01-Nov-2018

Starbucks Corp. (SBUX)

Q4 2018 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good afternoon. My name is Hector, and I will be your conference operator today. I would like to welcome everyone to Starbucks Coffee Company's Fourth Quarter and Fiscal Year End 2018 Conference Call. All lines have been placed on mute to prevent any background noise. After the speakers' remarks, there will be a question-and-answer session. [Operator Instructions]

I will now turn the call over to Tom Shaw, Vice President of Investor Relations. Mr. Shaw, you may begin your conference.

Tom Shaw

Vice President-Investor Relations, Starbucks Corp.

Good afternoon, everyone, and thanks for joining us today to discuss our fourth quarter and full year results for fiscal 2018. Today's discussion will be led by Kevin Johnson, President and CEO; Roz Brewer, Group President Americas and Chief Operating Officer; John Culver, Group President, International Channel Development in Global Coffee and Tea; and Scott Maw, CFO. And for Q&A, we'll be joined by Matt Ryan, Chief Marketing 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 filings 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.

GAAP results in fiscal 2018 include several items related to strategic actions including restructuring and impairment charges, transaction and integration cost, gains related to the changes in ownership of international markets and other items. These items are excluded from our non-GAAP results. Please refer to our website at investor.starbucks.com to find the reconciliation of non-GAAP financial measures referenced in today's call with their corresponding GAAP measures. This conference call is being webcast and an archive of the webcast will be available on our website as well through December 1, 2018.

I will now turn the call over to Kevin.

Kevin Johnson

President, Chief Executive Officer & Director, Starbucks Corp.

Well, thank you, Tom, and good afternoon, everyone. On today's call, I'll provide an overview of a solid Q4 performance and summarize fiscal 2018. More importantly, I want to use this opportunity to reinforce the long-term strategic priorities we discussed on our last earnings call and provide additional details on the initiatives that support our strategy. I do this with the intent of showing you how we are executing against our plan which is, in turn, driving positive results.

Following my comments, I will turn the call over to Roz Brewer to cover details of our operating initiatives and performance in the U.S., followed by John Culver, to do the same for both China and our Global Coffee Alliance with Nestlé. This will reinforce that we, as a leadership team, are executing against a clear set of initiatives that are driving positive outcomes. Scott Maw will then cover FY 2019 guidance.

On the last earnings call, I shared that we were progressing well on our search for a world class CFO to succeed Scott. Last month, I was very pleased to announce that Pat Grismer will join us on November 12 and assume the CFO responsibilities at the end of November, when Scott officially retires. Pat brings a well-rounded set of experiences to Starbucks with a decade at Disney, more than 14 years at Yum! Brands, including four as CFO, and most recently, as CFO of Hyatt Hotels. He understands consumer brands, investing in relevant consumer experiences and capital allocation for food and beverage industry at scale.

Now, I'd be remiss if I did not personally thank Scott who joins us for his last earnings call. Not only for facilitating this transition, but also for all that he has done to support me and Starbucks over the past five years.

Now let's begin with the quarterly results. The fourth quarter showed significant improvement from the third quarter in nearly every critical metric and came in ahead of our expectations on comp store sales, revenue and EPS. While we still have work to do, these results provide encouraging evidence that our plan is working. Starbucks delivered Q4 net revenue of $6.3 billion, which represented 11% year-on-year growth.

I'm pleased to highlight that we posted a 4% comp in our largest market, the U.S., which was our strongest comp in the past five quarters. China, our second largest and fastest growing market, drove double-digit growth in total transactions when combining new store growth and total comp sales with the latter improving sequentially to a plus 1% year-on-year growth.

We delivered non-GAAP EPS of $0.62 a share inclusive of a $0.02 headwind from the earlier than planned closing of the Global Coffee Alliance with Nestlé. For the fiscal year, Starbucks reached a record $24.7 billion in net revenue, up 10% over last year or up 8% adjusted for FX and streamline activities. We delivered a 2% global comp, while surpassing 29,000 stores.

Full year non-GAAP EPS grew 17% to $2.42 per share. While we ended the year on an upswing, we acknowledge 2018 has been a year of change along with some challenges as we sharpened our focus to drive growth at scale. The Starbucks brand is incredibly powerful and beloved by customers. We are a brand that stays relevant by constantly challenging the status quo, elevating the customer experience, investing in and empowering our partners, operating with discipline and adapting with agility. This is increasingly important today as consumers are interacting with brands in completely different ways and Starbucks is leading this transition both in our stores and digitally.

With an amazing brand and a large and growing addressable market, we have a clear set of strategic priorities for the future. These priorities are the foundation for the initiatives and actions you'll hear about today. As a reminder, our three strategic priorities include accelerate growth in our targeted long-term growth markets of the U.S. and China; expand the global reach of the Starbucks brand, leveraging the Global Coffee Alliance; and sharpen our focus on increasing shareholder returns. We are consistent in these priorities and have clear initiatives driving actions and results.

Before I hand the call over to John and Roz to highlight our Q4 progress against these initiatives, I want to add my perspective. Accelerating growth in our two targeted long-term growth markets of China and the U.S. acknowledges that these two markets are in very different stages of development. Our initiatives in the U.S. are focused on increasing customer visits by enhancing the in-store experience, delivering customer relevant beverage innovation and driving digital relationships. We are making progress in each of these areas and Roz will provide you examples of actions taken that led to the acceleration in comp.

When we look at the strategic priority of accelerating growth in China, our second largest and fastest growing market, a key metric is total transaction growth, which includes new store expansion as well as same store comp. We've now successfully unified Mainland China as a company operated market which has positioned us for long-term expansion.

In addition, we executed against a clear set of operating initiatives in China that delivered 3 points of sequential improvement in comp, which came in at a plus 1% for the quarter. We also announced a comprehensive China digital partnership with Alibaba, China's leading tech company. We're working closely with Alibaba to elevate the end-to-end customer experience for delivery in partnership with Ele.me.

