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# Starbucks Corp. (SBUX)

Q1 2016 Earnings Call

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# MANAGEMENT DISCUSSION SECTION

**Operator**: Good afternoon. My name is Mike and I will be your conference operator today. At this time, I would like to welcome everyone to the Starbucks Coffee Company's First Quarter Fiscal Year 2016 Earnings 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]

Thank you. Miss. Doraisamy, you may begin your conference.

## Durga Doraisamy
*Director of Investor Relations, Starbucks Corp.*

Thank you, Mike. Good afternoon, everyone. This is Durga Doraisamy, Director of Investor Relations for Starbucks Coffee Company. Thank you for joining us today to discuss our first quarter 2016 results, which will be led by Howard Schultz, Chairman and CEO; Kevin Johnson, President and COO; Michael Conway, President, Global Channel Development; and Scott Maw, CFO. Joining us for Q&A are Cliff Burrows, Group President, U.S., Americas & Teavana; John Culver, Group President, China, Asia Pacific, Channel Development and Emerging Brands; Matt Ryan, Global Chief Strategy Officer; and Adam Brotman, Chief Digital 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 in our earnings release and risk factor discussions in our fillings with the SEC, including our last Annual Report on Form 10-K.

Starbucks assumes no obligation to update any of these forward-looking statements or information. Please refer to our website at, investor.starbucks.com, to find a reconciliation of non-GAAP financial measures referenced in today's call with their corresponding GAAP measures. This call is being webcast and an archive of the webcast will be available on our website at investor.starbucks.com.

And with that, I will turn the call over to Howard.

## Howard S. Schultz
*Chairman & Chief Executive Officer*

Thank you, Durga, and welcome to everyone on today's call.

Starbucks' stellar Q1 2016 financial and operating performance highlighted by a 9% increase in comp store sales in the U.S. and 8% increase in comp store sales globally, our third sequential quarter of a 4% increase in global traffic, by far the strongest holiday in our history and record revenues and record operating income from our Channel Development segment underscores the increasing strength and relevancy of the Starbucks brand and the success of the accretive flywheel positive effect of retail, CPG, digital, mobile, loyalty, card and investment strategies around the world that are coming together to accelerate our growth and drive significant margin expansion and EPS leverage across our business.

In Q1, Starbucks delivered a 12% increase in revenue, to a record $5.4 billion and a 15% increase in non-GAAP EPS to a record $0.46 per share, despite the significant investments we continue to make in our partners and in our business. And we served over 23 million more customer occasions from our global comp store base in Q1 and roughly 18 million more customer occasions in the U.S. alone, than we did in our very strong Q1 last year.

Starbucks Coffee Company is connecting more deeply with more customers across all day-parts and around the world than ever before. And we are delivering quarter after quarter of record breaking financial and operating results despite the accelerating shift in consumer behavior away from traditional bricks-and-mortar retailing and despite challenging macroeconomic foreign exchange, geopolitical and retail and consumer headwinds that continue to negatively impact many other national and global retailers.

Global leadership around all things coffee and tea, and ongoing beverage and food innovation remain at Starbucks' core and are propelling our business forward. And in Q1, we brought further premiumization to the coffee category, creating even greater separation from our competitors and delivered an elevated, highly differentiated, locally relevant premium coffee and tea, beverage, food and instore experience to our customers everywhere. Our Seattle Roastery continues to delight both regular customers and visitors from around the world to Seattle at the same time as it performs well ahead of original expectations, and serves as a launching pad for our ultra-premium Starbucks Reserve brand.

Our plans to build over 500 coffee-forward Starbucks Reserve stores in key global markets are well underway. Starbucks Reserve stores provide customers with a unique, highly premiumized in-store experience that showcases the finest assortment of exclusive Starbucks Reserve micro-lot, single varietals and new specialized coffee brewing methods through an intimate one-on-one partner customer experience that takes place as the barista crafts and explains the custom beverage.

Starbucks Reserve stores also offers a curated assortment of Teavana teas to increase consumer awareness of Teavana's super premium loose-leaf and packaged teas. And Starbucks Reserve coffee varietals are now also available in several thousand high-profile Starbucks stores globally, further elevating both existing Starbucks stores and the Starbucks Reserve brand while demonstrating a global sourcing capability and diversity of origin that only Starbucks can deliver.

Starbucks Channel Development segment is literally firing on all cylinders delivering meaningful share gains and record sales and profitability in Q1. The Starbucks brand now has the lead position and lead market share in both premium roasted ground and premium single-serve on the K-Cup platform. Michael Conway will take you through Channel Development's performance in Q1 shortly, but by creating more opportunities for more people to engage with us more often both inside and outside of our stores, Starbucks' integrated highly coordinated retail and wholesale strategy is driving our business and our growth around the world.

No national or global retailer has been able to leverage a retail store footprint into a CPG business remotely approaching the size, scale and profitability of ours. Under Mike's leadership, Starbucks CPG business has become a powerful, fast-growing and highly profitable business and complementary channel of distribution for us.

By anticipating and investing years ahead of the mobile technology curve, Starbucks today is redefining the customer facing and partner facing mobile and retail experiences of the future. In a few minutes, Kevin will take you through how we are leveraging proprietary technology, digital engagement, and customer loyalty to create a comprehensive integrated digital and mobile ecosystem that will continue to drive our business well into the future. Technology innovation is further strengthening our brand, improving our efficiency and in-store execution, increasing our profitability, and most importantly, enabling us to deliver an elevated Starbucks experience to our customers, particularly to millennials.

Starbucks' unique combination of assets includes a growing global physical footprint of now over 23,500 stores, over 300,000 passionate Starbucks partners who proudly wear the green apron and who I wish to personally thank for the extraordinary results we reported today, breakthrough mobile and digital technologies and over 190,000 points of CP distribution all over the world. Together, these attributes are contributing to the strength we are seeing in our business and enabling us to serve over 85 million customer transactions around the world every week, at the same time as we continue to extend our reach and deepen our emotional connection to customers everywhere.

The key to our business, and what no other consumer brand or retailer can even approach, is the deep authentic connection we have with our customers and that our customers have with our people in the Starbucks brand. I experienced this firsthand, perhaps like never before, on a trip with John Culver to Asia just last week.

We began in Chengdu, China, where over 1,300 Starbucks partners and their families joined us at our fourth annual Partner China Family Forum (sic) [China Partner-Family Forum]. It was an extraordinary, emotional event that celebrated the pride and the respect that the parents of our partners have for their children and in their children's connection to Starbucks, the deep emotional connection that exists among our China partners themselves and the shared commitment that all our partners in China have to deliver an extraordinary Starbucks experience to their customers.

Joining us to share his respect and admiration for Starbucks at the event and to all of Starbucks partners and their families was Jack Ma, founder of Alibaba. In Q1 we introduced social gifting to China through Alibaba's Tmall site to a stunning customer response, and now and for the very first time through Tmall, our customers in China can give their friends and colleagues digital Starbucks gifts, including My Starbucks Rewards memberships, individual beverages and preloaded Starbucks digital gift cards. We are honored that the Chinese government chose Starbucks to be the first company in China to be authorized to offer customers a stored value card.

