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Starbucks Corp. (SBUX)

Q4 2021 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good afternoon. My name is Alex, and I will be your conference operator today. I would like to welcome everyone to Starbucks's Fourth Quarter and Fiscal Year-End 2021 Conference Call. All lines have been placed on mute to prevent any background noise. After the speakers' remarks, there will be a question-and-answer session. [Operator Instructions]

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

Greg Smith

Chief Financial Officer, International and Channel Development, Starbucks Corp.

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

This conference call will include forward-looking statements which are subject to various risks and uncertainties that could cause our actual results to differ materially from these statements. Any such statements should be considered in conjunction with cautionary statements in our earnings release and risk factor discussions in our filings with the SEC including our last annual report on Form 10-K and quarterly report on Form 10-Q. Starbucks assumes no obligation to update these forward-looking statements or information.

GAAP results in fiscal 2021 include several items related to strategic actions including restructuring and impairment charges, transaction and integration costs and other items. These items are excluded from our non-GAAP results. For non-GAAP financial measures mentioned in today's call, please refer to the earnings release on our website at investor.starbucks.com to find a reconciliation of these non-GAAP measures to the corresponding GAAP measures.

This conference call is being webcast, and an archive of the webcast will be available on our website through Friday, November 26, 2021. For your calendar planning purposes, please note that our First Quarter and Fiscal Year 2022 Earnings Conference Call has been tentatively scheduled for Tuesday, February 1, 2022.

Before we begin, there are four reminders I'd like to make with respect to the numbers that will be discussed on today's call.

First, as noted in our earnings release, we have realigned our fully licensed Latin America and Caribbean markets to our International segment. As a result, we renamed the Americas segment to North America. All discussions and comparisons today are reflective of the re-segmentation.

Second, a reminder that Starbucks fiscal year 2021 is a 53-week year instead of the usual 52 weeks. Fiscal 2021 results on today's call are on a 14-week basis for the quarter and 53-week basis for the year except year-on-year comparative metrics including revenue growth, comp growth, EPS growth and margin expansion which are based on a 13-week or 52-week basis to exclude the impact of an extra fiscal week.

Third, all references on today's call are on a non-GAAP basis, unless otherwise noted.

And lastly, effective in the first quarter of fiscal 2022, certain international integration-related expenses previously excluded from our non-GAAP results will be included, as they are expected to be representative of ongoing operations.

Please refer to the reconciliation of these measures and a schedule showing adjusted fiscal 2021 EPS to bridge year-on-year impact of this recast, as well as reconciliations of 53-week to 52-week metrics at the Supplemental Financial Data section of our website at investor.starbucks.com.

I will now turn the call over to Kevin.

Kevin Johnson

President, Chief Executive Officer & Director, Starbucks Corp.

Well, thank you, Greg, and welcome, everyone, to today's call. I'm very pleased to comment on the record Q4 and FY 2021 results Starbucks reported today. I'm particularly pleased that we were able to deliver these results in Starbucks's 50th anniversary year and in the face of increased costs and unprecedented operating challenges resulting from the global pandemic.

Today's results reflect very strong operating and financial performance across the board, with Q4 revenue growing 22% and full-year non-GAAP EPS of 168% over prior year. This was a record Q4 that punctuates a very strong FY 2021 performance with record highs in revenue, non-GAAP operating income and non-GAAP EPS.

Our performance accelerated throughout FY 2021, fueling revenue growth of 21%, non-GAAP operating income grew 139%, and translated to a non-GAAP earnings of \$3.24 per share, near the high end of our guidance for the year. Perhaps more persuasively than ever, the strength and resilience of the Starbucks brand and the power and opportunity afforded by the authentic connection and the deep trust and loyalty we have built with customers around the world is resonating.

Today's results demonstrate, that despite the pandemic, Starbucks' long-term double-digit growth-at-scale model remains solidly intact. Today's results also underscore the passion and dedication of our over 400,000 Starbucks green-apron partners, who serve nearly 100 million customer occasions around the world every week. And I am humbled by our partners' commitment to each other and to our customers as we continue to navigate through the pandemic. Their resilience and service honors the company and our history, and I could not be more appreciative of their efforts.

Finally, today's results demonstrate the success of the investments we have made and will continue to make ahead of the growth curve in our people, digital, beverage and food innovation and store experiences. These investments are driving and strengthening our global business and setting us up for even greater success in the future. Starbucks' long-standing view is that our partners guide this company, and we applaud other likeminded companies who are following our lead.