Our second strategic priority achieved a significant milestone at the end of August when we closed on the transformative deal with Nestlé ahead of schedule. And we now have successfully transitioned to healthy business in North America, retained great talent in key leadership roles and reinforced a global growth agenda which is now being operationalized through the alliance. This sets the stage for us to expand our CPG and food service businesses globally. And John will share more details with you on these plans.

Our third strategic priority is to sharpen our focus on increasing shareholder returns. Our work over the past year to streamline the company has been focused on three areas: retail market alignment, business simplification, and establishing the Global Coffee Alliance with Nestlé. Collectively, our streamline actions are enabling us to amplify our focus and resources on core value drivers for Starbucks.

The retail market alignment actions have successfully transitioned markets in Germany, Brazil, Taiwan and Singapore and most recently we announced definitive plans to license France, Netherlands, Belgium and Luxembourg to a long-term Starbucks partner who understands how to protect and grow the Starbucks brand.

Over the past year, our streamline actions to simplify the business drove decisions to sell Tazo to Unilever, close the Teavana specialty retail stores, transition our e-commerce business to our channel partners and simplify our SKU structure. More recently, we've taken steps to simplify work in our stores by automating inventory tracking and replenishment, which is enabling us to redirect more store partner time towards serving our customers. Business simplification is creating value through a more focused and more efficient operation.

Finally, as we enter the next phase of our agenda driving growth at scale, we are transforming how our functional support organizations increase the velocity of innovation for our store partners. Innovation that is relevant to our customers, inspiring to our partners and meaningful to the business. We view this as a multiyear initiative with our primary focus on increasing the velocity of innovation that results in a more efficient operation as measured by G&A as a percent of system sales.

All of these actions to streamline the company and change the way we work have freed up capital, which supports our commitment to return $25 billion to shareholders through fiscal 2020. In fiscal 2018 alone we returned nearly $9 billion to shareholders and effective October 1, we executed an accelerated share repurchase plan utilizing the $5 billion of after-tax proceeds from the upfront Nestlé payment.

Now, I hope you share my optimism for the future of Starbucks. A clear set of strategic priorities, supported by a solid operating plan and focused execution in the quarter contributed to our strong result. With Pat Grismer joining Starbucks in mid-November, the leadership team and I look forward to hosting you at our December investor conference where we will share our assessment of the opportunity ahead and details of the initiatives that are driving business outcomes in support of our growth agenda. We look forward to seeing you in December.

And with that, I'll turn the call over to Roz. Roz?

Rosalind G. Brewer

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

Thank you, Kevin. Last quarter, I shared how the Americas is committed to improving transaction comps by focusing on three operating initiatives: enhancing the in-store experience, delivering beverage innovation, and driving digital relationships. Today, I'll provide an update on the key initiatives we're driving in each of these areas, as well as a glimpse of what's to come in fiscal year 2019. I'll start first with a closer look at our Q4 results.

The Americas grew revenue 8% to $4.3 billion, generating $940 million in non-GAAP operating income and delivering a 4% comp growth. We also continue to see strong new store contributions with new non-comp stores accounting for 4 points of revenue growth. Beverage contributed 3 points of the 4 points of comp growth, the strongest performance of fiscal year 2018, and given it's our highest margin category, we're encouraged by this shift in comp growth.

We continue to grow transactions at peak and we showed modest improvement in the afternoon daypart. This resulted in improved one-year and two-year transaction comp in the quarter. At the same time, we continue to balance community and our commitment to the third place while serving the growing demand for convenience. Last quarter, our stores with drive-thru well outperformed our café comp. And from a U.S. portfolio strategy, more than 80% of our new stores in FY 2018 were drive-thru and this format will be a continued focus into FY 2019.

Additionally, drive-thru, out-the-window and Mobile Order and Pay combined grew to more than 50% of the way customers are ordering, up more than 10 percentage points in just two years. And although we don't often report on our U.S. licensed store performance, it's worth noting that revenue and operating income grew at double digits in the quarter, the strongest performance we've seen in nearly three years.

Finally, Americas' non-GAAP operating margin of 22.1% was down 90 basis points from last year, primarily due to the continued impact of investments in our store partners in the U.S. including tax related wage and benefit investments and food and beverage related sales mix shifts. Stronger comp in the quarter drove improved sales leverage and bodes well for margin as we move into 2019. Taken as a whole, we made notable progress in Q4. Yet we realize there's still much work ahead, particularly as it relates to reversing our negative transaction trend. As we move into fiscal 2019, we are leveraging our positive momentum while staying focused on the same priorities and continuing to accelerate with excellence.

Now, I'd like to talk a little bit about our progress that we're making around our number one priority, enhancing the in-store experience. And this seems especially timely as we head into the holiday season. Last month marked my one-year anniversary with Starbucks, but I fell in love with Starbucks way before I ever joined the company. And I fell in love for the same reason millions of customers do again and again every day. And that's because we've always been about so much more than just great coffee. We build brand love and loyalty through the human connection between partners and customers. This makes us who we are and this connection has always been at the heart of the Starbucks experience.

But we haven't always made it easy for our partners to focus on their customers and truly lead in the moment. Complex tasks and unclear expectations often get in the way. This is the key reason we continue to focus on driving in-store improvements and tangible changes that put our customers first.

In Q3, we announced an ambitious target to cut up to 50% of current in-store administrative tasks by the end of fiscal year 2019 with the expectation this could initially unlock up to two to three hours daily for partners to focus on customer connections. We made solid progress against this goal in Q4, redeploying up to one-and-a-half hours per day of noncustomer-facing tasks to customer-facing activity, depending on the store.

I'll give you a few examples. We initiated automated inventory in 32 stores for all food products. We assigned a team to address dense urban market performance. New York Metro is the initial target. And lastly, we rolled out training to build leadership to facilitate creating best moments in our cafés. And we're starting to see this work pay off. Our customer connection scores, which includes ratings on cleanliness and speed of service, in Q4 showed improvement across all dayparts and regions with September ending at an all-time high. Moreover, we're confident these activities will continue to pivot the momentum in the stores to grow transactions with all our customers, including the infrequent customer.