As you know, China has been in the news a great deal lately. As a CEO who has traveled to China repeatedly over the last 10 years, perhaps more than any other American CEO, I have a unique perspective to share. First let me say that China is here to stay. The buffeting that the Chinese economy is taking during today's period of transition is necessary for it to move on its next stage of development.

Short-term market gyrations, however, should not be confused with actions that will lead to long-term sustainable economic gain, especially as China moves to a consumer-driven economy. I strongly believe that the Chinese government's commitment to true economic reform is genuine and that its goal of doubling 2010 per capita income by 2021, resulting in a middle class in China approaching 600 million Chinese people, or almost twice the size of the entire current U.S. population, is attainable.

We are taking a long-term view on how we will build our business in China because despite now having close to 2,000 stores in nearly 100 cities in China, and being on track to have 3,400 stores on the Mainland by 2019, I am convinced more than ever that Starbucks is just getting started in that important country. And I'm equally convinced that when we fully roll out our digital, mobile, card, gifting and loyalty programs across our business in China and CAP overall, and expand distribution of our ready-to-drink products later this fiscal year, we will perform at even higher levels than we are today.

Following China we went to India, where our business with JV partner Tata, already 80 stores strong, is growing faster on a percentage basis than any other region in the world. And we saw firsthand the excitement consumers have for the Starbucks brand and the deep authentic connections our partners are creating with their customers.

Starbucks Coffee Company has always and will continue to play the long game, with strict adherence to our strategic plan for growing our business and continuing to deliver world-leading financial and operating performance and long-term sustainable, profitable growth into the future. And that growth will include continued growth of our K-Cup business. Over the last five years, we have invested and built a strong sustainable single-serve business, operating on the current K-Cup platform. And today, Starbucks is the leading brand with the leading share on that platform.

Since Keurig announced it was selling itself, we have fielded many questions about our intentions following the sale. I want to assure retailers, the millions of consumers who demand Starbucks branded coffees for their Keurig brewers, many of whom have told us that they actually purchased a Keurig brewer only after Starbucks Coffee became available on the platform and at the market, that we are in the K-Cup business to stay. However, at this moment, the only matter that remains unresolved is whether we will be doing so in conjunction with Keurig or on our own.

Starbucks is combining unparalleled financial performance with unmatched, groundbreaking innovation that is being embraced by customers and our people around the world. And we now have so much on the horizon. Never in 24 years as a public company has the Starbucks brand or business been stronger or more universally relevant and accepted than it is today, and never before have the opportunities lie ahead, or our aspirations ever been greater.

We remain humble and steadfast in our mission to exceed the expectations of our customers and our partners, to share our success with our people and the communities we serve to create positive social impact and to continue along our path of building a great enduring company.

With that, I'll turn the call over to Kevin. Kevin?

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## Kevin R. Johnson
*President, Chief Operating Officer & Director*

Thanks, Howard. Good afternoon, everyone. I'd like to build on Howard's comments and share a few observations on the quarter before asking Mike Conway to discuss the amazing performance Channel Development delivered in Q1. Scott Maw will then take us through the Q1 financials in detail.

Starbucks' global comp store sales grew 8% in Q1 with 4% coming from increased traffic. This represented our 24th consecutive quarter with comp growth of 5% or greater. As Howard mentioned, we are experiencing significant transaction growth in every geographic region and that contributed to our strong Q1 performance. On our last earnings call, I reinforced the clarity we have around our strategic priorities, investments we are making in the business, and the focus we have on operational execution. This clarity and focus is enabling every segment of our business to deliver. Retail, Channel Development and digital are driving the revenue and profit increases we are seeing and elevating the Starbucks brand in the mind of consumers the world over.

This holiday season we delivered meaningful beverage and food innovation, with Holiday Spice Flat White and an expanded holiday food platform to enhance the in-store holiday experience. And we leveraged our digital assets to reward our most loyal customers with five specialized Merry Monday offers throughout the holiday season. Those offers, combined with the Starbucks for Life sweepstakes, this year open only to our MSR members, drove customer traffic and increased MSR loyalty membership.

Retail innovation and digital engagement were then complemented by great execution across all channels, where sales of our packaged Holiday Blend Coffee was particularly strong. Our new Christmas Blend Reserve coffee quickly sold out and our K-Cup platforms delivered record dollar share for the quarter.

Starbucks Gift Cards once again enabled customers to give the gift of choice. And this year, one in six American adults received a Starbucks Gift Card, up from one in seven last year, and one in eight the year before. In this holiday, $1.9 billion was loaded on cards in the U.S. and Canada in Q1 alone, up 19% over a year ago. Gift cards lead to increased MSR membership and the digital flywheel spins faster and with increased strength and momentum. This dynamic was reflected in the performance in each of our segments.

Our fast-growing Americas segment had another very strong quarter posting 9% comp growth, with 4% coming from an increase in traffic. The Americas added 171 net new stores in the quarter and 573 net new stores over the past 12 months. Core offerings in our blended espresso and iced beverage platforms, including innovation, such as Teavana Shaken Iced Teas and cold brewed coffee, delivered double-digit growth in the quarter and drove 4 points of comp in the U.S. Beverage innovation and the sales of Teavana branded handcrafted tea beverages in Starbucks retail each contributed 1 point to the U.S. comp growth.

And our morning dayparts saw its strongest growth in five years. Food revenue was up nearly 20% over last year, contributing 3 points of U.S. comp sales in the quarter. Our food business is growing across all dayparts, with Bistro Boxes up 65% and breakfast sandwiches up more than 40% year-over-year. Our newest class of stores continues to perform extremely well with first year average volumes exceeding $1.4 million, while delivering record profitability and return on investment.

Moving on to CAP, the change in ownership of Starbucks Japan, the addition of 281 net new stores in CAP, and comp growth of 5% from our existing store base drove CAP revenues up 32%. We remain very bullish on our long-term growth potential in CAP where we now operate over 5,700 stores and we remain on plan to double our CAP store count to roughly 10,000 locations by 2019. We opened the market in Cambodia, our sixteenth CAP market in Q1.

One way we are continuing to extend our coffee leadership and authority around all things coffee in CAP is by expanding our successful Reserve platform where we now have over 200 stores selling Starbucks Reserve. Operating and financial performance across our CAP Reserve stores is among the highest of any stores across the entire global portfolio. As Howard mentioned, China, Starbucks' largest market outside the U.S., remains a very big part of our CAP story. We now operate roughly 2,000 stores on Mainland China with a presence in nearly 100 cities and we are on plan to achieve our goal of having 3,400 stores by fiscal year 2019.

As we grow our store footprint, particularly in China, it is important to note that our new class of company-operated stores in CAP is significantly outperforming even the most recent prior class, reflecting both the increasing strength of the Starbucks brand in the region and improved operating leverage, both of which contribute to the great confidence we have in the opportunity that lies ahead for us in the CAP region.

Our business in Japan continues to be very strong. We are benefiting from solid execution against our plans to leverage the brand and our connection to customers to drive growth across all dayparts in the key Japanese market. Noteworthy is that Q1 was the first quarter in which our stores in Japan are included in our global comp base. The passion and commitment of our partners in CAP is enabling us to deliver a great customer experience that is strengthening our connection with customers and driving our business throughout the region.

