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Starbucks Corp. (SBUX)

Q1 2017 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good afternoon. My name is Julie, 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 2017 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.

Mr. Shaw, you may begin your conference.

Thomas Shaw

Vice President, Investor Relations, Starbucks Corp.

Thanks, and good afternoon, everyone. This is Tom Shaw, Vice President of Investor Relations at Starbucks Corporation. Thank you for joining us today to discuss our first quarter 2017 results, which will be led by Howard Schultz, Chairman and CEO; Kevin Johnson, President and COO; and Scott Maw, CFO.

Joining us for Q&A are John Culver, Group President, Starbucks Global Retail; Cliff Burrows, Group President, Siren Retail; Matt Ryan, Global Chief Strategy Officer; Adam Brotman, EVP of Global Retail Ops; and Kris Engskov, who will discuss Global Channel Development. 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 our risk factor discussions in our filings with the SEC, including our last Annual Report and Form 10-K.

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

With that I'll turn it over to Howard Schultz. Howard?

Howard S. Schultz

Chairman & Chief Executive Officer, Starbucks Corp.

Thank you, Tom, and welcome to everyone on today's call. Before I start the call, I want to acknowledge the recent passing of Joe Buckley. Joe had followed Starbucks from the start, from our IPO days in 1992. Over the years, Joe has been on countless calls just like this one, and for that reason, I felt it was the right forum to send my personal condolences to Joe's family and his colleagues. Joe was a really good man.

I'm pleased to comment on the record financial and operating results Starbucks announced today. I'll start with a few highlights. Record revenues, record operating income, and record EPS, another quarter of strong comp growth in China, accelerating comps in Japan, record quarterly revenues, margins, and operating income from Channel Development, record Starbucks Rewards membership growth, and a record holiday, including record Starbucks new Card activations and reloads. I'm particularly pleased that we delivered these results, despite a very challenging period for restaurants and retailers overall, and despite the significant investments we continue to make in our people and in beverage, food, and technology innovation.

Today Starbucks is serving more than 90 million customer occasions through over 258,000 stores in 75 countries each week. The trust and confidence our customers have in the Starbucks brand is driving our business and fueling our flywheel in markets and channels around the world as never before. Three years ago, I brought to your attention what I anticipated would be a seismic evolving shift in consumer behavior resulting from the rapid acceleration of digital and online consumer retail purchase activity.

Today that shift is a foregone conclusion, increasingly challenging brick and mortar retailers of all descriptions and being particularly hard on retailers that are not destinations, do not reward loyalty or offer relative digital and online capabilities, or have not built deep authentic experiential connections to their customers.

I think it's important to understand that the 3% comp figure we reported reflects the continued relevance and appeal of the Starbucks experience and how Starbucks continues to outperform by significant margins anyone else of scale in the retail and restaurant sectors. The fact is, Starbucks is engaging more deeply and more frequently and expanding our base of loyal customers everywhere in the world more effectively and reliably than ever before.

We added a record 1.8 million Starbucks reward members in the U.S. year-over-year, and now have approximately 13 million active members on top of a growing 7.5 million active members in China and Asia-Pacific.

We saw nothing short of a surge in new Starbucks Card activations and reloads in Q1 to $2.1 billion, almost $300 million over last year, with over $80 million being incremental to even our most optimistic internal expectations for the quarter, and we ended the quarter with over $1.5 billion of customer loaded funds on our balance sheet, roughly 10% above last year. This $1.5 billion represents future revenues in the bank for us that are not reflected in Q1 revenues or comps, since as you know we do not recognize new Card loads and reloads until the funds are redeemed. But unlike traditional retailers whose online and digital or omni-channel activity often times comes at a price discount or cannibalizes in-store or both, further pressuring business models, Starbucks do not. Digital or online Starbucks Card loads are never cannibalistic and are very often incremental because the funds can only be redeemed at face value in a Starbucks store. We're already seeing Q1 loads being redeemed in our stores and we'll continue to see further redemptions in the quarters ahead.

We delivered record shattering Mobile Order & Pay performance metrics in Q1. Rapidly accelerating customer adoption of MOP, particularly over the last three months contributed to a growing number of stores being challenged to keep up with the increased volume demands and introduced an operational challenge that Kevin will speak to in his remarks. We are now laser focused on fixing this problem, but the nature of it, too much demand, is an operational challenge we have solved before, and I can assure you we will solve again.

Beyond these factors, we have consistently said in achieving mid-single digit comps for the full fiscal 2017, our target we repeated at our Investor Day last month. Our expectation has been that comps in the back half of the year would reflect an acceleration from the front half. This remains our expectation as recently introduced new in-store business drivers, including true one to one personalization and real time suggested selling increasingly drive incrementality and revenues, and position us to extend the trend of our newest class of new and remodeled stores, defying current retail and consumer trends, and delivering record breaking revenues, profits and returns on investment both in the U.S. and around the world.

With the benefit of these insights you can see that the momentum of our flywheel is enabling us to engage with our customers, and drive our business holistically, and more effectively, and profitably than ever before. Going forward, Starbucks values and guiding principles, the engaging third place sense of community we create, and the innovation and increasingly premiumized coffee experience we deliver will further deepen the connection among our partners, customers, and the Starbucks brand, and enable us to continue driving growth and increase profitability over both the short and long terms around the world. In our view, no brick and mortar retailer of any description is better positioned to navigate and profit from the ongoing consumer shifts under way than Starbucks.

In a few minutes, Kevin will provide details around segment operating performance in Q1 and provide further detail around the new innovations and initiatives that will drive revenues, comps, and EPS in the quarters ahead, and Scott will take you through our Q1 financial results, provide Q2 targets, and our targets for the full fiscal year, and we'll move on to Q&A.

Global leadership around all things coffee and tea remains at Starbucks' core. Our Seattle Roastery continues to deliver company leading comp growth, including 18% in Q1, on top of 24% in Q4 of 2016. Due in large part to a ticket that continues to be approximately four times the ticket of traditional Starbucks store, and serve as a learning lab for retail beverage and food innovation, and the launch pad of our ultra-premium Starbucks Reserve brand. We're on plan to open our Shanghai Roastery later this year, and our New York Roastery in 2018 and our Tokyo Roastery will be right behind.

And in Q1 we made great strides against our plans to further premiumize the coffee industry through the addition of what will ultimately be 1,000 or more coffee forward ultra-premium Starbucks Reserve stores in key global markets, with the first Reserve store opening in Chicago this summer. We're already leveraging elements of the Roastery and the new Reserve store format by integrating Reserve bars into existing Starbucks stores. The overwhelmingly positive customer response we're having to the Reserve bars already opened, and the incremental revenues and profits Reserve bars are driving, is prompting us to accelerate plans to add Reserve bars into thousands of existing Starbucks stores as part of planned renovation cycles in the quarters and years ahead. Reserve stores and Reserve bars in existing Starbucks stores will enable us to provide customers with a unique ultra-premium coffee experience and showcase the finest assortments of exclusive Starbucks Reserve micro-lot single varietal coffees, and create new coffee brewing methods through an intimate one-to-one partner customer experience that takes place as the barista crafts and explains the custom handcrafted beverage.