Next is our work in beverage innovation. This quarter's strong beverage performance was driven by innovation in key platforms, which includes Cold Brew and Refreshers. We also ramped installations of our successful Nitro offering adding nearly 700 stores in fourth quarter alone to reach 2,800 stores at year-end. This is a bullish sign for the future growth as these beverages combined with our core espresso platform represent our coffee forward heritage more than other more indulging categories. We are seeing customers adopt cold beverages across all dayparts and seasons, with sales growth after 2:00 P.M. improving for the quarter versus Q3.

Our third priority is digital and in Q4 we continued to advance our goal of acquiring digital relationships that will allow us to further build customer engagement in the future. For the quarter, active SR members grew to 15.3 million, up 15% versus last year and the strongest growth rate in seven quarters. These customers continue to drive nearly 40% of tender in the U.S. with Mobile Order and Pay representing 14% of transactions.

Additionally, we grew the number of digitally registered customers from 6 million at the end of Q3 to 10 million at the end of Q4. Currently, we're engaging with these customers directly via e-mail with offers like Happy Hour. But as we get to know who they are and what they want, we'll tailor specific offers with the goal of converting them to our SR program.

We also continue to look for ways to extend the Starbucks digital experience outside our stores as well. We started testing delivery in Miami this summer and the results are promising. It's a potentially exciting opportunity for us and I look forward to sharing more about our efforts in this area at Investor Day.

Kevin mentioned the work we're doing to reduce G&A as a percentage of system sales. We have taken this opportunity to increase our focus, which is enabling greater speed and agility by reframing our marketing and technology teams. An initial outcome is a combination of our consumer insights, partner analytics and marketing analytics functions into a new center of excellence.

As we elevate our ability to understand customers and drive that understanding through all of our customer-facing functions, we see significant benefits in combining these groups. The opportunity to unleash and democratize information across the entire enterprise, to ensure our customer is at the center of our day-to-day decision-making is powerful. And by having a smaller team and an easily accessible single source of the truth, we are enabling faster decision-making and delivering more relevant products and improved experiences.

Lastly, I'll share an update on holiday. Our customers tell us they love the holidays and Starbucks holiday cups are a cue that the season is upon us. Last year our stores didn't sufficiently reflect the festive environment our customers know and love and have come to expect from us. We leaned into that feedback and starting tomorrow, we'll unveil our full holiday assortment more than a week earlier than last year with the support of a more robust media plan. Our baristas will proudly wear their red aprons, stores will be adorned with holiday decorations and bright pops of red and green trim, and customers can begin shopping our collection of curated giftable merchandise, our whole bean coffee and Starbucks gift cards.

As we head into FY 2019, we're looking forward to sharing more on our work around our innovation in beverages, convenience and store efficiency at Investor Day next month.

I'll now turn it over to John.

John Culver

Group President-Starbucks Global Retail, Starbucks Corp.

Thanks, Roz. Let me first start with some broader points on the China and Asia-Pacific region. CAP revenues grew 41% during the fourth quarter and 38% for the fiscal year. Excluding streamline activities and foreign exchange, revenues grew 12% in the quarter and for the year. Comps for the region improved to 1% for the quarter, led by a 3 point sequential improvement in China, which also delivered 1% for the quarter. Total transaction growth across China showed strong double-digit increases.

Equally impressive was Japan, which generated a solid 3% comp, which represents the best performance for that market in the past seven quarters. And Korea, our fifth largest global market, delivered a strong 10% system comp.

CAP's non-GAAP operating margin in Q4 represented the highest margin across retail for the company at 24.3% and when adjusting for ownership changes, it expanded 230 basis points over the prior year. Overall, for the year, CAP contributed an impressive 53% of our total revenue growth for the company.

Now taking a deeper look at China, we were very pleased with our performance as we executed and delivered against the Q4 initiatives we outlined in July. At our China investor conference in May, we shared with you our purpose-driven growth agenda, which outlined our areas of focus and the key operating initiatives we are executing against.

Let me comment on several of these initiatives as it relates to our performance and what we were able to deliver in the quarter. And let's begin with our stores.

In China, we exceeded our plan and opened 585 net new stores and entered 17 new cities during the fiscal year. For the quarter, we opened 139 stores and entered five new cities, expanding our presence to over 3,500 stores across 148 cities on the mainland.

More importantly is the fact that our new stores continue to achieve best-in-class profitability and returns and our new designs continue to elevate our brand and further define our leadership position in the market.

From a product innovation standpoint, the initiatives we introduced in the quarter were key contributors to regaining positive comp momentum. The actions were strategic, well planned out and aligned with the mind-set we have of investing in innovation and playing the long game in China. A few of the highlights were: our innovative and unique Coffee Meets Ice Cream platform which has been scaled to over 1,000 stores covering almost one-third of our store portfolio. This new category has proven to resonate with our customers and the adoption and repeat rate remains high.

We also continue to be encouraged by the opportunity we see for food. In the quarter, we had strong performance through our up-level bakery lineup and the investments we continue to make. And finally, the mid-autumn festival is an important holiday to our Chinese customers and their families. Our unique moon cake offering has become a tradition for many Starbucks customers. This year, we achieved high double-digit growth in both volume and in revenues.

Turning to digital. In August, we announced our new strategic new retail partnership with Alibaba Group. This partnership is not just about delivery. In fact, this is a comprehensive partnership that spans across their entire ecosystem including, Ele.me, Hema, Tmall, Taobao and Alipay to co-create an entirely new digital experience for our customers. This partnership will be the rocket fuel for our holistic digital flywheel strategy in China. Now, we're nearly a month into the rollout of our delivery program with Alibaba through its Ele.me platform.

Delivery has also been expanded to all our Starbucks stores in Beijing and Shanghai, and 11 cities in China. We've also piloted two unique stores, our Star Kitchens, which are located within Hema supermarkets in Shanghai and Hangzhou. Initial indications are our personalized Starbucks Delivers program is being positively received by our customers. The team in China is working at an unprecedented pace to bring Starbucks Delivers to more than 2,000 stores across 30 cities by the end of this calendar year.