Let's move on to EMEA. Our EMEA segment delivered 1% comp growth, representing its 11th consecutive quarter of positive comps, fairly strong performance given the dramatic decline in consumer and tourist activity across many of Western Europe's largest cities following the horrific November 15 terrorist attacks in Paris. Business prior to those attacks was strong and EMEA was on track to have a solid quarter. We have quite recently begun to see the effects of that region's resilience and a recovery.

We opened a flagship Starbucks Reserve store in London, setting the stage for significant expansion of our Starbucks Reserve platform across the EMEA region in the months and quarters ahead. EMEA continued to rebalance its store portfolio, ending the quarter with 71% of all EMEA stores now being licensed, up from 63% at the end of Q1 last year. The segment opened 79 net new stores in the quarter, all of which were licensed, including our first store in Kazakhstan, our 36th EMEA market, which opened to a tremendous customer and partner response. We look forward to opening new EMEA markets in South Africa and Luxembourg in 2016.

In addition to strong retail performance, our Channel Development segment delivered record results in the quarter. And we've asked Michael Conway, who leads Channel Development, to share some highlights. Mike?

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## Michael Conway

*President, Starbucks Global Channel Development*

Thank you, Kevin, and good afternoon, everyone. Channel Development continued its strong momentum and delivered record financial and operating performance in Q1 while connecting more and more people to Starbucks Coffee around the world where they live, work and play.

We experienced record revenues of $512 million and we were up 16% over Q1 last year following a 14% increase in Q4 of fiscal 2015. This was driven by the strength of our U.S. CPG, ready-to-drink coffee and foodservice businesses. Our operating income grew 23% in the quarter to $193 million.

In Q1, each of our U.S. at-home coffee segments significantly outpaced the overall category, punctuated by strong in-store execution of our holiday program in the U.S. Just as our Starbucks stores turned red to signal the holidays, Starbucks also turned the aisles red with nearly two out of three grocery stores on average having a holiday display in December. In addition, our limited time Holiday Blend Coffee in both K-Cup and roast and ground was the fastest selling coffee in the Starbucks portfolio in the first quarter.

Both the Starbucks roast and ground and Starbucks K-Cup platforms delivered record dollar share for the quarter. Already the leader in premium coffee, total Starbucks grew 16%, more than five times total category growth moving Starbucks ahead of Kraft to become the number two player in all of coffee. In addition, Starbucks was the fastest growing coffee company and the largest contributor to category growth.

Starbucks K-Cups posted very strong dollar sales growth of 20% and gained 100 basis points of share to a record 17.2%, making Starbucks yet again the number one K-Cup brand for the quarter and now also the number one brand for the full calendar year, while creating further share gap separation from our nearest competitor. Recently launched Starbucks hot cocoa K-Cups contributed to our share increase, quickly becoming the third fastest moving SKU within our K-Cup portfolio in December.

Starbucks roast and ground continues to be the number one premium packaged coffee brand with dollar sales growth of 10% and share growth of 160 basis points to a record 27.3% share for the quarter. Our foodservice business continues to lead the industry in Q1 with 14% net revenue growth compared to an average industry growth of 2% to 3%. We saw strength across several channels of business including college and university, travel and office coffee as employers are increasingly offering Starbucks as the premium coffee of choice to their employees and their customers. Our Q1 performance was also positively impacted by revenue growth from existing partner accounts such as Delta Airlines and the Compass Group.

Turning to ready-to-drink coffee, our North American Coffee Partnership with PepsiCo posted excellent results during the quarter. System sales as measured by IRI grew 22%, resulting in a 110-basis-point share gain in the total liquid coffee and energy segment to 13.4%, driven by new product innovation in our Frappuccino and Doubleshot platforms and through expanded distribution. For the full calendar year, Starbucks is now the number eight brand in the liquid refreshment beverage category and ahead of established brands, such as Powerade and Sprite.

Beyond the U.S., we've continued to successfully execute against plans to build our global ready-to-drink coffee business. Our partnership in China with Tingyi is on track for a mid-year 2016 product launch. And through our newer agreement with PepsiCo Latin America, we will be building distribution in the region during the second half of 2016. We are also increasing our ready-to-drink penetration in EMEA, with momentum building from our most recent launches in six Middle East markets.

Our outlook for 2016 remains positive supported by strong in-store programming and new product launches, like Starbucks Latte K-Cups for both coffee and tea. Combined with the strength of the Starbucks brands and the quality of our coffee, we will continue to delight our customers, outpace the category and build upon our leadership position in the market.

With that, I'll turn the call back over to Kevin. Kevin?

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## Kevin R. Johnson
*President, Chief Operating Officer & Director*

Thanks, Mike. Now a key element of our strategy is our Starbucks Rewards loyalty program combined with digital engagement. This was another quarter of solid progress. We continue to see broad customer acceptance and adoption of our mobile platform and the Starbucks mobile app has emerged as an evolving platform and a profit driver of its own. We increased the number of active MSR members in the U.S. to 11.1 million, up 23% over Q1 last year. We are seeing growth of active MSR customers in markets around the world. Customer engagement is also growing. In the quarter, over 21% of total U.S. transactions were paid using the mobile apps, with December accelerating to 22%, and we're seeing further acceleration in the month of January.

Over 1 million customers in the U.S. used our Mobile Order & Pay capability in the month of December and those customers averaged approximately five mobile orders in the month driving meaningful revenue growth and incrementality. Usage of Mobile Order & Pay is growing and we are now processing over 6 million Mobile Order & Pay transactions per month. In many of our busiest stores where morning peak demand is high, Mobile Order & Pay exceeds 10% of total transactions and we have just scratched the surface. We have bigger aspirations for our digital plan and we are expanding the digital agenda across four key pillars.

The first is delivery. We're extending Mobile Order & Pay to include a delivery option for customers. Pilots are underway in Seattle and New York City, and we are learning many new things that will help us shape the future of delivery. Number two, personalized offerings. We have invested in technology to help us better personalize the offers we make to our loyalty customers. This will strengthen our customer connection and fuel growth. Number three, global deployment. We are committed to leveraging these digital experiences in our major company-operated markets and with our licensee partners. And number four, digital media, the Spotify music capability we launched this week is one example of an integrated digital media experience. We plan to explore additional digital media scenarios that are entertaining and interesting to consumers and that align with our brand.

The Starbucks digital flywheel is driven by our loyalty program and membership in My Starbucks Rewards has grown by over 50% in the last two years. In 2016, we will be enhancing the Starbucks Rewards program and enable our loyalty customers to earn stars in many new and exciting ways. Clarity of our strategic priorities and investments, combined with a focus on excellence and execution is powering our results.

I'll now hand the call over to Scott to take us through our Q1 financial results in detail. Scott?

## Scott Harlan Maw

*Executive Vice President and Chief Financial Officer*

Thanks, Kevin, and good afternoon, everyone. We kicked off fiscal 2016 with another record-breaking quarter and a continuation of the accelerating momentum we saw in our business throughout 2015. As Howard shared, in Q1 Starbucks' operating income increased 16% year-over-year and exceeded $1 billion in a single quarter for the first time ever. And we delivered a strong operating margin of 19.7%, 60 basis points over last year. Q1 GAAP EPS of $0.46 compares to GAAP EPS of $0.65 in Q1 2015. Noteworthy is that Q1 2015 included a gain of $0.26 on the acquisition of Starbucks Japan.