In addition, Reserve stores will offer customers artisanal foods specially created by our partners at Italian artisanal baker Princi, as well as craft beer, wine, and alcoholic beverages that will be incremental to our evening daypart informed by the learning from our evening's program tests. And both Reserve and traditional Starbucks stores will also offer handcrafted Teavana branded beverages and an expanded assortment of Teavana teas in order to increase customer awareness of Teavana super premium loose leaf and packaged teas.

Perhaps nowhere in the world is the power of the Starbucks brand and the size of opportunity that lies ahead for us more evident than in China, a country we first entered 18 years ago, and where our business has never been stronger or more robust. We now have over 2,600 stores in 125 cities in China, and continue to open a new store every 15 hours, a rate of new store growth that will continue for years to come. I'm more convinced than ever that Starbucks is just getting started in China, and that our Shanghai Roastery will drive both deeper and broader customer engagement and increase profitability across both our retail and CPG businesses, and it will advance Starbucks' reputation, being among the most, if not the most successful and well respected western brands in the key China market.

The Starbucks brand and business have never been stronger or more universally relevant and accepted as both are today, and our world class senior leadership team with Kevin at the helm as CEO effective in April, has never been stronger. We will continue playing the long game with strict adherence to the five-year strategic plan for growing our business we updated and outlined at our Investor Day in order to continue delivering the world-leading financial and operating performance, including mid-single digit global comps and long-term sustainable profitable growth, and that unmatched ground breaking innovation that our customers and our people expect from us.

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

Kevin R. Johnson
President, Chief Operating Officer & Director, Starbucks Corp.

Thank you, Howard, and good afternoon, everyone. I will provide an overview of business segment performance and highlight some of the key initiatives that are under way. I will then turn the call over to Scott to take us through the financials and our targets for Q2.

At our Investor Day in December, we outlined a multiyear plan to further elevate the Starbucks brand, elevate our customer experience, and ultimately amplify Starbucks as a consumer destination around the world. We also reaffirmed our strategic priorities over the next five years and provided more clarity around our ongoing investments in retail, beverage, and digital innovation, as well as in our partners. Looking ahead, we believe that our clear, long range planning, combined with ongoing innovation and a heightened commitment to excellence and execution will enable the creation of meaningful shareholder value.

Despite the challenging macro retail environment, Starbucks delivered record revenues, operating margins, and profits in Q1. Each of our business segments contributed to our overall global results, and I'd like to take a few minutes to walk you through our performance by geography and segment. Let's begin with the Americas.

Our Americas segment had a solid quarter, posting 3% comp growth with 3% comp in the U.S., and 7% revenue growth. Americas added about 250 net new stores in the quarter, and now operates almost 16,000 stores. When analyzing the 3% comp growth in the U.S., there are four major points to capture both the strength of the brand and the opportunities to further accelerate comp store growth.

First, our beverage category performance was strong. We delivered great hot and cold beverage innovation to our customers, contributing to a total beverage sales increase of 7%. Core beverage contributed one point of comp, and tea grew by nearly 10% in the U.S. and 15% globally. Iced espresso, iced coffee, and handcrafted Teavana shake and iced teas each posted strong double-digit growth. We continue to introduce new Cold Brew varietals and expand our store deployment of Nitro Cold Brew.

Second, our food sales were also strong, growing 8% year-on-year, contributing one point of comp, driven mainly by improved attach across all dayparts with continued strength in the morning. Food represents 20% of our total sales, with breakfast sandwich revenues growing 16%, bringing the two-year growth rate to 69%. Sales of premium breakfast sandwiches increased 52%.

A third point I'd like to make is the surge in Starbucks gift cards and reloads, both digitally and online. The $2.1 billion of card sales and reloads is a reflection of the strength of our brand, as well as the power of our digital flywheel, which leads to the fourth point. Digital flywheel adoption continues to grow, with almost 13 million active Starbucks Rewards members in the U.S., up 16% from the same period a year ago. Starbucks Rewards as a percentage of tender is up 4 points from a year ago to 34%, and mobile payment increased to 20% of total transactions. This is up 2 points from last quarter and represents an accelerating trend, driven by the success of Mobile Order & Pay.

Total member spend increased 21% year-on-year, driven in part by the strong early success of our recently launched personalization capabilities. Mobile Order & Pay had a banner quarter, representing more than 7% of total transactions, double the figure from Q1 last year, and we now have nearly 1200 stores with 20% or more Mobile Order & Pay transactions at peak, compared to only 13 stores one year ago. The overwhelming success of Mobile Order & Pay has increased Rewards engagement and created efficiencies at point of sale.

But as Howard mentioned, the success of Mobile Order & Pay has also created a new operational challenge that has been building in lock step with volume growth, and it's most pronounced in our highest volume stores at peak, significant congestion at the handoff plane. This congestion resulted in some number of customers who either entered the store or considered visiting a Starbucks store and then did not complete a transaction. Adam Brotman is already driving action in our top 1,000 highest volume Mobile Order & Pay stores to address this issue, including introducing new in-store procedures and tools, adding new roles and resources to specifically support Mobile Order & Pay, and the testing of new digital enhancements, including text message notifications when a mobile order is ready for pickup.

Our in-store operational approach continues to evolve as we handle larger volumes of transactions. I will point out that we have been confronted with and solved complexities like this that have been introduced by rapid volume and traffic growth many times over the past several years, and we will solve the challenges presented by Mobile Order & Pay driven traffic increases now.

I want to highlight additional plans we have in place to drive comps to mid-single digits for the full year. These actions align with the five-year strategic plan and are focused on near-term comp growth. First, product innovation. In beverage, we are building a broader beverage platform around Nitro and other Cold Brew offerings complemented by innovation around Frappuccino and Teavana iced teas.

Regarding food innovation, we introduced delicious, healthy, high-protein, Sous Vide Egg Bites this month that have been extremely well received and are driving both incremental revenue and increased attach. We are expanding production capacity to meet incremental demand for these egg bites. We're also launching the highly-anticipated gluten free breakfast sandwich soon.