And finally, as we look to optimize efficiencies to drive our business growth for the long term, I'm pleased to report that we have made tremendous progress on unifying Mainland China and integrating the East China business, all while continuing to deliver strong results for the year in the East China region. We have kept our new store opening momentum in the region. And similar to what we're seeing across the mainland, these new stores continue to deliver best-in-class performance and returns. In addition, we've identified and set the foundation in place to capitalize on the great synergies we can achieve on labor, G&A and supply chain, most of which we will begin to realize in fiscal 2019.

Finally, let me cover channel development and our Global Coffee Alliance with Nestlé. Revenues grew 4% for the quarter and 7% for the year, excluding streamline initiatives, which is in line with our prior business trend and continues to outpace the category. This includes continued share gains within total coffee, with Starbucks up 60 basis points to 15.9% for the quarter.

Non-GAAP operating margin was 42.7% in the quarter, a very solid result, even with the 150 basis point adverse impact of the Nestlé transition and other streamline initiatives.

Regarding the Global Coffee Alliance, we have now transitioned over 500 Starbucks partners to Nestlé in North America and Europe. This alliance leverages the unique capabilities of both companies, and we're focused on accelerating growth across three key areas: first, making Starbucks branded capsules available on the leading single serve platforms of both Nespresso and Dolce Gusto, second, expanding and growing our leadership position in North America, and lastly, rolling out and expanding in our international markets.

Now, given the final details of the closing, we now expect this deal will become accretive in fiscal 2020 which is ahead of our prior guidance of three years or sooner.

In closing, I look forward to sharing more on our plans and progress for both China and with the Global Coffee Alliance when we're together next month in New York.

And thank you, and with that, I'll turn it over to Scott.

Scott Maw

Executive Vice President & Chief Financial Officer, Starbucks Corp.

Thank you, John, and good afternoon, everyone. Kevin, Roz and John have discussed in detail Starbucks' strong performance across our business and around the world in Q4 and the meaningful improvement in virtually every critical operating metric we saw compared to Q3. On today's call, I will briefly cover Starbucks consolidated Q4 and fiscal 2018 margin performance and then turn to fiscal 2019 targets.

In fiscal year 2018, consolidated revenue growth came solidly within our long-term guidance after adjusting for FX and streamline related activities, and consolidated comp growth of 2% was just a bit below our long term range.

Consolidated non-GAAP operating margin was 18.1% for the fourth quarter and 18% for the full year, declines of 190 basis points and 170 basis points, respectively, relative to the prior year.

The primary drivers for these declines were partner and digital investments including the incremental expense resulting from investments we made following the tax law change as well as products mix shift largely in the Americas. Additionally, our Q4 performance also reflects an unfavorable impact of 40 basis points related to the Nestlé transaction.

With the Global Coffee Alliance with Nestlé now in place, we have redefined and realigned the financial results of our reportable operating segments to better align with how we run the business. These changes only had a nominal impact on segment performance in Q4 with the exception of EMEA where the shift in EMEA's Food Service business to Channel Development resulted in declines in operating income and operating margin. Our historical consolidated and segment level financial statements have been recast to conform to the new alignment and can be accessed on our IR website.

Let's shift to 2019 guidance. In FY 2019 you will begin to see some of the benefits from the significant actions taken in FY 2018 to position Starbucks for the future. We are confident that the momentum we saw in Q4 and what we believe to be a very strong beverage, food and merchandise lineup for the upcoming holiday season will enable us to deliver a great start to the fiscal year.

For fiscal year 2019, we expect global comp growth near the lower end of our current 3% to 5% guidance range. We expect to add approximately 2,100 net new Starbucks stores globally in fiscal 2019, down slightly from the nearly 2,300 net new stores added in 2018, and to end fiscal 2019 with over 31,000 stores.

China/Asia Pacific will drive approximately half of our global new store growth in fiscal 2019, adding 1,100 net new stores including nearly 600 in China.

We expect to add over 600 net new stores in the Americas, a 4% increase, with the U.S. at plus 3% net of the accelerated U.S. store closures we discussed last quarter. And EMEA is targeting approximately 400 net new stores, virtually all licensed.

We are expecting another strong year of revenue growth in 2019 with consolidated revenue increasing 5% to 7% in fiscal 2019 including approximately 2 points of headwind from streamline-related activities.

Let me take a moment to talk specifically about the financial impacts of the Global Coffee Alliance with Nestlé. As you may recall, we initially expected revenue and EPS growth to both be impacted in 2019 by 2 points to 3 points. We now see the impact on revenue growth at the lower end of that range and EPS growth impacted by 1 percentage point to 2 percentage points.

We also stated that the deal would be accretive by 2021 as the domestic and international businesses gain momentum starting in the latter part of 2019. But as John stated, we now see accretion in 2020. So 2019 will come in ahead of our original guidance on the Nestlé transaction on three key financial metrics: revenue, EPS and speed to accretion, further highlighting the strategic rationale and growth prospects of the Global Coffee Alliance. I would also add that shifting our CPG and Food Service businesses to a royalty model will impact operating income and operating margin. Specifically consolidated operating margin will be negatively impacted by about 100 basis points in 2019. Finally, the buyback impact related to the Global Coffee Alliance is significant as I will describe in a moment.

Fiscal 2019 consolidated non-GAAP operating margin is expected to be down moderately from 2018 with first half pressure expected from the tax reform investments that were made in the back half of 2018 and at the impact of the Global Coffee Alliance before returning to more consistent year-over-year levels in the second half of the year. Of note, we expect slight consolidated non-GAAP operating margin growth, excluding the impact of the Nestlé transaction. The work we are doing to drive G&A savings will accelerate over the course of the year helping margin over time.

Let me add two additional points to the operating margin equation for fiscal year 2019. First, commodities are expected to have minimal impact on year-over-year COGS as some favorability in coffee prices is offset by higher dairy and fuel. Our overall coffee needs are roughly 90% price locked at this point for fiscal 2019. More broadly, we expect continued progress on our cost of goods sold savings targets that we outlined at our last Investor Day.