Excluding certain Starbucks Japan-related items, non-GAAP operating margin grew 40 basis points over Q1 of last year to a quarterly record 19.9% and non-GAAP EPS also increased 15% year-over-year and reached a quarterly record of $0.46. For Q1 operating margin, strong sales leverage and favorability in cost of goods sold was partially offset by the impact of our partner and digital investments. Also, Q1 revenue growth included two points of negative foreign exchange impact and non-GAAP EPS growth included five points of negative foreign exchange impact.

I'll now take you through the individual segment performance in Q1. Americas, our largest business segment, has never been stronger, driving 14% operating income growth over Q1 last year and contributing a record high $935 million. Americas' operating margin expanded by 80 basis points to 25.1%, also a Q1 record, driven primarily by sales leverage and excellent management around cost of goods sold. The margin improvement we saw in Q1 in the Americas is even more significant when considering that the vast bulk of our partner and digital investments began in our Q2 last year, so we'll not begin lapping those investments until next year. The increase in partner and digital investments is reflected in the details of our margin change as store operating expenses increased 80 basis points as a percentage of retail revenue, a figure that includes 120 basis points of impact from these investments. We see moderate margin expansion in the Americas business for the full year 2016 despite the significant investments we continue to make.

Moving on to our China Asia-Pacific segment, on a GAAP basis, CAP operating income grew 17% over Q1 last year to a new quarterly record of $127 million. CAP operating margin declined 240 basis points to 19.4%, due primarily to the impact of the ownership change for Starbucks Japan offset by positive sales leverage. On a non-GAAP basis, CAP operating income increased 20% over Q1 last year. Operating margin, excluding the full 330-basis-point impact of our ownership change in Starbucks Japan, increased 90 basis points, driven primarily by strong sales leverage and higher income from our joint venture operations, partially offset by higher store operating expenses. By way of reminder, our Q1 2015 results in CAP reflect pre-acquisition joint venture accounting treatment for the first five weeks of the quarter and our stores in Japan are included in our global comp store base in December, consistent with our established policy.

Given the complexity of modeling our CAP segment in the period immediately following the Japan ownership change, I thought it would be helpful to reiterate that factoring in the impact of adding over 1,000 stores in Japan into the fiscal 2016 calculation, we expect CAP comps to land in the mid-single-digits. Noteworthy is that our year one performance in Japan significantly exceeded the assumptions built into our acquisition model on each of comps, revenue and operating income, supporting the tremendous optimism we have around our performance in Japan in the years ahead.

Projected revenue growth in CAP will be in the mid-teens for the year, reflecting excellent growth in all of our major markets and a small benefit from the change in Japan ownership, partially offset by ongoing foreign exchange headwinds. We still see CAP margins flat to down slightly compared to 2015 levels. Noteworthy is that we expect Q2 revenue growth and operating margin to be somewhat lower than the average for the year due to the impact of seasonality in our largest CAP markets.

EMEA's operating margin expanded 40 basis points to 15.4%, principally driven by gains on the sales of assets to our licensees, partially offset by somewhat lower margins in our license business resulting from higher cost of goods sold and the impact of lower sales in company-owned stores, especially during holidays. EMEA's performance was particularly strong given the impact of foreign exchange and challenges to topline growth following the tragic terrorist attacks in Paris. The strength and diversity of our EMEA portfolio were further punctuated in Q1 by strong comp performance from our license stores, which delivered comp store sales growth in the high single digits. While operating income in EMEA declined slightly from the prior year to $48 million, the strength of our underlying business and our expectation of a gradual return to normal operating conditions in the region gives us confidence that EMEA operating margins for the full fiscal year 2016 will still approach 15% as we communicated to you last quarter.

Channel Development's operating margin increased 210 basis points to 37.7% and segment operating income reached a quarterly record, $193 million, 23% over Q1 last year. Another record quarter from our North American Coffee Partnership business with Pepsi and cost of goods sold favorability were the primary driver of Channel Development's margin improvement in Q1.

As Mike mentioned, profitability growth was ahead of expectation due to strong market share gains across all of our key business lines and excellent execution in operations. For the full year, we continue to expect moderate margin expansion in Channel Development over the prior year.

As I stated at the outset, Starbucks had a very strong Q1, with solid revenue growth and impressive margin expansion. For Q2 we are expecting GAAP EPS in the range of $0.37 to $0.38 and non-GAAP EPS in the range of $0.38 to $0.39, representing non-GAAP EPS growth of 15% to 18%. Let me take a moment to reiterate the EPS ranges for fiscal 2016 we provided to you last quarter: GAAP EPS in the range of $1.84 to $1.86 and non-GAAP EPS in the range of $1.87 to $1.89, including the 53rd week, which adds approximately $0.06 to Q4. This represents 18% to 20% EPS growth for the year.

For the full year foreign exchange is now expected to be a negative impact on revenue growth by two points and negatively impact non-GAAP EPS growth by three points, each up one full point from our previous guidance. Foreign exchange headwinds and our willingness to accelerate and add to our partner and digital investments as we see opportunity are driving our decision not to increase our full-year EPS guidance despite over performance in Q1. There seems to be some question that we have lowered guidance for the year. As you can see, our full-year EPS guidance is completely consistent with last quarter despite the headwinds I just mentioned.

Revenue growth is also expected to remain within our previous target range of 10% or greater on a 52-week basis, with the 53rd week adding approximately two points to this figure. Given the strong comp performance we experienced this quarter, we remain confident in our ability to again deliver global comp sales growth somewhat above the mid-single digits for the year.

We now expect investments in our partners and digital initiatives to total between $275 million and $300 million globally in 2016, compared to approximately $145 million in fiscal 2015. This slight increase from our previous guidance range is driven by digital projects and supported by the strong results we are seeing from our investments to date and the significant opportunities that lie ahead for us.

And by driving industry-leading comp growth, record revenues, record profitability and a reduction in partner attrition, compared to a five-point increase in attrition in the industry at large, these investments are continuing to pay off in a very big and demonstrable way. Noteworthy is that while our comp growth overall remains very strong in today's challenging retail environment, comps are the strongest in stores where partner attrition is the lowest, a function of the deep connection our partners build over time with our customers.

And ROIC in Q1 increased by approximately 100 basis points, reflecting the fact that the vast majority of our investments are beating our targeted hurdle rates. This applies particularly to Mobile Order & Pay where our expected return continues to be several times our consolidated ROIC.

We continue to expect consolidated operating margin for fiscal 2016 to increase slightly related to 2015 on both a GAAP and non-GAAP basis, reflecting strong revenue growth, sales leverage and increased operating efficiency and performance, partially offset by the impact of increased partner and digital investments.

Moving on to commodities, with 2016 coffee needs nearly fully priced, we continue to expect a slightly favorable impact for the year. We are now beginning to price our coffee needs for fiscal 2017 and we'll provide updates as we lock in meaningful volumes. We continue to expect to add approximately 1,800 net new stores globally in fiscal 2016, 700 stores in the Americas, 900 stores in China/Asia Pacific, and 200 stores in EMEA. The outlook for our effective tax rate continues to be between 34% and 35% and we still expect capital expenditures of $1.4 billion for fiscal 2016.

Finally, we increased total cash returned to shareholders by more than 20% to over $500 million in Q1. And we have significantly and opportunistically increased our buyback activity since quarter end, given strong cash flows during the holiday period and recent equity market dynamics.