Starbucks has been at the forefront of investing in our people since we opened our first store in the Pike Place Market in Seattle in 1971. We offered paid company health care 25 years before the Affordable Care Act, equity ownership in the form of bean stock to eligible part-time partners, free college tuition through the Starbucks College Achievement Plan with Arizona State University, and mental health support through our partnership with Lyra. Investing in our people is the cornerstone of our storied 50-year history and tradition. And even that's what's continued to deliver real measurable value to our partners, our customers and our shareholders.

I'll be providing granularity around the incremental partner investments we made beginning last year and the additional partner investments we will be making in fiscal 2022 in a moment. On today's call, I will highlight Q4 performance in our key markets and provide detail around some of our actions and investments since the pandemic first surfaced in Q2 of 2020 that are contributing to our performance today and setting us up for accelerated growth in the future. I'll also open a window on our exciting holiday plans and several initiatives that will launch over the near term. Then I'll turn the call over to Rachel to provide a deep dive into our Q4 and fiscal-year performance and share our guidance for fiscal 2022. We'll then move onto Q&A.

Over the last 18 months, Starbucks, like most global retail operators, has been confronted with a seemingly never-ending wave of consumer and business headwinds. Many businesses in our space have not survived. From day one of the pandemic, Starbucks leaders around the world were determined to use the company's size and scale to navigate whatever challenges lie ahead. With steadfast commitment to our people, our mission and values, a set of principles guided us through the pandemic. Every decision was rooted in our core purpose and reason for being. These decisions have made the Starbucks of today stronger and better positioned to profitably grow, extend our coffee leadership around the world and create more value for our shareholders, more than ever before in our history.

Last year, we made significant pandemic-driven strategic investments, including providing our partners with financial support and economic certainty, avoiding layoffs while most of our stores were temporarily closed and accelerating our US store portfolio transformation by opportunistically repositioning 500 stores to better locations with more favorable economics. To this last point, we expanded our portfolio of drive-thrus, introduced new store formats to meet our customers where they are, and turbocharged growth in our digital customer relationships in the US and China.

As a result of these successful investments, we are entering fiscal 2022 with strong momentum around the world. In the US, our largest global market, our key growth driver is comparable sales. We grew a strong two-year comp to 11% in Q4, despite variance across the country that created a dynamic set of city-by-city COVID restrictions, which we had to navigate. We made significant progress addressing supply chain issues and experienced an overall improvement in inventory availability as we moved through the quarter by increasing production at existing suppliers, onboarding new suppliers, and strategically prioritizing key holiday and Q1 merchandise.

While we made significant progress addressing supply chain challenges as fiscal 2021 progressed, we remained cautious and vigilant as we enter fiscal 2022 given the dynamic nature of the situation. The recovery in Q4 surged forward as evidenced by the sequential acceleration of two-year comp growth. We exited Q4 with even stronger 14% two-year comp growth in September and closed to a record average ticket driven by the strength of our fall beverage lineup, a shift in customer behavior toward more premium beverages and strong food attach. We have great confidence for the year ahead given the comp momentum throughout the quarter, combined with holiday plans certain to excite and delight our customers, and increasing consumer demand around the world today for everything Starbucks.

Yesterday we made an important announcement to raise wages across the US in fiscal 2022 to ensure we continue to attract and retain talented partners as consumer mobility continues to increase. We believe this investment, combined with our industry-leading benefits program, will enable us to remain an employer of choice. This builds on the historic partner investments and meaningful wage increases we made in fiscal year 2021 and prioritizes significant additional investment to address inflation and wage compression that our tenured partners have experienced, while also increasing our wage floor.

In December of 2020, I announced our intention to provide a starting wage of at least \$15 an hour for our store partners across the country, and by the summer of 2022 we will have delivered on that plan. Effective in January, partners with two or more years of service will get up to a 5% raise. And partners with five or more years will get up to a 10% raise, in keeping with our long-standing history of investing in our partners. And next summer, hourly partners in the US will make an average of nearly \$17 an hour, with barista rates ranging from \$15 to \$23 an hour across the country. In total, the FY 2021 and FY 2022 investments represent approximately \$1 billion in incremental annual wages and benefits.

We continue to build a great and enduring company by investing ahead of the growth curve, not just in wages but in training and technology and the overall Starbucks Experience for both our partners and our customers. And as we have seen in the past, we expect investment in the partner experience will be accretive to profits over time. We believe the US market is at a unique inflection point. Stakeholders and companies whose leaders correctly identify emerging trends, thoughtfully shape strategic action and invest in the future will be big winners over the long term. In the quarters ahead, Starbucks will continue to target investment in high-returning assets that we believe will accelerate our double-digit growth at scale model, driving long-term, sustainable and profitable growth.