Second, a few comments on G&A. Last quarter, we outlined the three-year opportunity to remove around 100 basis points of G&A from our base of around $35 billion in system sales. We are on target to deliver what we said we would do. Excluding our planned 2019 U.S. leadership conference, which will meaningfully impact Q4 2019 G&A, we expect to reach about 35 basis points of run rate savings in G&A as a percentage of system sales through 2019. This puts us well on the path towards our three-year target. Kevin and the team will provide you a more detailed update on that front at our upcoming Investor Day.

From a segment standpoint for fiscal 2019, we expect Americas' non-GAAP operating margin to be down slightly from the prior year due to the significant tax reform related partner and digital investments we made starting in Q3 2018, which we will lap in the back half of fiscal year 2019.

CAP non-GAAP operating margin should be roughly flat to 2018 levels as strong operating leverage in China and Japan is offset by the impact of the ownership change in East China. EMEA non-GAAP operating margin should improve over the course of 2019 as the benefits of the shift towards licensed stores and G&A savings ramps up over time. We expect Channel Development non-GAAP operating margin to be in the high 30% range, down from just over 42% in 2018 all driven by the impact of the Nestlé licensing transaction.

Below the operating income line, we expect lower interest income and other particularly in the first quarter given the significant unredeemed gift card balance benefit in the prior year and due to new revenue recognition accounting for unredeemed gift cards. We will adopt this new accounting prospectively starting in the first quarter of fiscal 2019, which will move this benefit to the revenue line. Higher interest expense in fiscal 2019 will reflect the additional leverage on the balance sheet, including the most recent $3 billion debt offering in August.

Regarding share count, Kevin highlighted that the proceeds of the Nestlé transaction have been used to execute accelerated share repurchases effective October 1, 2018. The initial delivery of shares represented approximately 80% of the total that will be repurchased under the ASR with the balance of the ASR and other repurchases happening in the second half of the year. We expect our non-GAAP effective tax rate for 2019 be flat to down slightly compared to 2018.

Capital expenditures in fiscal 2019 are expected to total approximately $2 billion roughly flat to 2018 levels. Nearly 80% of 2019 CapEx will be allocated to Starbucks retail portfolio, new stores, renovations for existing locations, and strategic store related initiatives. This compared to 70% in 2018.

We expect non-GAAP EPS to grow 8% to 10% in fiscal 2019 to $2.61 to $2.66 per share. This includes our updated expectation that the Global Coffee Alliance transaction will lower 2019 non-GAAP EPS growth by 1 point to 2 points. Non-GAAP EPS growth in the first half of the year is expected to be below the full fiscal 2019 average due primarily to partner investments funded by tax reform savings and the additional benefits of share repurchases.

Full year non-GAAP EPS growth is slightly below our long-term guidance due to the impact of the Nestlé transaction and tax related investments. G&A savings will start to build and deliver sustainable benefits later in 2019 and beyond. Additionally, non-GAAP EPS for Q1 is expected to be flat to down slightly related to Q1 2018 primarily due to the impact of the true-up of our liability for unredeemed gift cards in the prior year as well as dilution from the Global Coffee Alliance.

In closing, I would like to again thank all of you for your support over my past five years as CFO. And I would again like to thank Kevin and the many Starbucks partners with whom I've had the honor and privilege to collaborate during my seven years at Starbucks. And finally, I would like to express my sincere gratitude to our store partners who proudly wear the green apron and deliver an elevated Starbucks experience to our customers all around the world every day. I know that the best days for Starbucks are still ahead because of your unwavering commitment to serving our customers with passion and dedication, one cup at a time.

With that, I'll turn the call back to the operator. Operator?

QUESTION AND ANSWER SECTION

Operator: Thank you. [Operator Instructions] Our first question comes from the line of John Ivankoe with JPMorgan. Please proceed with your question.

John William Ivankoe
Analyst, JPMorgan Securities LLC

Q

Hi. Great. Thank you very much. First a clarification and then a question, first on the clarification, does the earnings guidance include the amortization from the Nestlé gain? The $7.15 billion is the first clarification. Then secondly, on the question, I do know that there's obviously a target to reduce G&A 100 basis points as a percentage of system sales. At this point are you willing to commit to that being a net number? Or might there still be some investments that you decide to put against that number as we move throughout 2020 and 2021? Thank you.

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

A

Take the first...

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

A

Hey, John, thanks for the question. On the first part, yes, it is inclusive of the amortization of the revenue and as far as the 35 basis points this year and the 100 basis points over three years that is a net number. So there will be investments that happen within that, but that's a net number you'll see come out of the P&L.

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

A

Did you clarify the...

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

A

Amortization, it's in there. Yeah.

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

A

Yeah. Okay. Got it.

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

Jeffrey A. Bernstein
Analyst, Barclays Capital, Inc.

Q

Great. Thanks very much. Just two-part question on the U.S. comp, I'm just wondering if you can provide any color in terms of the sequential trends you saw through the fourth quarter, maybe what you think was the biggest driver of the uptick. Made it sound as if you have leveraging at positive momentum into this year, so wasn't sure if you'd provide any color in terms of that sequential trend and whether it continued into October. And then, Roz, if you could just provide any color in terms of the PM traffic trends. I think you said modest improvement versus 3Q. Wasn't sure if you would call that a noticeable change in trend that you expect to continue. Or is there any particular drivers that might have led the PM to get better sequentially? Thank you.

Rosalind G. Brewer
Group President, Chief Operating Officer & Director, Starbucks Corp.
A

Yeah.

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

Yeah, I'll let Roz answer the question on U.S. comp thing. I'll just mention though, too, you asked about October and I think Scott and I had said on the last call, we don't think it's helpful to be doing intra-quarter discussions. So, we'll stay away from that question. But Ros can shed some light on the Q4 performance on comp.