Q1 of fiscal 2016 marks our seventh consecutive quarter of consolidated revenue growth in excess of 10%, our ninth consecutive quarter of operating margin in excess of 15%, and our 12th consecutive quarter of non-GAAP EPS growth greater than 15%. And we see significant opportunities to continue and, as appropriate, selectively increase or accelerate investments in order to support this historical level of performance as we drive annual revenues to the $21 billion mark. The key today, as always, is to identify and to balance the right combination of targeted, disciplined growth across the business with the appropriate levels of investment necessary to drive and support such growth.

Finally, what is particularly exciting is that despite our recent record performance, we still have clear line of sight on multiple opportunities in each of our segments and around the world to further accelerate top line growth and deliver outsized profits into the future. The team and the strategic framework we have in place, together with our proven ability to execute, gives us confidence that disciplined increases in the speed and the size of our investments when the right opportunities present themselves is smart business and the right thing to do for our customers, partners and shareholders over the long-term. We look forward to updating you on our progress as we move throughout the year.

With that, we will turn the call back to the operator for Q&A. Operator?

# QUESTION AND ANSWER SECTION

**Operator**: [Operator Instructions] Your first question comes from Keith Siegner from UBS.

Keith R. Siegner
*UBS Securities LLC*

Q

Thank you very much. Just a quick question for me. In thinking about the food attach and direct sales growth rates, because those are monstrous numbers. If we think about what's driving this, and maybe Kevin this is for you, how much is Mobile Order & Pay adding to food sales? Is this innovation on product? Is it recipes, promotions through the MSR network? Is it the placement in store with some of the remodel work that you've done? What do you think is really driving these big food numbers? And is it continued tweaks or expansion of Mobile Order & Pay that really keeps this going? Thanks.

Kevin R. Johnson
*President, Chief Operating Officer & Director*

A

Yes. Thanks for the question, Keith. I'll comment and then I'll hand over to Cliff to share some more color around this. But I think, number one, we've been on a strategy around new occasions that had us investing in food and beverage innovation. And I think, number one that's driving it is that as we've continued to tune the food portfolio, I think we certainly have dialed-in in the morning daypart and what we've done to complement the food items with our breakfast sandwiches, I think for lunch and afternoon daypart the Bistro Boxes and how we're dialing in there, and then we're laying the foundation for evening. So I think, number one, it's the innovation we've done in food and how that's been presented to the customer in the stores I think that's a big part of it.

Certainly digital helps because we can target offerings to get customers to try new things. And so what we find is once we encourage trial, that starts to lead to repeatability. So let me hand over to Cliff to add a little bit more color behind what we're doing in the stores to help drive that.

Clifford Burrows
*Group President-Americas, US & Teavana Region*

A

Yes, thanks, Kevin. And Keith, it's really an ongoing program. We now have some authority in our breakfast sandwich range, and we continue to refine both the product and our availability. And we enhance our skills at both offering the product to customers through displays and through the partner confidence in sharing the product. One of the changes we've made in Q2 last year was we introduced a food benefit for partners in the U.S. where working on shift they could have free food. And that, I think, has really helped them build confidence and it's part of the best practice we've had with beverage for many years. So they are very proud of the product.

We are continuing to enhance that range, basing if off breakfast but now in lunch and Bistro Box, as Kevin mentioned, has grown 65% and we own that format and we consider that another way that we can grow our range. So it's about us having a confidence around food, having an authority around food and working on quality, variety, availability and our selling skills of our partners. So all in all, it's going well and we have a lot more runway to continue to build food.

Kevin R. Johnson
*President, Chief Operating Officer & Director*

A

Yes, and then the personalization in the digital platform is just allowing us the one-to-one marketing capability that's driving trial. And I think that's a key aspect. So thanks for the question.

**Operator**: Your next question comes from John Ivankoe with JPMorgan.

John William Ivankoe
*JPMorgan Securities LLC*

Q

Great. Hi. Thank you. The question is on the partner investments that you've been doing in the Americas and certainly it was very evident in this quarter as store operating expense was up 80 basis points year-over-year despite a 9% comp. So my question is how much do you view that investment that you've been making in partners really as a specific driver of comps over the past four quarters? And as we think about lapping some of the investments that were made in the second quarter of 2016, does Starbucks have an opportunity to continue to invest in their partners, to continue to invest in margin as a way to get outside sales? Or can you achieve outside sales levels and actually begin to get leverage on that line?

Clifford Burrows
*Group President-Americas, US & Teavana Region*

A

John, it's Cliff. The investments we're making in our partners both in the technology side to give them the tools to improve the way they do the work and also in them as partners and the accelerated benefits we are certainly seeing strengthening engagements, reduction in turnover at partner level and we are seeing the opportunity to invest also in ours to capture more of the opportunity that presents itself. Certainly it has helped us cope with the benefits from Mobile Order & Pay and we have seen growth at peak times across all of our markets and we've seen a strengthening in our weekend business and this is that we've been investing in hours, we're investing in the quality and retention of our partners.

Kevin R. Johnson
*President, Chief Operating Officer & Director*

A

And, John, I think I'd add, and you may recall, if you go back to second quarter of last year when we introduced these partner investments, we started to see an acceleration of the business in comps and profitability. And that continued every quarter as we increased those investments and I would argue this quarter is a further acceleration of that. Also in 2016 we're starting to make these partner and digital investments internationally, not a big number in Q1 but as we move throughout the year we're so convinced by the results that we're seeing in the U.S., we're starting to do some things in China, in Canada and in the UK. So we're completely convinced it's all tied together.

**Operator**: Your next question comes from Sharon Zackfia from William Blair.

Sharon M. Zackfia
*William Blair & Co. LLC*

Q

Hi. Good afternoon. Howard, I think you alluded to potentially going a different route with the K-Cups in the future and maybe not partnering with Keurig. Can you kind of give us some more detail on what that might look like as it relates to Starbucks either from an upfront cost perspective or an ongoing margin perspective?

Howard S. Schultz
*Chairman & Chief Executive Officer*

A

Well, let me say it this way. Regardless of what we decide to do, there would be no dilution whatsoever in our current ability to deliver to the market or retain the margin, which has been so attractive since we started. We're in a unique position, we have the leading share, we know customers by the brewer because of Starbucks and it's a wait and see situation. But the most important thing is we're reaffirming to the market and our customers. They will have an ongoing stream of K-Cups and there will be no dilution whatsoever in terms of our ability to maintain supply regardless of who is making it.

**Operator**: Your next question comes from David Palmer from RBC Capital.

David S. Palmer
*RBC Capital Markets LLC*

Q

Thanks. Wondering about the learnings from Mobile Order & Pay as you're now fully rolled out across the country and that's been in some areas like the Pacific Northwest for many months. Specifically, how incremental do you think it's been to your same-store sales? And in what way would that be new users, frequency or check, and as you continue to build in the first markets like the Northwest? Thanks.

Adam B. Brotman
*Chief Digital Officer*

A

Thanks, David. This is. Adam. So first of all, I'll take the second part of your question first regarding incrementality. We're not breaking that out. Of course, Mobile Order & Pay orders are driving incrementality, particularly at our busiest stores at peak. We're seeing incremental occasions that come from the convenience itself plus throughput, efficiency and [ph] line blocking (49:43) benefits that we're seeing. So in our busiest stores in particular we're seeing the incrementality that we had hoped for.