As we discussed at Investor Day, we have a growth opportunity in the lunch daypart with innovation around a fresh, healthy lunch concept that will be tested in the Chicago market this summer in Starbucks stores. Digital flywheel innovation is a critical part of the plan. In addition to ongoing improvements in personalization, including increasing triggered offers based on customers' recent Rewards activity, we are also rolling out suggestive selling that will recommend items to a customer during the order process. The voice enabled ordering capability we demonstrated at Investor Day will begin deployment in the coming months.

To accelerate our progress implementing this plan, John Culver, who leads Starbucks Global Retail, made a leadership change in the U.S. with Kris Engskov, a 14-year partner, who most recently led EMEA, assuming leadership of our U.S. retail business reporting to John. Kris was an operator in the U.S. retail business prior to his assignment leading EMEA, and it's great to have him back in the U.S. retail. In addition, I've asked Howard to act as a coach to Kris as we focus on energizing and galvanizing our store managers and field leadership around the many growth initiatives rolling out now and in the quarters ahead.

Tony Matta, who currently leads our U.S. CPG business will succeed Kris leading global channel development. Tony brings 20 years of experience in the CPG industry and has done a fantastic job leading the Starbucks U.S. CPG business.

Let's move on to China Asia-Pacific. In Q1, CAP once again Starbucks fastest growing segment with revenues up 18% and comp sales up 5%. We added approximately 300 net new stores in CAP in the quarter, and now operate 6,700 stores across 15 countries. Our newest class of company operated stores in China continues the trend of outperforming even the most recent prior class, reflecting both the increasing strength of the Starbucks brand in the region and improved operating leverage. And we celebrated a milestone in Q1 by opening our 1,000th store in Korea. Korea now joins China and Japan as countries in CAP with over 1,000 Starbucks stores. We remain on plan to have roughly 11,000 locations in CAP by 2021. We opened over 160 new Starbucks stores in China in the quarter. We now operate over 2,600 stores in China and remain on plan to have over 5,000 stores by 2021.

Comps in China grew 6% in the quarter, with 4% increase in traffic. We continue to build the China digital flywheel with active members growing over 25% year-on-year and the new partnership with Tencent showing phenomenal results. WeChat Pay already represents 20% of total transactions in China and the soft launch of WeChat social gifting to 4 million Starbucks customers in China has generated overwhelming attention. Social gifting is the next frontier of our digital flywheel.

In addition, Teavana continued to perform well throughout CAP with tea revenues growing over 40% in both Japan and China following the launch of custom handcrafted Teavana beverages sold at Starbucks. The passion and commitment of our partners in CAP is enabling a great Starbucks experience that is deepening our connection with customers and driving our business throughout the region.

Let's move on to EMEA. EMEA continues to see success from the repositioning of its store portfolio, with system comps growing 3%. We opened approximately 100 net new stores in the quarter and now operate over 2,700 EMEA stores, only 18% of which are company operated. Non-equity stores are driving our performance, despite an increasingly challenging operating environment. Reported total revenues in Q1 decreased 16% year-on-year to $262 million in EMEA. However, when adjusted for the 21% impact of foreign exchange, the sale of 35 stores to franchisees and local licensees in the UK, and the transfer of 144 stores in Germany to AmRest, an existing EMEA license partner, revenue growth was 5%. We remain confident in our strategy and long-term prospects for EMEA.

On to Channel Development. Channel Development delivered record revenue, up 8% year-on- year, on top of a very strong 16% increase in Q1 a year ago. We continued our strong track record of growth as measured by total U.S. coffee consumption in Q1. Starbucks K-Cups posted sales growth of 10.3%, six times the total K-Cup category growth of only 1.7%. We are the market share leader in this category at 17.7%.

Starbucks is also the number-one premium Roast and Ground packaged coffee brand. Our Roast and Ground sales grew 6% in the quarter, compared to total packaged coffee category decline of 1.6%. This contributed a point of share, taking us to a 14% share position. As we mentioned at Investor Day, while we expect to see continued deceleration in the category and increased competition for both Roast and Ground and K-Cup, we will continue to innovative, gain share, and drive growth.

Turning to our Ready-to-Drink business. Our NACP partnership delivered excellent results with system sales, as measured by IRI, up 8%. Share of the total liquid coffee and energy segment grew to 14%, fueled by strength in bottled Frappuccino, Doubleshot energy drink and new chilled multi-serve products. We continue to expand our CPG footprint. In EMEA, Starbucks Nespresso compatible capsules have already become the number three brand in the Nespresso compatible capsule category in the UK. In China, Starbucks Frappuccino is now available for purchase at over 21,000 points of distribution, enabled by our partner, Tingyi. And in the U.S., our partner, Anheuser-Busch Inbev begins the rollout of new Teavana ready-to-drink teas in February.

In our 25 years as a public company, our aspirations have never been higher and our opportunities never greater. As we pursue our multi-year plan, we will remain true to our mission and core values and a commitment of serving others and sharing success.

In closing, I want to personally thank the more than 300,000 partners around the world who proudly wear the green apron for the work they do every single day in our stores. Ultimately, it is our partners who delivered the record results we announced today.

With that, I'll hand over the call to Scott to take you through our Q1 financials in detail. Scott?

Scott Harlan Maw

Executive Vice President and Chief Financial Officer, Starbucks Corp.

Thank you, Kevin, and good afternoon, everyone. Starbucks record first quarter fiscal 2017 results once again demonstrate strong financial and operating performance in the face of a challenging environment. We delivered solid top line and bottom line growth in the quarter, despite investing meaningfully in innovation and in our partners to support and strengthen our brand and business going forward.

Consolidated operating margin came in at 19.8% on a GAAP basis, and 20% on a non-GAAP basis. The 10 basis point improvement in operating margin over Q1 last year was driven primarily by sales leverage and favorability in commodity costs, principally coffee, that more than offset increased partner investments, largely in our Americas segment. We saw strong leverage on cost of goods sold, once again in Q1, giving us great confidence that our long-term goal of $1.4 billion in COG savings is achievable. Q1 GAAP EPS grew 11% to $0.51, which is a record when the large one time gain associated with the Starbucks Japan acquisition is excluded from our Q1 results two years ago. Q1 non-GAAP EPS grew 13% to $0.52, also a Q1 record. I'll now take you through our Q1 operating performance by segment starting with the Americas.

Our Americas segment delivered operating income of $959 million in Q1, a 3% increase over last year. Operating margin declined 110 basis points to 24%, largely due to increased store operating expenses attributable to increased U.S. store partner investments. As mentioned last quarter, we are investing an incremental $250 million globally this year in overall partner and digital investments, with the bulk occurring in partner wages and benefits in the U.S.

The full impact of our partner investments in Q1 was partially offset by increased sales leverage. As Kevin mentioned, Starbucks digital flywheel continues to gain momentum and drive our business. We are now approaching the spend and profitability for Starbucks rewards member levels we had forecast when we switched from a frequency based to a spend based loyalty model last April. We expect further improvement in these critical metrics over the course of the year. We now expect Americas operating margin to be roughly flat to 2016 levels for fiscal 2017.