Rosalind G. Brewer
Group President, Chief Operating Officer & Director, Starbucks Corp.
A

Yes so, let's – Jeff, let me see if I can break that down for you. So first of all, we did grow revenue 8% in the quarter. We continue to see strong growth in our new store contribution with new and non-comp stores accounting for about 4 points of revenue growth. Really highlighted in there from the beverage innovation that I alluded to, beverage contributed about 3 points of the 4 points of the comp growth with the strongest performance throughout the year hitting in the fourth quarter. A lot of that is based on the performance we're seeing in our cold platform and that cold platform is our Nitro, our Refreshers, in addition to Cold Brew and then Cold Foam. And so we're seeing it come through in our cold beverages.

And then the question that you had around the afternoons, if we're seeing some improvement there, I will tell you that when we removed some of the tasks that are happening in the stores to get the stores more efficient, we freed up time for the partners to interact with customers throughout that afternoon daypart, moving some of that, the routine tasks to closing freed up time for them to interact. And so we're seeing some nice movement between our customer connection stores and we know ultimately that relates to increased frequency and traffic. So we're encouraged by those things. You'll continue to hear us talk about beverage innovation because that's where we see our greatest push from transaction growth.

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

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

Hi. Good afternoon. Similar question on the China trends. The China trends have been quite volatile the last couple quarters and I wonder if you could just elaborate on the factors you think drove the improvement this past quarter and how sustainable that trend might be because I know you mentioned some successful product introductions and those might be temporary. But could you just talk about the sustainability of what you've done in China and how you'd like us to think about the year for fiscal 2019?

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

Yeah, David, I think that overall, first off, we're very pleased with the growth we saw in China in the quarter and for the year. So when you look at it in total, revenue growth across China grew 19% ex any of the equity or FX variables. And for the year, revenues grew 21%. So very strong growth across the market.

The majority of the growth, as we've shared previously, is being driven by the new stores and non-comp stores. So we continue to double down and accelerate growth on new stores. And we opened 585 stores last year, a total of 139 in the quarter and we opened five new cities.

We also as part of that then look at total transaction growth across the market, and as I shared, we saw total transactions grow in the double-digit range for the quarter, which indicates the fact that we continue to attract the existing customers frequency into the stores as well as new customers into the stores as we open stores.

Then you couple all that with the work that we did around product and around innovation and I talked a little bit about Coffee Meets Ice Cream, the roll-out that we've seen there, that had a – contributed about 2 points of comp contribution to us. We also saw a strong uptick on Cold Foam and then also food. Food we saw strong uptick as well given the investments that we're making across bakery and some of the other holiday food items.

Now all the performance that you saw in the quarter put aside the delivery opportunity that we have with Alibaba. As we shared, we announced the deal in August. We were just getting it rolled out in the month of September and so there is really no meaningful impact with delivery on the quarter. So we feel that the momentum that we have coming through the quarter and seeing the sequential improvement in comp, we will continue to see gains in comp as we work through the year. It will moderate in the first half of the year and it will accelerate in the back half of the year as we get delivery fully rolled out and as we continue to build out the new stores as well as continue to drive digital engagements with our customers.

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

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

Thank you. I have a question about margins if I may. So the Americas margins are down and I guess I was a little surprised because while I know you had guided to that last quarter, it seems like the comp you had was very strong, maybe as good or better as what you expected in the beginning of the year and it was entirely ticket driven. So I'm just trying to understand given that beverage mix was better, you had a ticket driven comp, why the margin? And I guess related to that with China, should we expect you to be reinvesting some of the cost savings that you've talked about in like product and partners or would we expect to see some of that flow through?

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

Hey, Sara. Thanks for the question. It's Scott. So margin came in about where we would expect it with the comp growth that we had. We did see, if you take out the partner and digital investments that we did in the back half of the year from the tax savings, we did see the best margin performance that we'd had all year for any quarter. So if you back those out, margin was down just slightly and as you know, we've seen – and I'm talking about in Americas, we've seen the Americas margin down quite significantly particularly in the first half of the year before those investments. But as we came through the fourth quarter and you remove those incremental tax related partner and digital investments, margin performance was actually the strongest for the year. And maybe I'll have John handle the second part of the question.

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

A

Yeah, Sara, on the margins, as it relates to China and the investments we're making. So we continue to make investments in our business in China as we continue to build on the foundation for growth, whether that is in IT, whether that is in supply chain, and more importantly around our partnership with Alibaba and the investments we need to make there. And then you couple that with the investments that we continue to make in our partner base and making sure that we continue to elevate Starbucks as an employer of choice in the market.

All those puts and takes within China lead us to a CAP margin that Scott guided to which would be roughly flat on a year-over-year basis. So we're able to absorb all those investments within the total CAP business and keep margin relatively stable on a year-over-year basis.

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

John Glass
Analyst, Morgan Stanley & Co. LLC

Q

Thanks very much. I wanted to delve, Roz, maybe a little bit more into the check growth you saw this quarter. It sounds like it was beverage. So one, what was that? Was that trade-up to these cold platforms, for example, that you were experiencing? Two, I think in the past you've talked a little bit about your spend for My Starbucks Reward members have driven checkup. And so was that a phenomenon here as you sort of individualize offers and you're getting people to trade up more often? And how do you think I guess maybe longer term about it; right, traffic was down. Check was up a lot. You probably want it more balanced. Is your plan in 2019 to drive traffic maybe with lower check? Or how do you think about how 2019 plays out for check versus traffic?

Rosalind G. Brewer
Group President, Chief Operating Officer & Director, Starbucks Corp.

A

Yeah, I'm actually going to start with your 2019 question around do we plan to drive with price in 2019? And actually, we have loaded in the plan just like we did in fiscal year 2018 about 1 point to 2 points of price. So we're going to stay pretty stable. We address that throughout the year – no particular beverage or food item or geography. We just balance it throughout the year. So no change there.

When we think about what's happening in terms of what got our movement in fiscal year 2018, it's a little bit of movement on what we're getting from our Starbucks Rewards members, and then it is the combination of looking at our Blended business and just supplementing that with the new cold platform.