In terms of learnings, I can tell you that we have just scratched the surface in terms of our ability to both promote Mobile Order & Pay and provide trials for our customers because we're seeing great conversion upon trial. That's one of the learnings. And we've got this robust roadmap for additional features over the course of the rest of this year, including the ability to use your earned My Starbucks Rewards in the Mobile Order & Pay flow, the ability to favorite stores and favorite items and, of course, suggested and recommended selling which is going to be a great thing for improving attach. So all those things are as a result of the learnings and you'll see us roll those out over the course of this year.

Howard S. Schultz
*Chairman & Chief Executive Officer*

A

I just want to add one thing as it relates to China specifically, having just been in China, John and I over the last week or so, I think there is one significant difference between the young people in China and the evolution of mobile in the U.S. and that is the Chinese consumer has leapfrogged from a rotary phone to a regular phone to a cell phone and a smart phone overnight. And as a result of that, not if, but when we roll out Mobile Order & Pay and mobile payment in China, the adoption that we believe we're going have in China is going be more significant and quicker than it has been in the U.S. which already has stunned us in terms of how quickly the U.S. customer has embraced it.

So our growth in China is not only in terms of the 500 stores per year that we're going to add over the next five years. It's overlaying that growth with technology that we strongly believe is going be adopted at a quicker pace than the U.S. consumer has because of how technology is embedded in the Chinese consumer's life.

**Operator**: Your next question comes from Jason West from Credit Suisse.

Jason West
*Credit Suisse Securities (USA) LLC (Broker)*

Q

Yes, thanks. Just one quick clarification and then a bigger picture question. Could you guys give us a general breakdown of the partner investment or I guess the overall investment that occurred in the first quarter relative to the full-year guidance just to give us a sense of how that's pacing? And then just a bigger picture question around some of the rewards partnerships that you guys have talked about in the past with things like Lyft. Just wondering if there's any new deals that have been added to that portfolio? And sort of the general sort of thoughts on that?

Howard S. Schultz
*Chairman & Chief Executive Officer*

A

Scott, do you want to take the partner investments?

Scott Harlan Maw
*Executive Vice President and Chief Financial Officer*

A

Yes.

Howard S. Schultz
*Chairman & Chief Executive Officer*

A

And then Matt, you'll go.

Scott Harlan Maw
*Executive Vice President and Chief Financial Officer*

A

Thanks, Jason. It's Scott. So in the first quarter the vast majority of our partner and digital investments were in the U.S. as I stated. And it was about 120 basis points, so you can do the math on revenue, but that's the number. For the full year the vast majority still is in the U.S., although as we get into the back part of the year, we'll talk about the other segments. And it's $275 million to $300 million for the full year. Matt?

Matthew Ryan
*Executive Vice President, Global Chief Strategy Officer*

A

We don't have a specific announcement to make today on a new partnership, but what I can tell you is we are confident on a pathway of significant new partnerships that we will be announcing in the coming quarters. And it will fulfill our vision to make Stars everywhere. The ability for customers to order Stars – to earn stars everywhere, part of the Starbucks experience.

**Operator**: Your next question comes from John Glass from Morgan Stanley.

John Glass
*Morgan Stanley & Co. LLC*

Q

Thanks very much. I had two questions just on mobile ordering and digital in general. First, I'm just following up on the comments about kind of the next generation of the app. Are there certain milestones? Is there next quarter, for example, generation two coming out that allows, for example, for that suggestive upselling? Or do you think you have to wait to amass several of them to kind of roll it out just because consumers don't want to keep updating their apps all the time to get the latest?

And secondly, related to that, others who have engaged in digital platforms have seen tipping points where adoption really accelerates significantly and also you get an accelerated labor benefit. You've been able to suddenly remove certain amount of labor from store because it's coming in, you're getting digital orders or whatever. Do you have a sense where those tipping points for both revenue and both for labor are for Starbucks? Have you already reached them? Or when you might expect to reach them?

**Adam B. Brotman**
*Chief Digital Officer*

A

John, yes, this is Adam. First of all in terms of waiting for features, we're not planning on doing that. The way we approach it is we're constantly at work adding new features both in the U.S. and around the globe on both our iOS and Android platform. And so you saw that just in the last week as we not only launched the Spotify integration in the U.S., but we also added Mobile Order & Pay to Android in the UK and Canada also just in the last week. So you can see how busy we are.

The future enhancements to mobile ordering that I mentioned are going to happen when those features are ready. So they're going to happen over the course of the year, we're not going to bunch them up. And so you'll see those happen on a continual basis. And in terms of the tipping point, I would say that we're just continuing to see acceleration of the adoption of Mobile Order & Pay, as Kevin mentioned in his remarks. This has been happening from the beginning and we saw acceleration through the first quarter and even into January because now we're up to 6 million mobile orders per month run rate. And we anticipate that to continue. And I also mentioned that we're just scratching the surface in terms of awareness and trial. So I think we're still approaching the tipping point, frankly.

**Michael Conway**
*President, Starbucks Global Channel Development*

A

Hey, John. I just want to add one thing to that and it relates to the incrementality we're seeing on Mobile Order & Pay. So Kevin talked about in the U.S. business we saw the fastest morning day-part revenue growth than we've seen in over five years. So biggest morning day-part in over five years and we can trace back a good portion of that uptick in performance this quarter to our busiest stores. And in those busiest stores we can trace that back to Mobile Order & Pay introduction. And so it's aligned with what we're seeing in our results. It's aligned with the day-part. I would argue it's aligned with food attach and capacity and we're just getting started.

**Clifford Burrows**
*Group President-Americas, US & Teavana Region*

A

So just to, John, it's Cliff, to follow-up on your point about tipping points and labor, I would say that what is most exciting of all is these higher volume stores that are seeing the greatest adoption and usage of Mobile Order & Pay, which is growing capacity and it's allowing us to reach volumes in those stores that set new levels for us. So I think that tipping point is happening in some stores and it's happening in a really meaningful way in the high volume stores, which is great.

And in terms of labor, we're not looking at it that way. We're looking at using the labor to continually serve the customers that are there, continue to build relationships with our customers and just enhance the experience. So I think it's a continuous process of check and adjust, increase capacity in the store, hopefully have more Mobile Order & Pay orders and then grow our labor accordingly. And that's the way we're looking at it.

**Operator**: Your next question comes from Andrew Charles from Cowen.

**Andrew Charles**
*Cowen & Co. LLC*

Q

Great. Thanks. Howard or Adam, just to follow up on an earlier point. As you look back over the last several years to the trajectory of Mobile Payment sales growth, do you believe between the digital infrastructure you have in place as well as consumer awareness your digital prowess should lead growth in mobile ordering and sales mix to directionally outpace the growth you experienced in your Mobile Payment sales?

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**Howard S. Schultz**
*Chairman & Chief Executive Officer*

A

Yes. I can't give you the specifics of that, but clearly we're already demonstrating; if you look at the trajectory of these numbers there's no question that this segment of the business and this foundation of the ecosystem we're building is going to outgrow the business. And that is going have a significant effect on the overall growth of the business, both in the U.S. and around the world. And going back to China, I think having just come back there, I think we just can't wait to introduce mobile payment, Mobile Order & Pay in China because it's going to be a runaway success.