Let's move on to China Asia-Pacific. CAP once again delivered the strongest top line growth of any of our operating segments 18% over last year, while delivering record quarterly GAAP operating income of $163 million, up 29% over Q1 of last year. CAP's operating margin expanded 180 basis points to 21.2%. On a non-GAAP basis, CAP's operating income increased by 27% to $177 million, and its operating margin expanded 170 basis points to 23%.

Contributing to CAP's margin expansion was the transition to a value-added tax structure in China and outstanding performance from our joint venture operations in the region, partially offset by 110 basis points of negative impact related to FX. For the full year, we continue to expect moderate operating margin expansion in

CAP, and are optimistic that we will exceed our initial operating margin plans despite the increasingly negative impact of foreign exchange. Also, CAP revenue growth adjusted for foreign exchange will remain in the mid-teens all year. Reported revenue growth in this segment will be meaningfully impacted by foreign exchange as we move through the year, with an estimated 3 full points of negative impact on revenue growth for the year.

Let's move on to EMEA. Despite continuing economic, geopolitical, retail and FX headwinds, EMEA delivered among the strongest operating margins in its history in Q1, 16.8%, up 140 basis points over last year, once again validating the correctness of our strategy to optimize our EMEA store profitability by shifting to a predominantly licensed model. As Kevin mentioned, systems sales, systems revenue, and overall profitability are running much higher in EMEA today under the largely licensed store portfolio approach when compared to the prior company owned market model. It's important to note that EMEA operating income grew by 6% after adjusting for the nearly $7 million impact of negative foreign exchange in the quarter. With such a strong start to the year, we continue to expect EMEA operating margins to reach nearly 15% for the full fiscal year.

Starbucks Channel Development segment continues to lead the premium coffee category in both Roast and Ground and on the K-Cup platform, gaining share in all U.S. categories in at-home and Ready-to-Drink, while at the same time, delivering record quarterly operating margin and profit. And despite an increasingly competitive operating environment, Channel Development's operating income reached $243 million, up 26% year-over-year, on a 620 basis point increase in operating margin to 43.9%. Margin improvement was driven primarily by favorability in coffee costs, higher income for our North American coffee partnership with Pepsi, and sales leverage on cost of goods sold, and operating expenses. For the full fiscal year 2017, we continue to expect Channel Development to post full year revenue growth in the high single-digits, though Q2 growth is likely to be at a slightly slower rate, given the timing and impact of the Easter holiday, which occurred in Q2 last year, but falls in Q3 this year, and we continue to expect Channel Development to drive strong operating margin improvement in fiscal 2017 over last year with expected very strong expansion in the first half of the year, but moderating a bit over the last two quarters.

I want to make one last point on the quarter related to capital deployment. Cash returned to shareholders increased 42% from Q1 of last year to nearly $800 million, a Q1 record.

Let's move to 2017 targets. We are reiterating the financial and operating targets we previously provided for fiscal 2017 with a slight modification to our total revenue growth goal. To achieve these targets, we are committed to remaining disciplined with our investments and laser focused on delivering an elevated experience to our customers, while at the same time, meaningfully improving our comps, revenue, and profit in the second half of 2017. This discipline will be key to delivering our top and bottom line goals. Specifically, on a 52-week basis we now expect foreign exchange adjusted revenue to grow at 8% to 10% compared to fiscal 2016. We believe broadening this range is prudent, given the 7% revenue growth we posted this holiday quarter. This includes global comp growth in the mid-single digit range, with the first half of the year lower and some improvement in the second half of the year.

We plan to add 2,100 net new stores globally, including approximately 1,000 in China Asia-Pacific, 800 in the Americas, and 300 in EMEA. On a 52-week basis, we continue to expect slight improvement in consolidated operating margin compared to fiscal 2016. This margin expansion is the strong result, given the twin pressures of foreign exchange and increased partner and digital investments.

With our coffee needs for 2017 approximately 80% price locked, we do not expect commodities to materially impact our year-over-year profit growth. Commodities, in total, will be slightly favorable in the first half of the year and slightly unfavorable in the back half. Also, given recent movement in currency exchange rates, we now expect an increased negative impact from foreign exchange for the year, with revenue growth now impacted by roughly 1 point, and earnings per share negatively impacted by 1 point to 2 points. The impact of FX will accelerate as we move into the last half of 2017. You will note that this is a meaningful increase from our last guidance relative to the impact of FX.

Given all these points, we continue to expect fiscal 2017 GAAP EPS in the range of $2.09 to $2.11, and non-GAAP EPS in the range of $2.12 to $2.14. Specifically looking at Q2 2017, we are targeting GAAP EPS in the range of $0.43 to $0.44 and non-GAAP EPS in the range of $0.44 to $0.45. All other guidance is unchanged from last quarter.

We are pleased with the record operating and financial results we announced today, particularly given that the results were delivered in conjunction with a significant increase in investments in our people and innovation. More importantly, as you heard from Kevin, we have a clear set of actions that we believe will improve comp growth and profitability as we move through the year. As always, credit for our success in Q1 belongs to Starbucks partners around the world who proudly wear the green apron and work to deliver an elevated Starbucks Experience to our customers through 90 million individual occasions every week, but who do so with heart and passion, one cup at a time.

With that, I'll turn the call back to the operator for Q&A. Operator?

QUESTION AND ANSWER SECTION

Operator: [Operator Instructions] And our first question comes from the line of John Glass from Morgan Stanley. John, your line is now open.

John Glass
Analyst, Morgan Stanley & Co. LLC
Q

Thanks very much. I wonder if I could just maybe ask two guidance related questions, Scott or Howard. First is just with the context of the lower revenue growth, can you just break out between the foreign currency and what your expectations are comps at the beginning of the year versus now? Is that evenly split or how do you break those down? And then there was discussion at the Analyst Day of growing G&A at half the rate of revenue, and I wonder if that's in play this year and how that plays out, because G&A growth was substantially more than that in the first quarter, and I know that's probably the investment timing, but just is the half of revenue rate still in play this year?

Scott Harlan Maw
Executive Vice President and Chief Financial Officer, Starbucks Corp.
A

Yeah, I'll take those in order, John. So, as far as revenue growth goes, we're really still on that double-digit track that we talked about. It's just, given the performance in the first quarter which, as you know, was 7%, both adjusted for FX and as reported. We just see the math averaging out to perhaps a little bit below that rate, depending on how we finish. But we still expect comps to accelerate in the back half of the year, which means revenue will accelerate in the back half of the year and the number I'm giving, that 8% to 10% growth rate, that excludes the impact of FX, which we think, based upon where rates are today, will be about one point negative. So, hopefully that answers that modeling question.