So it's an and equation for our Beverage business. We're seeing nice food attached on our ticket as well, and as you know, our Breakfast business tends to do well for us, our hot sandwiches. Sous vide egg bites are growing nicely for us, and then the premiumization of frappuccino actually helped us as we transitioned to that in the second half of the year.

So it's a combination of things. It gets back to our strategic points of focusing on beverage innovation, continuing to drive our digital relationship with our customers, our Starbucks Rewards customers, and then just running the business through maintaining price at the 1 point to 2 points throughout the year.

Operator: Our next question comes from the line of Matthew DiFrisco with Guggenheim Securities. Please proceed with your question.

Matthew DiFrisco
Analyst, Guggenheim Securities LLC

Q

Thank you. This is a question for Matt Ryan. Could you just speak to I guess as you've done in the past the My Starbucks Rewards membership, how those guys performed as far as a comp or their growth year-over-year, their spend? Can we get some color on that this quarter? And also some of the – maybe some other details on what you're seeing on the reloads and the potential for that to accelerate?

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

A

Sure. Thanks for the question. I think the big headline was that we saw tremendous growth in the membership this quarter, and it's typically a quarter in the year when we don't see that. We tend to see – because of seasonality see a reduction. So up 15% year on year at the end of the year to 15.3 million members, and we had a few things contribute to that.

One is these digital relationships we've been talking about. We've begun to see conversion of those members into Starbucks Rewards members which is tremendously helpful. We've removed some of the friction in the funnel as well too, getting people into the program more easily, and just focusing on membership.

We continue to see year on year growth in spend per member. That is in the single digit range, again, and we're very optimistic about that because that shows that our members are in fact engaging, even the ones we've had for a long time. So we're very, very pleased with growth there and are looking forward to expanding the program and leveraging more of those digital relationships we have during the course of the next year.

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

Andrew Charles
Analyst, Cowen & Co.

Q

Great. Thanks. Kevin, does 4Q's improved performance give you increased confidence in the long-term targets around 3% to 5% same store sales and 12% plus EPS growth? Or I want to patch early priorities to be taking a deeper look at these targets given initial 2019 guidance is at the low end or below these levels. And then Roz, if I could sneak one in there, can you talk about the performance of PSL in the quarter? This has been one – I remember historically, it's out-comped itself every year that you've been running it and the contribution that had to the 3% beverage comp. Thanks.

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

A

Yeah, thanks, Andrew. I'll take your first question; then I'll hand off to Roz. Keep in mind that our FY 2019 revenue guide when adjusted for approximately 2 points of negative impact from the Global Coffee Alliance transition puts us clearly in our 7% to 9% top line revenue long-term growth range. Same when you look at non-GAAP EPS. When you adjust it for year one of the Nestlé deal and the incremental investment from tax reform dollars we made in wage and digital that Scott mentioned before, puts our EPS at the lower end of that long-term guidance range. So I think clearly, FY 2019 is a transitional year, primarily driven by the Global Coffee Alliance with Nestlé. But that Global Coffee Alliance with Nestlé is part of our long-term growth and value creation agenda.

And if I look at what we've done around the streamline activities over the last year, plus the Global Coffee Alliance, this positions the company to really focus on growth; not just growth at top line, but growth of operating income. And FY 2019 is that transitional year that positions us for that going into 2020 and beyond. Roz, you want to take the other question?

Rosalind G. Brewer
Group President, Chief Operating Officer & Director, Starbucks Corp.

A

So the question on PSL. So we saw a nice sharp turn on PSL coming out of the season. We did something different with PSL this season. We really hit social media with it this time. As we've been talking about really getting behind the marketing of the brand and the marketing of the product and focusing on what our customers expect of us, PSL was one of those tried and true. So it came out of the gate strong and fast, signaled the quarter, the fall season so we were pleased. And it did a nice job for us through the quarter.

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

Karen Holthouse
Analyst, Goldman Sachs & Co. LLC

Q

Hi. Another question on the digital side. So where you have established those kind of expanded digital relationships outside of the rewards program, it's great to hear that you are seeing conversion into the rewards program. But are you seeing incrementality in those relationships with the sort of more standardized, not as personalized offers? Or is that still an evolution to come?

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

A

Yeah, Matt Ryan will take the question. Thanks, Karen.

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

A

Thanks, Karen. I would just say that our journey with these customers has just begun. While we have as – brought in a tremendous number, millions and millions of new digital relationships, we've only now just begun to use those relationships. Some of it is in programs like Happy Hour, where we're using those relationships to bring people in across the year, and we're seeing that perform better year on year than the past way of treating Happy Hour, both in terms of revenue and profitability. But more important, we have to think of it as the top of the funnel; an enabler of the relationships that we can create that lead people eventually into the Starbucks rewards program. So we expect to see that continue to contribute to incrementality but over time. It's not something that we would hang our hat on just yet. We're moving in that direction.

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

Dennis Geiger
Analyst, UBS Securities LLC

Q

Great. Thanks for the question, and Scott, thanks for all your help over the years and then best of luck, of course. Matt, I'm sorry but just one more follow-up on the digital engagement side of things. I guess just based on what you've seen thus far, 10 million members, a great number. Does that give you – does what you've seen so far from those 10 million digital engagement members, does that give you any greater confidence in that 1% to 2% comp contribution for next year? Is that still the target? And again, do you feel any better about that given you're already at 10 million members? Thanks.

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

A

Yeah, again, I think that we have begun to build an opportunity for us, and we have not yet gotten to where we want to go. So we're just beginning to send offers to this group of people. We have not yet begun to personalize and that's something we expect to do later this year. It's going to take us time to feel confident, attributing how much business comes from any particular segment of customers but we are very, very encouraged by the responsiveness we see to people who commit to a digital relationship. Remember that we're not in the business of creating digital relationships for digital relationship's sake.

