing any change in the sentiment in our customer base at this time. And I think what it does is it reflects the strength of the Starbucks brand globally. It reflects the loyalty of our customers. It reflects our position in their routine, and it also reflects the long-term durability of this business.

Now we of course watch all of this extremely carefully. And unlike 2008, which is a number that people have been touting around, we have a widely more diversified set of channels that we participate in. We have digital relationships worldwide with over 75 million customers in terms of their last 90-day activity. But we can reach a multiple of those digitally. So, it's a much larger universe than what we would traditionally refer to as just our 90-day active users. So we have the ability to reach our customers and we have multiple levers in terms of how we deal with any uncertainty that we might see. And that's true as well in the US.

So, I feel good about the momentum we have. We're obviously extremely watchful and humble about where we are. And we'll do everything we can to exceed the expectations of our partners and our customers. But we do have multiple levers to play. Rachel?

Rachel Ruggeri

Chief Financial Officer and Executive Vice President, Starbucks Corp.

A

Thank you for the question. The way I'd look at the comp guidance is, as we look at a very strong fiscal year 2023 and as we move into FY 2024, our comp guidance of 5% to 7% on the global comp guidance range as well as for North America, we believe, reflects both a healthy as well as achievable comp guidance that supports not only the strength that we've seen and the momentum, but it supports the confidence we have in the business.

I think what's important to think about is we've been talking about a more balanced approach to how we drive our earnings growth. And so, when we look at comp, it's part of a broader growth narrative where we look at comp, we're looking at the performance of our new stores, and the performance of our licensed stores and, collectively, that's supporting the revenue growth range that I provided.

That, coupled with progressive margin expansion, gives us a balanced approach to achieving the 15% to 20% earnings growth guidance, which we believe is attractive, but also reflects the confidence that we have in the business and the momentum that we're seeing.

Operator: Thank you. Our next question is coming from David Palmer from Evercore ISI. Your line is now live.

David Palmer

Analyst, Evercore ISI

Q

Thanks. Good morning. The Americas operating margin, 23.2%, up over 4 points, could you provide a bridge or describe the biggest contributors to this; maybe not just by line item, but also what is the color behind that? What is going right operationally, both in the stores and in supply chain that's driving that. And of course, this is a lot higher than where the Street is for fiscal 2024. I'm just wondering how we should be thinking about that margin for 2024 as part of your guidance. Thanks.

Rachel Ruggeri

Chief Financial Officer and Executive Vice President, Starbucks Corp.

A

David, I would start with saying our guidance on margin for next year is to – progressive margin expansion. And remember, on a full year basis – even with the strength we saw in Q4, on a full year basis, we achieved 100 basis points of margin expansion, which we're incredibly pleased with. In the quarter in Q4, we saw very strong margin expansion, particularly in North America, the 420 basis points that you spoke about that shows the benefits of the Reinvention have begun to amplify. And so, we expected that would amplify in the back half of the year and that's what happened. And so, when you look at the drivers of that 420 basis points, the largest driver of it, around 340 basis points or so, is leverage we saw in our store operating expense. And that's really driven by what I'd say is the sustained operational efficiencies from our Reinvention.

So, the investments we've made are fueling growth: investments in our partners, in wages, in training, in our new store and equipment. And that's leading to a more stable environment, overall, which is supporting that leverage. It's allowing us to be more efficient in how we serve the customer. So, that's the biggest driver in the quarter.

Next is sales leverage, followed by strategic pricing. And that sales leverage really comes from the fact that in Q4, our fall launch resonated with customers. And we saw record demand, really, across the globe, but largely in our US business. And that also fueled the margin expansion. And then, that all helped to offset the investments we've made, including investments in G&A – investment in partner wages, as well as investment in G&A.

Now, when we look to FY 2024, we'll expect some of that momentum to continue. But I would say it's more important to look on a full year basis, and we'll continue to see margin expand more in line with what we saw on the full year basis. But again, continued margin expansion; and it's that combination of strength in our revenue, but also strength in our Reinvention, which is delivering very tangible financial results.

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

If I could just add to this. Growth is clearly a real enabler of leverage. And you'll see that reflected in the various lines in our P&L. Additionally, we see efficiency opportunities, and later this afternoon, we're going to detail out a $3 billion savings program and efficiency over three-years, with a big portion of that coming from outside the store, in the supply chain, in particular. And you'll see that – a portion of that, certainly, coming out in our COGS line. And so, this gives us the real confidence as we look ahead around the kind of efficiency that we have that gives us the ability to invest in the business and, at the same time, deliver the progressive margin expansion that Rachel talked about.

Operator: Thank you. Next question is coming from Lauren Silberman from Deutsche Bank. Your line is now live.