On G&A growth, what we talked about was G&A growth excluding the investments we had in innovation, which is primarily things around the digital flywheel and things we're doing with Siren Retail. That will grow at half the rate of G&A, or half the rate of revenue. And when you strip out one-time items, some of those investments that we're talking about, we were really close to that this quarter. So, we're still on track for G&A – core G&A growing at half the rate of revenue for the year.

Operator: Your next question comes from the line of David Palmer from RBC Capital. David, your line is now open.

David Palmer
Analyst, RBC Capital Markets LLC

Q

Thanks, good evening. You mentioned the issue with the congestion at the handoff for those mobile orders. How much of a drag do you think that represented during the quarter? And any color about the nature of the friction, where was it greatest and how quickly could you solve the issue would be helpful. Thanks.

Kevin R. Johnson
President, Chief Operating Officer & Director, Starbucks Corp.

A

Yeah, David, this is Kevin. I'll give you a little bit of more perspective on this. If you look at stores that had more than 20% of their transaction volume coming from Mobile Order & Pay at peak, this quarter we had 1,200 stores in the U.S. that fit that profile. Last quarter, it was 600 stores, so it's doubled in this last quarter. So, there's significant uptick in the usage of Mobile Order & Pay, and we've now – to the point where we doubled the number of stores that had more than 20% of their transaction volume coming in at peak. Now, what that creates is, when those orders come in at that volume, it's creating congestion at the handoff plane. And so, when a customer – a potential customer might walk in the store, it used to be they would look at the line at the point of sale, and if that line looked too long, they might decide not to do a transaction at that time and come back later. Now when customers walk into the store, we've alleviated the congestion at the point of sale line and now we have congestion at the handoff plane. So, they might look at the number of customers around the handoff plane and the number of beverages on the handoff plane, and that might create the signal to them that they are going to wait to do their transaction.

We can't specifically quantify the number. We do think that was the most significant contributing factor to our 3% comp. So, it is something that over the last five years or six years we've had to continuously solve problems of the increased scaling of transactions in our store. This is no different. And so we are focused on a set of solutions. Adam Brotman is on point for those solutions, and maybe I'll hand over to Adam to walk through the set of things that you have in motion now and kind of where you're going with the action plan. So, Adam?

Adam B. Brotman
Executive Vice President, Global Retail Operations and Partner Digital Engagement, Starbucks Corp.

A

Thanks, Kevin. David, to answer your second question, we're getting after this right now. So, as this surge occurred in MOP, Mobile Order & Pay adoption, at those 1,200 stores that Kevin just mentioned, we studied right away which of those stores developed practices and systems for alleviating that congestion, and alleviating the balk and improving the throughput and making a smoother customer experience. And so, we took those practices right away, we rolled them together and we started rolling them out this week to those 1,200 stores and they include everything from two new barista roles that help simplify and clarify exactly how to organize and connect with customers and smooth out the congestion at the handoff plane. We are redeploying, and at times surgically adding labor into those stores to accommodate those roles, but really, it's just about getting after a better deployment method for those barista roles in those stores. And we've added new station – ticket station, layout guides and other tools that make the experience easier and better for our partners, and we know these work in the stores that we've studied and we're putting that into action right now.

Operator: Your next question comes from the line of Sara Senatore from Bernstein. Sara, your line is now open.

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

Q

Thank you very much. I wanted to ask about the record Starbucks Card activations and reloads, and just ask if you could talk about what you think that means in the context of slightly softer comps this quarter. So specifically, is this sort of just a timing shift when you think about traffic, fewer people out doing holiday shopping maybe, but in the end, the traffic patterns will come back in the March quarter? Or is this something else that's going on? And, I guess, on a related note, in light of the traffic shift, how are you thinking about delivery, which is an area that so many restaurants now are talking about, focusing intently on as a way to maybe counteract what looks like just less footfall out there?

Scott Harlan Maw
Executive Vice President and Chief Financial Officer, Starbucks Corp.

A

Hey, Sara, it's Scott. I'll start and I'll ask Matt Ryan to help a bit. Look, as far as the Card loads, that record level of activity, that will come through, sitting on the balance sheet will absolutely come through as we move into January and beyond this quarter. In fact, we're already seeing that happen. I think the important thing to understand is the challenges that Kevin talked about and the opportunity we have with throughput. Adam is working on that. That solve will take a little bit of time. We'll get started on it this quarter, but my guess is, turning that around takes a bit of time. So, while all that Card load activity is going to come through, and that's going to be positive, we still have to address that throughput opportunity we have in our stores.

Matt, do you want to add?

Matthew Ryan
Global Chief Strategy Officer & Executive VP, Starbucks Corp.

A

Yeah, I think the good news in all of that is the terrific results we're seeing related to reloads in particular. That's testament to the digital flywheel working on all fronts right now, as you heard from Howard and Kevin, there is record performance, and it's coming from both the number of members we have and the acquisition activities that have taken place, as well as from spend per member, which is a function of three basic things. The transition that we successfully made to a spend-based model, which encourages higher spending; personalization, part and parcel with that and our ability to incentivize, purchases that may not have otherwise happened; as well as the impact of Mobile Order & Pay. So, we feel good about all of that. I just want to address the one last question about delivery that you also raised as well, too.

Where we see the greatest opportunity for delivery as we outlined at investment day is in China, where the cost of delivery has come in at a price point that customers are willing to pay, and we will be looking to engage and make that happen. So, you'll see more of that in months to come, as we get results from our pilots back. We're also exploring other opportunities in the U.S., but we don't have anything specific to announce at this time.

Operator: Your next question comes from the line of John Ivankoe from JPMorgan. John, your line is now open.

John William Ivankoe
Analyst, JPMorgan Securities LLC

Q

Hi. Thank you. Two questions, if I may. Firstly, listening to some of the prepared remarks, I mean, there's obviously a lot of I think rightful optimism around the $2.1 billion loaded on the Starbucks Card as a balance ending the quarter. Some of the food doing very well, specifically around the egg bites.

But I guess the one piece that maybe hasn't been fully developed yet is one to one marketing, and customized offers being made immediately to the customer. So, I guess it's on that last point, and Matt, maybe the question is for you. When do you think that begins to have an impact? Especially for the 80% of stores, presumably that don't have the capacity constraint at the handoff, in other words, driving additional spend at the stores that aren't constrained? And I have a follow-up.

Matthew Ryan
Global Chief Strategy Officer & Executive VP, Starbucks Corp.