They're an enabler for us to communicate and talk to our customers. It is a way that we go to market. And by building that capability, it allows us to be less reliant on media and to be more reliant on customers pulling information from us in the future. And we're going to use all the toolbox that we've built with our SR customers with those customers over time, but it's not something you turn on all at once. It's something that's a journey for us and we're going to continue to go down that pathway.

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

Gregory R. Francfort
Analyst, Bank of America Merrill Lynch

Q

Hey. I just had one on China and the competitive environment there. I think that was part of the reason for the softer comps in the third quarter. Is that – has that changed or materially changed in any way that you're seeing it let up? Or no change and this is more of a sort of internally driven change that you guys have driven with the company?

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

A

Yeah, Gregory. First off, let me just comment on the competitive environment because I know there's a lot of press that's out there and a lot of questions. I think what we're seeing in China is that the competitive environment reflects the opportunity the market presents and the opportunity to continue to grow. And, obviously, Starbucks has been at the forefront over the last 20 years of building out a very strong coffee culture based on the premium position that we've been able to achieve, as well as the experience that we provide our customers.

We welcome all competitors and the market is going to continue to be competitive. At the same time, I would say that we are leading in many different ways given our brand and given the experience that we provide. We lead in the areas of product innovation. We lead in overall quality of the products that we serve. We obviously lead in terms of the service experience and that third place experience that our partners provide. And we lead in terms of the third place with the designs of our stores. All those things are not able to be replicated by the competition. You couple all that together with the elevation of our brand with the Roastery and the Reserve stores that we're opening and we are definitely building a very premium position in the market.

Now you add in the opportunity that we see with delivery and the opportunity that that gives us to extend our brand outside of our stores to where our customers desire Starbucks the most based on the need state of convenience, then you couple in the opportunity that we see with the Global Coffee Alliance with Nestlé in China, with the Nespresso platform, with packaged coffee, with our RTD partner with Tingyi. All these things add together to build a very holistic opportunity that is unique to Starbucks and that cannot be replicated in the market by the competitors. So we feel as though we're in a very strong position to take on the competition, but at the same time, we remain focused on the long term and we remain focused on the strategy that we put into place.

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

A

Yeah, I think – this is Kevin, I just want to add to John's comments as he commented on competition in China. And things that I think apply globally. The fact is that there is a large and growing addressable market around all things coffee. And as a company, we've been in this business for 47 plus years and built one of the world's most admired and trusted brands. And we've built that by delivering premium products and a premium experience in our stores. And that remains true today, the third place experience. And even as we've extended that to meet the need state of convenience, we work to do that in a way that is accretive to the brand and accretive to the experience in our stores.

So as John and Belinda and team have been working on delivery with Ele.me for example, we've integrated that fully into the operation of our stores so that we can create a great experience. But I think our ability to continue to differentiate as a brand that has a premium set of products, creates a premium experience in our stores, and is able to deliver custom hand-crafted beverages at scale, that is the formula that we're going to continue to stick to. And our investment in things like Starbucks Reserve Roastery is a brand amplifier.

The partnership with Nestlé is a growth agenda, but it too is a brand amplifier as Nestlé brings our coffee and tea products to CPG and food services. So we're going to stick to what got us to this point and the things that we think are defensible differentiators in the market and things that we do well and that will serve us well for the long-term in every market around the world.

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

Matthew Robert McGinley
Analyst, Evercore ISI

Q

Thank you. My question is on the Americas operating margin. Scott, you had mentioned that the margins would have been down a little excluding the partner and digital investments and I know that product mix will have an impact, but holding that aside, do you need a 4% comp to keep margins flat in the segment? Or with the labor planning tools and the cost management you have or you're putting in place, can you keep that margin flat on a comp on your 4%?

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

A

Yeah, what we said is, if we can do a 3% comp with some transaction growth within that, we can drive margin expansion. And so the things that Roz is doing in the middle of the P&L, the things that she's doing from a store operations efficiency standpoint, things on waste, and even with that labor investment, if we can do a 3% comp with a little bit of transaction growth in there then we can drive margin expansion in the Americas.

Operator: Our final question will be from Chris O'Cull with Stifel. Please proceed with your question.

Q

Yeah, hi. Good afternoon, everyone. This is actually [ph] Mitch (1:05) on for Chris. Just a follow-up to an earlier question on China, could you give some color on what sales lift you expect to see from the Alibaba delivery partnership? And then what marketing programs will be tied to the Singles' Day coming up?

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

A

Sorry, repeat the second question, [ph] Mitch? (1:05:17)

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

A

Singles' Day in China.

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

A

Singles' Day. Okay. So for the delivery opportunity, first off, we're still quantifying exactly what that upside is going to be, but we do obviously expect incremental upside. Initial reaction that we're seeing from customers is very positive, so we are seeing some transaction lift, but it's still too early to call exactly what that looks like.

And we'll have more details as we get into the Investor Day and sharing those details of what the roll-out looks like. We've gone through and we've renovated and innovated around all the packaging that we have going on out on delivery and really creating a unique Starbucks Delivers experience for customers in the marketplace.

So we're very optimistic about the opportunity on delivery. And it will be delivery unlike any other competitor is doing in the market. So more details to follow on that as part of Investor Day.

And then in terms of November 11, we always see a big day on November 11 as a company. We build that into our forecast, and that's built into the overall guidance that we put in place as we look through the year. But we expect it to be a big day.

Operator: At this time, I'd like to turn the call over to Kevin for closing remarks.

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

Well, thank you all for joining us today. I did want to mention that we really look forward to seeing you at our December 13 Investor Conference in New York City. Today we spoke a little bit about the Starbucks Reserve roasteries, and we opened a beautiful Reserve Roastery in Milan, Italy last quarter. And so as part of the December 13 Investor Conference, for those of you who can attend, we would like to invite you to an exclusive preopening tour of the next Starbucks Reserve Roastery that will open in New York City. And then we look forward to hosting you all that afternoon for the Investor Conference. So thank you for joining us today, and we look forward to seeing you next month.

Operator: This concludes Starbucks Coffee Company's fourth quarter and fiscal year end 2018 conference call. You may now disconnect.