Lauren Silberman
Analyst, Deutsche Bank Securities, Inc.
Q

Thank you. Congrats on the quarter. Also, on to US comps and traffic, can you help unpack where the growth is coming from? Is it new customers, existing customers, Rewards members, or more occasional customers? And then, can you give us an update on where you're running with transactions per store per day? Thank you very much.

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

Hi, Lauren. I'll start by just saying, overall, our traffic continues to be strong and it's growing. So, when you look at the success of our performance in the quarter, particularly in the US, our highest-ever average weekly sales were driven by a combination of strength in traffic, but also strength in overall ticket. And we saw a record number of customers coming into our stores and spending a record amount.

Now, those customers are both our Rewards customers as well as our non-Starbucks Rewards customers. So, we're seeing growth in our customer base across our segments and that's driving strong performance as each customer is spending more.

And I think what's unique about our business, particularly over the past couple of years, is we've evolved and adapted towards our changing consumer demands. And so, we're seeing total transactions growing, overall, both in our comp stores, in our new stores as well as our licensed stores. And importantly, we're seeing units per transaction significantly higher, and that's driven by the growth we're seeing in drive-thru, as well as delivery, which has a higher attach rate, or more group orders. And that's all leading to the stronger performance that we saw in the quarter and will fuel the momentum as we go forward.

And in terms of traffic, when I think about FY 2024, the comp guidance range that we provided includes continuing improvement in our traffic. So our transactions per store per day improved this quarter versus last quarter and the year before, and we'll expect that improvement to continue in FY 2024, as well as we'll continue to expect an improvement in ticket as we very purposely innovate around customization, more premium beverages, as well as ensure we're able to continue to drive attach and the combination of that will support our double-digit revenue growth that I guided to.

Laxman Narasimhan
Chief Executive Officer & Director, Starbucks Corp.

A

If I can just add one thing to it. I think what has happened over the last several years is, how much this business has evolved in order to meet the customer where it's at and I think you're seeing that as well in traffic, in transactions, but also in what we're doing with purpose-defined stores and later this afternoon we're going to talk a bit about how we're going to lean in even further around how we meet customers where they're at.

Operator: Thank you. Our next question is coming from Sharon Zackfia from William Blair. Your line is now live.

Sharon Zackfia
Analyst, William Blair & Co. LLC

Q

Hi. Good morning. Thanks for taking the question. I was hoping you could give us an update as you talk about the transactions improving, how speed is improving the throughput, whether how you measure that and the drive-thru or kind of on the frontline as I would think of it walking into the store.

Laxman Narasimhan
Chief Executive Officer & Director, Starbucks Corp.

A

Let me start and then Rachel can add to it. One of the things that the team has worked on incredibly hard over the last year or so is putting in place a much stronger operating foundation in the stores. And I'm very proud of the progress that they're making, and that includes how we deal with the processes in the drive-thrus. You're seeing real improvement in terms of out of the window time in the drive-thru. The team has put operating practices across these various formats, and I feel very good about the progress that they are making in that area.

I think in terms of the automation or the equipment that we have also brought into the store that has also been a driver of some of the changes that we've seen. I think just ahead of the summer, we were able to get in the portable Cold Foam blender into stores, which really helped our partners deal with the growth of volume on beverages in the summer. So a combination of operating practices, the equipment that we're putting in place, all of that adds to much stronger operational foundation in our store and we expect that to continue.

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

A

The only thing I would add to that, Sharon, is that's all part of our Reinvention, so it's all about finding ways to be able to optimize the production environment so we can better support our partners in serving our customers. And to Laxman's point we've seen tangible benefits which in the quarter and actually throughout the year, has driven improvements in our out-the-window time.

We measure what good looks like, and we've made great improvements and there's more opportunity ahead and that's helping us to not only more efficiently serve the customers but it's what's leading to the margin expansion as well as the earnings growth that we're seeing, and we'll continue to further those, what I'd say, areas of focus in FY 2024 specifically around staffing and scheduling, as we continue to work on ensuring we have the right hours for our partners at their periods of preferences which will create another level of stability in our store environment and greater engagement overall that will again help us in terms of the efficiency in serving our customers. So we expect that momentum to continue.

Operator: Thank you. Next question is coming from John Ivankoe from JPMorgan. Your line is now live.

John Ivankoe
Analyst, JPMorgan Securities LLC

Q

Hi. Thank you. Yeah, there's been a lot of conversation this quarter about throughput, particularly at the drive-thru but we can also talk in-store. Can you talk about your peak hour, peak 15-minute throughput opportunity? Firstly, you've already realized and that you think you can realize with a more optimized store operational platform and especially having employees with greater tenure. How much more of an opportunity do we have from here?