A

Sure, thanks for the question. I think the result you saw in spend per member going up so dramatically in the past quarter and so on as a result of the first wave of personalization kicking in. Remember that it was about at the beginning of last quarter that we started personalization, not just in email, but also in the app itself, so that there were mobile offers being featured to the customer, and we saw tremendous response rates there versus what we had done previously in email, which already had been higher than what we had done without one-to-one, so that ramp was already taking place. We're optimistic that we're also layering what we call recommendations right now that is rolling out this month, and what that means is as customers are in the process of ordering we will be doing suggestive selling, so that was not in past results, but should be in this quarter, and future quarters to come. There's a long roadmap in front of us with personalization. We've only just begun that journey, and we're very, very optimistic about the contribution it's already making to the spend per member that we're seeing.

Operator: Your next question.

Matthew Ryan
Global Chief Strategy Officer & Executive VP, Starbucks Corp.

A

John, you had a follow-up? No?

Operator: Pardon me. Your next question comes from the line of Sharon Zackfia from William Blair. Sharon, your line is now open.

Sharon Zackfia
Analyst, William Blair & Co. LLC

Q

Hi, good afternoon. I guess the question is, given the success of Mobile Order & Pay, can you talk about how that's informing your new store design? And as you think about that, structurally, is there anything that you would go back and want to retrofit throughout the system, particularly in the U.S.?

Howard S. Schultz
Chairman & Chief Executive Officer, Starbucks Corp.

A

This is Howard. I'll start with that. It's interesting you asked that question, because we have many of our designers and architects in Seattle this week from the U.S. and around the world speaking about Reserve stores, Reserve bars, and the hot topic of the day, obviously, which is the unbelievable surprised success of Mobile Order & Pay and the impact it's had on the morning ritual. So, a few things.

One, in existing stores, we, as Adam said, we have discovered that managers on their own have created best practices in order to solve the problem, and are creating, in a sense, a mobile kiosk that they can move around to try and establish a handoff plane, but we're going to redesign new stores and existing remodels to reflect the fact that Mobile Order & Pay, although it's in its nascent stage, is obviously going to be a significant part of the morning business. So, I want to bring some color to it also in my own way.

When we introduced this, I don't think we had any idea that we would get the kind of response that we have gotten so fast, and as Kevin said, the ramp-up that we are now seeing has significantly affected the morning ritual, and at times, created anxiety among existing customers. And – but at the same time, this is a great problem to have, and a problem that we know how to solve. This is not rocket science. This is what we do every day, as retailers, as merchants, and we are in this thing right now, deeply trying to understand specifically what we can do on an interim basis, and what we can do over the long term.

But the Mobile Order & Pay activity and the nascent stage of personalization and one-to-one marketing bode so well for the growth and development of the company, especially in light of the macro issue of traffic. And I think as I said in my prepared remarks, there's such evidence for us that we are going to be one of the true winners, regardless of what happens with those retailers, and especially those retailers that are going to suffer significantly from the downturn of traffic, as a result of e-commerce and mobile purchasing online. But I think we're in a unique position. Obviously, it affected comps this quarter. But it's a very good problem to solve, and then when you look at the $2 billion loaded on Cards that are sitting on the balance sheet for Starbucks, I mean, is there a company – is there a retail company, a retail brand, that is in this kind of position? And I said in my remarks, if you just look at the fact that we could not book that revenue in terms of traffic and comps, it's a much different story for Q1 than what we reported.

John Winchester Culver A
Group President-Starbucks Global Retail, Starbucks Corp.

Howard, can I just add one other thing? This is John. Sharon, beyond the Mobile Order & Pay and the future design of the stores, we're looking at other areas as well for improvement, such as the cold beverage station, as we add in more cold beverages, iced tea, Nitro improvements to include infusion. We're also looking at enhanced food offering, and building out a more robust food capability within our stores. And then we continually look at and we shared with you at the investor conference the beverage innovation and the equipment innovation that we have coming on beverage, as well.

So, Mobile Order & Pay is a piece of that and the deployment of that clearly, but then also we have other things that we're working on in terms of future design of the stores. And all this is designed around the principle of creating a higher and better partner-customer connection, and building that customer service aspect at a much higher level into our stores.

Operator: And our next question comes from the line of John Ivankoe from JPMorgan. John, your line is now open.

John William Ivankoe Q
Analyst, JPMorgan Securities LLC

Thank you so much for the follow-up. I do appreciate it very much. So, the question is for you, Scott. It's a little bit of a model question. Cost of goods sold leverage in the U.S. has obviously been a pretty important piece of the model over the past couple of years, especially as labor costs have risen, and in this quarter, it looks like it was relatively flat in the Americas year-over-year. So, I just wanted to get some color on that result, and if you expect future leverage in that obviously very important line going forward, even with commodities beginning to tick up?

Scott Harlan Maw
Executive Vice President and Chief Financial Officer, Starbucks Corp.
A

Yeah, we do expect future leverage. One thing to remember, John, and I know you know this that includes COGS and occupancy, so there's a little bit of offsetting direction in those two-line items within cost of goods sold and occupancy, but we had nice leverage really across the globe and in the U.S. as well on cost of goods sold.

Operator: Your next question comes from the line of Andy Barish from Jefferies. Andy, your line is now open.

Andrew Marc Barish
Analyst, Jefferies LLC
Q

Yeah, a question for Howard, please, on Reserve. I guess, I'm wondering if it works with the core brand given the pricing, the menu pricing is going to be higher in Reserve stores. Do you think eventually that gives you some room to move the umbrella up on your core brand pricing?

Howard S. Schultz
Chairman & Chief Executive Officer, Starbucks Corp.
A

I don't think so. I think that our objective is to create a ultra-premium experience with Reserve in traditional Starbucks stores with Reserve bars, Reserve stores only, and obviously, the Roastery. But I don't think it's going to be a opportunity to raise prices in our core stores or core brand. But I think the differential between the ultra-premium experience of Reserve, we like the position that we're currently in, and our customers are responding very positively, as many people saw before the Investor Day at Brookfield Place. And I think I'm very encouraged, because outside of New York City, where we're opening stores, we're seeing a lot of traction with the number of Reserve beverages that are being sold, and the frequency of visits of customers coming back for a hand-crafted experience.

Andrew Marc Barish
Analyst, Jefferies LLC
Q

Thank you.

Operator: Your next question comes from the line of Jason West from Credit Suisse. Jason, your line is now open.

Jason West
Analyst, Credit Suisse Securities (USA) LLC
Q

Yeah, thanks. Just want to circle back on your comment, Scott, about the guidance for the year. When you said still sticking with mid-single digits, but you said below that, or I guess somewhat softer in the first half, are you saying that not mid-single digits in the first half, and then recovering to that level in the second half? Or are you saying more something a little different, if you could explain things?