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**John Winchester Culver**
*Group President-China/Asia Pacific, Channel Development and Emerging Brands*

A

This is John. Just let me add to what Howard just said on China and the Mobile Order & Payment there. We are seeing just with the Starbucks card alone that over 40% of our transactions are coming through China on the Starbucks card. And that gives us great optimism around what Mobile Order & Payment can be in China. So we're very bullish on that.

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**Howard S. Schultz**
*Chairman & Chief Executive Officer*

A

Matt?

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**Matthew Ryan**
*Executive Vice President, Global Chief Strategy Officer*

A

This is Matt Ryan here. Just in terms of the customer segments and the way we look at it, our core customer growth is strong. The loyalty customers we have, people participating in MSR, is growing significantly faster than our regular customer base. People using the mobile form of loyalty is growing even faster than that. And people using Mobile Order & Pay is growing even faster than that. So you actually see a cumulative benefit to the ecosystem in play.

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**Operator**: Your next question comes from Karen Short from Deutsche Bank.

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**Karen F. Short**
*Deutsche Bank Securities, Inc.*

Q

Hi. Thanks for taking my question. Just a couple of questions on China. I guess first question is, can you give some color on what the impact of Japan would have been on the comp – or CAP comp? And then I guess within the China comp, I'm wondering at this stage if you'd be willing to break out the comp by day-part? So morning, afternoon, evening, and any color on how that's evolved over the last several quarters? Thanks.

---

**Howard S. Schultz**
*Chairman & Chief Executive Officer*

A

We don't break out comps by country within the segment. Let me say it this way. We've had over 10 consecutive years of positive comps and positive traffic in China. The success we're enjoying in China is really kind of highlighted by this past quarter. We opened over 150 stores in China this past quarter, the most we've ever opened in our history, and it was the strongest class of new stores we have ever opened.

In terms of day-part, I think in addition to the technology we've talked about that we will be introducing in China, perhaps the most exciting aspect of the core China business, looking to the future, is that we're sitting with a incredibly strong level of unit economics in Tier 1, Tier 2, Tier 3, Tier 4 cities that now are almost 100 cities in China. And we're doing that for the most part without truly establishing a morning ritual. And there's no doubt in our mind, if we look at every market we've opened around the world including those markets in Asia, that a morning ritual starts, it evolves and it occurs. And we're seeing it sporadically but enough to give us great – not hope, but vindication in those stores that have been opened the longest, in Beijing and Shanghai, how that is developing.

So if you look at the unit economics in China today, which are incredibly attractive, and you lay on the technology we talked about and then we know the morning ritual's going to come, we are sitting in a business today that, as I said publicly when I was in China last week, that we believe one day could very well be larger than the U.S. business. So anyone on the call who is in any way dissuaded by our commitment or our success in China as a result of a 5% comp in the region is not only mistaken, but you are looking at the wrong metric.

**Operator**: Your next question comes from David Tarantino from Robert W. Baird.

David E. Tarantino
*Robert W. Baird & Co., Inc. (Broker)*

Q

Hi. Good afternoon. Howard, you've talked in the past about the shift from brick-and-mortar retail to online retail creating some headwinds in the holidays for all retailers, and perhaps for Starbucks. So I was wondering if you could talk about how your business trended during the holidays specifically, and perhaps how you exited the quarter relative to some of those headwinds you've talked about in the past.

Howard S. Schultz
*Chairman & Chief Executive Officer*

A

That's a perfect question for me. So I think we said three years ago publicly that we began to envision that there would be a seismic change in consumer behavior and that seismic change was due in large part to e-commerce and smartphone shopping. I think today, in the headlines you've seen just in the last three weeks, store closures of almost 50 Macy's stores, 150 Walmart stores. You've got to ask yourself what's going happen to the future of many of those malls that are anchored by those big box retailers.

Having said that, the investments that we made in our partner investments, which is store execution and retention of our people and the intimate relationship we have with the customer, coupled with the technology investments which have been significant, to put up 4% traffic in this environment when there isn't a retailer in the country that is putting up anything close to 1% or 2%, let alone 9% comps, in the quarter in the U.S. business, and we finished very strong for the quarter.

So we've insulated ourselves from the bricks and mortar problem that will face many retailers as a result of the experience that we've created, the innovation both in product, partner investments and technology. And as people who have covered the company know, we are still opening fantastic stores in the U.S. on a base of almost 10,000 stores. And in addition to what I said about China and the 150 stores that we just opened, best-of-class, the stores that we opened in the U.S. this year are also best-of-class in terms of revenue and return on investment. So we see no signs whatsoever that we are going to be hit in any way by the seismic change in consumer behavior because we invested ahead of the growth curve and we continue to invest in those things that are customer facing, partner facing and technology.

**Operator**: Your next question comes from Nicole Miller from Piper Jaffray.

Nicole M. Miller Regan
*Piper Jaffray & Co (Broker)*

Q

Thanks. Good afternoon. When you look at the Channel Development business, what's the long-term revenue and your margin opportunity? And do you imagine that it comes from or envision new and existing platforms and if new, how can we think about that?

Scott Harlan Maw
*Executive Vice President and Chief Financial Officer*

A

Hi, Nicole. I'll start and I think Mike can jump into the second part of the question. What we see over the long term is double-digit revenue growth in channels every year and moderate margin expansion, driven by leverage within cost of goods sold and overall operating leverage. Mike, do you want to take the last part?

Michael Conway
*President, Starbucks Global Channel Development*

A

Yes. Let me take the rest. So our future performance is going build on what you're seeing this quarter. So in the U.S. you'll continue to see strength of our existing Coffee business just based on the level of innovation, the loyalty that we have and the opportunity quite honestly for us to connect with our My Starbucks Reward down the aisle even more. What we haven't talked as much about yet, but what is coming is the activity that we have on the international front. So you've heard me talk about many of the partnerships that we just created in China and also in Latin America. That is primarily a ready-to-drink business for us, so we're going to leverage the strength that we've seen in the U.S. and the insights we've gotten with our partnership with the North American Coffee Partnership and translate that into a growing business from a ready-to-drink perspective internationally.

**Operator**: Your next question comes from Jeff Bernstein from Barclays.

Jeff Bernstein
*Barclays Capital, Inc.*

Q

Great. Thank you very much. Just two questions. One, just in the European business or EMEA, I'm just wondering whether you can talk a little bit about the softening that you saw? I didn't realize the magnitude or the impact it had on the broader European comp in terms of the obviously tragic Paris attacks. I'm just wondering if you can maybe give some color, maybe what the trends were running pre or post? Or whether it impacted other markets? Just trying to get a feel for whether it's just a broader macro issue or whether there's anything you think is going on just within the Starbucks numbers?

And then separately, Scott, I was just wondering if you could just give us an update on just the balance of the dividend versus the share repo and kind of your thoughts on leverage? I know you talked a lot about returning incremental cash for the share purchase and obviously the dividends, so just any updated thoughts on that would be great?