Laxman Narasimhan
Chief Executive Officer & Director, Starbucks Corp.

A

John, if I could take that on. Thank you for your question. We have more opportunity than what we have realized, but we're making very good progress. If you look at staffing and scheduling and how we are working on that, I think we've made material progress in that area, and I think as a consequence of that you're seeing attrition levels now lower than where they were pre-COVID.

You're seeing tenures of partners in the store increase and that's going to continue. I think if you just look at what we've been able to achieve with the investments that we have made in our partners, with wages and other benefits that have been provided, if you take a look at the take home income on average for our partners in a year-over-year basis it's up 20% on average.

Now, there's still more to come. If you go back to 2020 and you look at where we are right now, the numbers about close to 50% higher but we still have further opportunities, and I think what that's going to help us, it's going to help us at peak times, it's going to help us in those peak 15 minutes that you talked about. But also, as we look at demand overall, and we look at the portfolio of stores we run and how we work with digital with those, you're going to see us talk later this afternoon around how we find ways to simplify what happens in the store, and also meet a broader set of demand with very careful choices about how we locate stores, what we do with stores, how we digitally amplify what we're doing in terms of demand, but also in supply, how we link that with the equipment we're bringing in with a strong operating foundation, so there's more opportunity than what we have now.

Operator: Thank you. Our next question is coming from Brian Harbour from Morgan Stanley. Your line is now live.

Brian Harbour
Analyst, Morgan Stanley & Co. LLC

Q

Thank you. Yeah, good morning. Can I just ask about the step-up in your CapEx budget and what that's going to be directed towards, and I guess more broadly, is there any sort of equipment rollout that you're kind of accelerating versus what you've previously talked about or perhaps store remodels that could be accelerated?

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

A

Hey, Brian. Thank you for the question. Our CapEx will increase to around approximately $3 billion and the majority of that, over 85% will be focused on new store growth, increase in renovations, so we're significantly increasing our renovations to about – in the US about 1000 renovations by next year. So an increase in new stores globally, renovations as well as equipment in the stores, but the larger percentage of it is really the new store growth globally as well as the renovation.

The new equipment is equipment that we've spoken about. The rollout of – further rollout of nugget ice, further rollout of Clover Vertica, some continuing work-around refreshment and dispense, so some of those opportunities around creating broader efficiencies to be able to create operational consistency across the stores.

Then outside of that 85% we'll be seeing supply chain modernization costs as well as some costs in China supporting an innovation and technology center, and so that's largely how the costs are made up. What we're encouraged by that is those tend to have very high-returns, they're very high-growth oriented investments, so we expect to see improvement in our return on invested capital much like what we saw this year, where we achieved nearly 25% on our ROIC given the very disciplined approach we took to investments last year, and we see this year as we increase our capital, our ability to continue to further that by making very disciplined choices in these high-return growth-oriented investments.

Operator: Thank you. Our last question today is coming from Danilo Gargiulo from Bernstein. Your line is now live.

Danilo Gargiulo
Analyst, AB Bernstein

Q

Thank you. Laxman, in the press release you were mentioning that the Reinvention Plan is moving ahead of schedule, so which aspects of this acceleration are you most proud of? And which aspect do you expect to accelerate the most in the months to come?

Laxman Narasimhan
Chief Executive Officer & Director, Starbucks Corp.

A

I'm very pleased with the way that the Reinvention Plan is being implemented. A couple of highlights. I think the progress we've made on staffing and scheduling is extremely strong. Furthermore, if you look at what we've been able to accomplish with regard to efficiencies, and the culture and the capability and the process we now have in place, in order to systematically attack these efficiencies across the business is actually very strong as well.

What we're accelerating on top of that is how we think about purpose-defined stores, and what we're doing in putting together a strong operating foundation in our stores. That is going to really help us as we create the infrastructure, we create the store footprint against which we will add to the footprint that we have in-stores.

Our equipment pipeline, what we have, the way we manage our new equipment, what's coming in, the entire pipeline and portfolio management is entirely on track, and we feel very good about the progress we're making there, and I think that is something that we're going to continue to see going forward.

Operator: Thank you. That was our last question. I'll now turn the call over to Laxman for closing remarks.

Laxman Narasimhan

Chief Executive Officer & Director, Starbucks Corp.

I want to thank you all for joining us this morning. I want to appreciate all your questions and I look forward to seeing you all this afternoon when we have our strategic update and when we get to celebrate our holiday launch with you. Thank you, all, for joining us this morning.

Operator: Thank you. This concludes Starbucks fourth quarter and full fiscal year 2023 conference call. You may now disconnect.