Scott Harlan Maw
Executive Vice President and Chief Financial Officer, Starbucks Corp.
A

I think something a little different. I think, what we're sticking to is full year guidance of mid-single digits, and that the first half will be a bit lower than the second half. I want to try to stay away from giving comp guidance for each quarter, as you can imagine. Part of the first half is obviously impacted by the three that we just reported, but I think the thing to focus on is accelerating comps, revenue, and profitability in the back half of the year. That's really important for our guidance. And I would just add, all the things that Kevin talked about in his prepared remarks is what gives us line of sight to that, all the things around product innovation, many things that we're really just starting on the digital flywheel, and in the operational improvements, which will pick up over time and over the course of the year, and impact overall comps.

Operator: Our next question comes from the line of David Tarantino from Robert W. Baird. David, your line is now open.

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

Q

Hi, good afternoon. My question is coming back on the comps performance in the quarter, and in the holiday season, in particular. I appreciate the commentary around the bottlenecks on throughput being an issue, but, Howard, as you mentioned, the retail and restaurant environment looked very challenged in December, perhaps for a number of reasons, including the seismic shift that you've called out repeatedly. So, I was wondering if you thought that was also part of the issue. Or was it truly only related to the bottleneck? So, I guess asked differently, was there an issue in December that was more macro, that might not carry forward into the rest of the year?

Howard S. Schultz
Chairman & Chief Executive Officer, Starbucks Corp.

A

I want to be very thoughtful about how I answer this. I think clearly, if you look at the results post-Black Friday, when there were headlines across the country that this was the first time I think in the history of U.S. retail that we saw more money being spent online than in traditional bricks and mortar retail. So, that unto itself was a signal that the holiday season for the first time was going to be bifurcated in a broader way.

Having said that, we still believe that the holiday season, for us, was not significantly affected by the downturn in traffic. It was more the things that we've already discussed that are in our control, and in a sense, the self-induced issue of the success of Mobile Order & Pay. If that did not exist, I think we'd have a different story here today. And for us, as retailers, we want to be in a position where we are in control of the things that we can control, and we can't control weather, we can't control the downturn in traffic, but we can control the experience we create, the relationship we have with our customers and our partners. And if you look at the thing – you know what, the thing that I think I'm trying all the time to ask myself, and that is the ongoing reservoir of trust and relevancy of the Starbucks brand and experience, I think the primary data point is, look how many customers and how many dollars were bought with regard to reloads on existing people's accounts on phones and in gift cards. And it's a record number, especially when you look at the backdrop of the retail restaurant sector and the fact that most people had a very poor holiday. That, to me, is the primary indicator of the health of the brand, the health of the experience and the ongoing relevancy of the company and the confidence we have in what we've stated to-date.

Operator: Your next question comes from the line of Karen Holthouse from Goldman Sachs. Karen, your line is now open.

Karen Holthouse
Analyst, Goldman Sachs & Co.

Q

Hi, thanks for taking the question. So, another one on G&A and maybe approaching it a little bit differently. If you look at the trailing 12 months of G&A, we've seen sort of the year-over-year increase in that number ramp really significantly in the last really two quarters or three quarters. Carrying any version of that sort of run rate going forward, I don't know how you would get – just the math doesn't work on your operating margin guidance versus your revenue guidance. So, just trying to understand. I know there's some one-time stuff in there. Do absolute dollars of G&A come down from where we are right now? Or when does that trajectory start to bend down a little bit?

Scott Harlan Maw
Executive Vice President and Chief Financial Officer, Starbucks Corp.

A

Yeah, thanks, Karen. You'll see the G&A growth rate come down, in general, as we move to the back half of the year, but I think, the thing – it's really important that I reiterate how we've talked about G&A growth. Because of the fact that our digital investments go through G&A because we're a retailer, our digital investments, all the things around flywheel, all the things we're doing with Reserve and Roastery, a lot of that cost, particularly as we get it up and running under Cliff Burrows, those head count costs all go through G&A. We're splitting our G&A into the core G&A that we all know, in finance and HR and legal and all those costs, and we're managing that bucket to half of revenue.

The other dollars, which by the way, the total isn't that big of a piece of G&A, but it is growing much faster, well over double-digits. That's the piece that we're looking at as an investment. And so, that's why I want to bifurcate that. And if you take out the one timers in that significant investment that runs through G&A for us, we're below revenue growth rate in G&A, and I think that number will get better as we get throughout the year.

Operator: Your next question comes from the line of Jeff Bernstein from Barclays Capital. Jeff, your line is now open.

Jeff Bernstein
Analyst, Barclays Capital, Inc.

Q

Great. Thank you very much. Just maybe two questions. One, I was just wondering if you could talk about the Americas, specifically around the U.S., in terms of dayparts. I mean, it seems like when you break down the components, you were pleased with the results. And then I'm just wondering if you could break down maybe the strongest and the weakest, or maybe how you respond to the weakest. I thought I saw some article about – I know you mentioned the evening daypart, maybe that's on the softer side, perhaps, I know there were some reference to the alcohol testing pulled back, so maybe the evening is more the biggest opportunity.

And my other question was just on the MSR. I mean, I think you now said you're up to 13 million members. I'm just wondering, I think at the Analyst Day, you told us you have 75 million total customers. So, I'm just wondering how do we get that 13 million, which I think you said already grew 16% this quarter. And I'm wondering if that's where you expected it to be at this point or how we get that number to even ramp up more quickly from here?

John Winchester Culver
Group President-Starbucks Global Retail, Starbucks Corp.

A

Okay. Jeff, this is John, just real quick. The growth on the dayparts was pretty evenly distributed across all dayparts. And so we saw good growth in the morning. We saw good growth at lunch and then in the afternoon and into the early evening. And when I say good growth, each of those dayparts grew year-over-year over 5%, approximately.

When you look at the individual categories within that, which Kevin highlighted in his comments, beverage was a 7% year-over-year increase, which contributed a full point to our comp performance. We saw tea grow over 10%

across the Americas. And we had huge success as it relates to iced beverages, in general, to include tea, as well as coffee, Cold Brew, Nitro, et cetera.

Food, on a year-over-year basis grew 8%, and that contributed a full point of comp, as well. And, in particular, from a food standpoint, we saw strong growth in the morning daypart, particularly up against beverage, sandwiches, and that grew about 16%. And then the premium sandwiches that we offered as the LTOs during the holiday season grew over 52% on a year-over-year basis. So, for us, when you look at the dayparts, the daypart growth was strong, and was evenly distributed and contributed to the overall performance of the business. And Matt, do you want to take the MSR question?

Matthew Ryan
Global Chief Strategy Officer & Executive VP, Starbucks Corp.