Kevin R. Johnson
*President, Chief Operating Officer & Director*

A

Yeah, Jeff. This is Kevin. I'll take the first question and then I'll hand over to Scott for the second one. Fundamentally what we saw as we track our daily comps in France, Germany, and UK, large cities in France, Germany, UK, I think there was just a shift in customer behavior that showed transaction comps flat or down slightly across large cities in France, Germany, UK. And in this last week or so we've seen evidence that, that consumer behavior is recovering. And so I wouldn't read anything more into it than that. Scott?

Scott Harlan Maw
*Executive Vice President and Chief Financial Officer*

A

Yeah, and I'd add two things. One, to what Kevin just said, just as we look at the International segments, EMEA and CAP, this year and over the long term, we expect significant revenue and margin expansion to continue. So if you look at EMEA for example, a few years ago they were at breakeven, margin was essentially zero. And we're guiding to 15% this year which is over 100 basis point improvement over last year. And as I said, we're going get up towards 20% over the next handful of years in EMEA, so that is a market with significant profitability growth.

So to your question, October looked like a really good month to us and it looked like we were right on track to what we expected for the year. And then after what happened in Paris, we've seen some softening and now it's coming back. And so full year, we haven't changed our guidance and we're not at all changing the long-term belief in what we can do and what we have been driving in EMEA.

And in CAP, again we've targeted around 20% this year on operating margin which is up slightly despite the math that impacts us from the Japan acquisition. And I actually think in CAP you'll see us move up towards the low-to-mid-20%s over five years or so from an operating margin perspective which gets CAP right up there with the Americas business. So again, strong revenue growth. We'll have mid-teen revenue growth in CAP this year. The numbers are just phenomenal. Japan has outperformed the model in every single aspect that we can look at since acquisition and we're just getting started in growing that business, working with the team over there. And Howard talked about China, and again we've never been more bullish on that. So the international markets for the quarter had a good quarter and the outlook for the future is very strong.

As far as the balance sheet goes, we did a little bit more buy back than dividend in that split I gave you. But I want to just remind you Jeff, that given what we saw in the holiday and what we saw in the equity markets, we've significantly increased our buybacks to the tune of roughly double already this quarter what we did in the whole quarter last year. So that will include some leverage on the balance sheet and we'll continue to evaluate that as we go forward. If you look back over the last 12 months, we've returned $2.5 billion of cash to shareholders. The number is significant and over the last few quarters that number's increased as we put the balance sheet to work a little bit harder as we've discussed.

**Operator**: Your next question comes from Karen Holthouse from Goldman Sachs.

Karen Holthouse
*Goldman Sachs & Co.*

Q

Hi. Thanks for taking my question. One of the things and not necessarily trying to get at the China comp number, but one of the things that was talked about last quarter was some seasonality due to fourth quarter comp. And theoretically comp's improving getting past the holiday and mooncake gifting that was down substantially more than the rest of the business. Did that in fact materialize as we moved through the quarter?

John Winchester Culver
*Group President-China/Asia Pacific, Channel Development and Emerging Brands*

A

Karen, this is John. We did not see any of the seasonality come into the business in the quarter. Like Howard said, we continue to see very, very strong transaction growth. We had record number of store openings in China and then also across the region and we remain very bullish on the opportunity that we have going forward. Right now we're in the throes of the Chinese New Year and we're very optimistic on what that's going to bring.

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**Karen Holthouse**
*Goldman Sachs & Co.* **Q**

And one...

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**Howard S. Schultz**
*Chairman & Chief Executive Officer* **A**

Hello?

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**John Winchester Culver**
*Group President-China/Asia Pacific, Channel Development and Emerging Brands* **A**

Hello? We cut her off.

---

**Durga Doraisamy**
*Director of Investor Relations, Starbucks Corp.* **A**

Mike?

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**Howard S. Schultz**
*Chairman & Chief Executive Officer* **A**

Anyone there?

[technical difficulty] (1:11:28 – 1:11:35)

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**Operator**: Karen Holthouse, your line is open.

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**Karen Holthouse**
*Goldman Sachs & Co.* **Q**

Hi. Does your guidance include any change in the amount of stock that you intend on buying back over the course of the year or is it exogenous from that?

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**Operator**: Please stay on the line for the next available operator.

[technical difficulty] (1:12:13 – 1:13:43)

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**Operator**: Ladies and gentlemen, this is the operator. We are currently experiencing technical difficulties. The conference will resume momentarily. Thank you.

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**Durga Doraisamy**
*Director of Investor Relations, Starbucks Corp.* **A**

Mike, are you there?

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**Operator**: The speaker line is connected.

Durga Doraisamy
*Director of Investor Relations, Starbucks Corp.*
A

Mike, are you there?

[technical difficulty] (1:14:29 – 1:14:45)

**Operator**: This is the operator. The speaker line is connected.

Durga Doraisamy
*Director of Investor Relations, Starbucks Corp.*
A

Mike, are you there? Can you hear us?

**Operator**: This is the operator. You are connected.

Durga Doraisamy
*Director of Investor Relations, Starbucks Corp.*
A

Thank you, Mike. We're ready for our next question please.

**Operator**: Your next question is from Matthew DiFrisco with Guggenheim.

Matthew DiFrisco
*Guggenheim Securities LLC*
Q

Thank you, guys. I appreciate you coming back on the line there. A balance sheet question following up there on the prior question, deferred revenues, I wonder if you can give us a little bit of a taste of what encompassing both the gift cards as well as in the years past you've given us some reload numbers as far as what sits on cards, what sits on the digital mobile app. I'd assume with the growth of the digital Mobile Order & Pay and the digital app and sales you said the gift cards were 19% growth, can you sort of encompass that and tell us what you have entering 2Q as far as balances and how that might have grown year-over-year? Thank you.

Scott Harlan Maw
*Executive Vice President and Chief Financial Officer*
A

Yeah, Matt, deferred revenue is up about, just give me a second here, I'm pulling it up. It's up about $500 million over year-end, which is about 50%. And as Adam said, we had total loads on the card of $1.9 billion. We haven't split that out recently and I don't have at my fingertips the split between what goes on card and what goes on digital. But I think the relevant numbers are the significant growth we're seeing in total loads and frankly that's the way we look at it. And then the total increase in deferred revenue balances, which is about $0.5 billion.

Matthew DiFrisco
*Guggenheim Securities LLC*
Q

Excellent. Thank you.

**Operator**: [Operator Instructions] Your next question comes from Andy Barish from Jefferies.

### Andrew Marc Barish
*Jefferies LLC*

Q

Hey, guys. Actually just a boring G&A question. It looked like that number reported was a little bit lower than at least I was modeling. Did you have maybe some timing shifting with some of the technology investment? Or is there some FX benefit that's actually showing up in the G&A line?

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### Scott Harlan Maw
*Executive Vice President and Chief Financial Officer*

A

No. One of the reasons that the G&A as a percentage of revenue is a little lower than you may have modeled is last year we had a fair bit of expense in G&A related to the Japan acquisition. And that was deal-related costs and just some of the integration costs and they were highest in the first quarter. So if you were modeling it as a percentage of revenue that could explain the delta you're seeing.

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**Operator**: At this time there are no further questions. Ms. Doraisamy, are there any closing remarks?

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### Durga Doraisamy
*Director of Investor Relations, Starbucks Corp.*

No, that would be all. Thank you all very much for joining us this afternoon.

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**Operator**: This concludes Starbucks Coffee Company's first quarter fiscal year 2016 earnings conference call. You may now disconnect.