A

Sure. Just a reminder of what we did in the quarter. We started the quarter with 12 million actives and we went to 12.9 million as we exited. And, as you can imagine, we are continuing to accelerate.

I think it's important to talk about where we were and where we are now. When we started the quarter at 12 million, we were behind where we wanted to be. And when we exited the quarter at 12.9 million, we were slightly ahead of where we wanted to be. So, we made up the gap and then some as we went through the quarter. This was a result of leaning in on two different fronts. To get to an active, you have to acquire and then you have to activate them. And we have done both in the quarter. So, we continue to lean in with acquisition, largely through our stores. And then importantly, because we know there are, as we said at Investor Day, millions of people who start the process, register but don't get all the way through to becoming active. We focused very strongly on that through digital communication, in app, and through other means with our customers. And because we're able to put those improvements to the digital flywheel in place, we were able to dramatically increase the number of actives as a result of activation.

We continue to see promise in doing more. We have a lot of things in the pipeline to address that issue, and you're going to continue to see us lean in to acquire more members. So, we feel very good that there's a lot of upside out there. As you mentioned, there are 75 million customers and we only have 13 million or so right now. So, we see that as a great way of growing our business, because we know that every single time we acquire a new member, we see a large amount of incrementality on a customer-by-customer basis. And with the new Spend Rewards program in place, it's looking better and better.

Operator: Your next question comes from the line of Matthew DiFrisco from Guggenheim. Matthew, your line is now open.

Matthew DiFrisco
Analyst, Guggenheim Securities LLC

Q

Thank you so much. I had a question, just a follow-up. So, on the redeploying of labor, I think, it was mentioned, and adding some people also and adding some new stations as far as solving the bottleneck, I was curious, is that going to be something that we should maybe be a little bit – is that another level of investment maybe on the partnership line that is incremental to the margins in Americas in the coming quarters? Or is this a benign effect on the margins and it's going to be shifting labor?

And then, just so I don't get cut off, my follow-up question was with respect to the guidance, the $0.44, $0.45, I guess, just to – you're not giving quarterly comps, but you're saying mid-single digit and they will get better in the back half. Is that then devoid of needing to do a mid-single digit in the second quarter, i.e., if you did a 2% comp you could still – the EPS is separated from that and you could still do the $0.44 to $0.45?

Scott Harlan Maw
Executive Vice President and Chief Financial Officer, Starbucks Corp.

A

I think Adam will take the first part, and I'll take the second.

Adam B. Brotman
Executive Vice President, Global Retail Operations and Partner Digital Engagement, Starbucks Corp.

A

Matthew, this is Adam. So, with regard to your first question, it is not about adding labor, per se. It's more about redeploying and aligning labor. So, it's something our stores do every day, by having these new tools in place, they can better work through the bottleneck at the handoff plane in a way that we know works. And at times, if it's necessary to add labor in a store, we do that for a number of reasons. This would just be one of them. And we always do that thoughtfully, surgically, and on an accretive basis. So, that's no different in this case, but now we have better tools and better processes to allow these, particularly these high volume Mobile Order & Pay stores to get after that quickly.

Scott Harlan Maw
Executive Vice President and Chief Financial Officer, Starbucks Corp.

A

And, Matt, what I would say on second quarter is I'd look back at the first quarter. We delivered a 3% comp and we met our guidance, and I would say over a quarter or a short period, we can continue to do that. Over the longer term, which includes the long-term guidance for this year, we need to get back up into the mid-single digits.

Matthew DiFrisco
Analyst, Guggenheim Securities LLC

Q

Thank you.

Operator: Your next question comes from the line of Charles – sorry, Andrew Charles from Cowen. Andrew, your line is now open.

Andrew Charles
Analyst, Cowen & Co. LLC

Q

No worries, happens all the time. You talked at the Investor Day about 23% less attachment in mobile orders relative to traditional orders. So, I just wanted to talk about the check lift you've seen so far suggestive selling efforts have been implemented, and if this is meeting or exceeding your expectations.

Howard S. Schultz
Chairman & Chief Executive Officer, Starbucks Corp.

A

Yeah, we are just at the beginning right now, so we don't have any numbers to report at this point in time, but we're highly encouraged by what we're seeing, because for the first time in the context of Mobile Order & Pay, we have what our baristas normally do, which is to suggest something that's relevant to the customer at that point in time. Early indications are quite positive, but it literally is weeks old so we don't have any numbers that we wanted to share at this point.

Scott Harlan Maw
Executive Vice President and Chief Financial Officer, Starbucks Corp.

A

There's definitely reason for optimism. We've talked about this before. The total check on Mobile Order & Pay transactions is basically equal to other Starbucks Rewards transactions before suggestive selling. And when Matt and I set the business case, we expected it to be significantly below, because we thought attach would be soft until we could get into this capability, so I think it portends well for as we get suggestive selling going, given the fact that the ticket is almost equal, we think there's some upside there.

Operator: Your next question comes from the line of Greg Francfort from Bank of America. Greg, your line is now open.

Gregory Paul Francfort
Equity Research Associate, Bank of America

Q

Hey, guys and Howard, I have tremendous respect for you, and I know you'd appreciated the comments. Just my question, on the food comments that you've done with the 1% component to comp, I think it's been that way for three quarters now, and it had been running maybe a year ago, closer to 2 to 3 points. Is there an opportunity to get back there, and I guess does it have to come from gaining some traction at lunch? Or can breakfast sales reaccelerate? I guess, how do you get back to a larger component from the food comp?

Kevin R. Johnson
President, Chief Operating Officer & Director, Starbucks Corp.

A

Yeah, Greg, this is Kevin. I think consistent with, sort of, what we shared at Investor Day, the big opportunity for us to accelerate the contribution of food comp to their total comp is at lunch, and we continue to perform very well on the breakfast in the morning daypart with breakfast sandwiches in our bakery case, and the opportunity we see to reaccelerate comp contribution from food is at lunch. And I mentioned, we will – you will be seeing some new food items at lunch, and a new concept around a fresh, healthy culinary experience that we're going to be able to implement in our Starbucks stores in Chicago by this summer. And that is where we see the opportunity.

Operator: And that was our last question at this time. I now turn the call back over to Mr. Shaw.

Thomas Shaw
Vice President, Investor Relations, Starbucks Corp.

All right. Thanks again, everyone for joining us today, and we look forward to speaking with you again on our second quarter earnings call, which is tentatively scheduled for Thursday, April 27. Thanks.

Howard S. Schultz
Chairman & Chief Executive Officer, Starbucks Corp.

Thank you.

Scott Harlan Maw
Executive Vice President and Chief Financial Officer, Starbucks Corp.

Thank you.

Operator: This concludes Starbucks Coffee Company's first quarter fiscal year 2017 earnings conference call. You may now disconnect.