We continue to build and leverage our technology-first mobile and digital capabilities and accelerate growth in active Starbucks Rewards membership. We grew our 90-day active Starbucks Rewards members, representing our most loyal and engaged customers, by approximately 30% in fiscal year 2021 to 24.8 million members. Noteworthy is that in Q4, 51% of US tender for company-operated stores was generated by this loyal customer base.

We continued to nurture and deepen our direct, personalized digital relationship with our members with enhancements to the program like Stars for Everyone to expand reach and through payment partnerships with PayPal and Bakkt where a customer can now reload their Starbucks card with a range of cryptocurrencies including Bitcoin, Ethereum and others by converting digital currencies to physical currency and reloading their Starbucks card.

Through blockchain or other innovative technologies, we are exploring how to tokenize Stars, create the ability for other merchants to connect their rewards program to Starbucks Rewards. This will enable customers to exchange value across brands, engage in more personalized experiences, enhance digital services and exchange other loyalty points for Stars at Starbucks. An example of this innovation is evident in the recent launch of our Canadian loyalty program with Air Canada.

Over the next year, you will see the first instance of this loyalty points exchange with other consumer brands. This approach will also serve as a foundation for a more aspirational concept for new, modern payment rails that align payment expenses with the value received by customers and merchants. We intend to be at the forefront of this disruptive innovation, which will unfold over the next few years.

Finally, a rich pipeline of innovation will elevate the Starbucks Experience in our stores and drive in-store productivity gains. Examples include our Mastrena 2 espresso machines that more efficiently pulls triple shots of high quality espresso, our Deep Brew artificial intelligence platform that has automated daily inventory management, and store staffing and training improvements designed to reduce complexity in our stores.

Simplifying this workflow helps reduce the strain on our partners resulting from the ever-increased demand in our stores, and enables our partners to connect and engage with their customers, which is at the heart of the Starbucks Experience.

Starbucks is entering fiscal year 2022 with strong customer demand and solid momentum in our US business, an expanding and accelerating in-store channels and digital flywheel, and green apron partners eager to deliver an elevated Starbucks Experience to their customers. Having navigated through so many challenges over the past year, we are excited and optimistic about the year that has just begun, while remaining humble and mindful of unknown challenges.

On to China. Starbucks China extended our market leadership position in Q4 despite pandemic-driven disruptions, propelled by an accelerated pace of store development and significant growth in digital customer relationships, all while achieving record customer engagement scores in the quarter and in the year.

Starbucks has built one of the most respected consumer brands in China with one in two consumers preferring Starbucks to any other brands in away-from-home coffee. Our growth strategy in the market continues to differentiate us and position us well for the long game.

We continue to invest meaningfully in all aspects of our China business including accelerated investment in our partners, the creation of award-winning experiential store designs, unprecedented benefits like health care for partners and their parents, rent assistance and programs that offer career paths for young people from rural and remote provinces. Together, these investments further elevate the Starbucks brand and partner experience. They instill pride in our China partners and deepen our customer engagement and connection.

Starbucks continues to be in a strong market expansion cycle, and as such, much of our growth in China comes as we aggressively expand our store footprint and introduce more customers to the Starbucks Experience. We expanded the store footprint with 225 net new stores in Q4, and we are going deeper and broader, deeper into existing cities and broader by opening in new cities. For the full fiscal year, we opened a record 654 net new stores and ended the year with 5,360 stores in 208 cities throughout China.

As we noted on our Q3 earnings call, our recovery in China will not be linear. In Q4, we experienced COVID-related restrictions that constrained customer mobility in 18 provincial-level regions. At its peak in mid-August, approximately 80% of our stores in China were impacted by the pandemic, with some stores fully closed or operating at different levels of elevated public health protocols such as mobile ordering only, limited seating, or health stations.

Our recovery momentum was below expectation and pushed our two-year comps to a minus 10% in Q4. Cities with local COVID cases were impacted the most, with stores relying on transportation and tourism also materially impacted during the quarter. Notably though, much like the US, China two-year comp also accelerated in the month of September as we remain optimistic for the recovery.

Despite these strong headwinds, China grew revenue 11% year-on-year. While our overall reported comp growth was minus 7% for Q4, if we exclude the lap of a VAT subsidy we received in fiscal year 2020, along with the stores and cities that experienced local COVID cases or were in transportation and tourism zones, our core fleet of stores comped positive. Starbucks business and operating margins remained strong, and our commitment to China and our confidence in our long-term growth strategy in China is unwavering.

In addition to expanding our portfolio of stores in China, we also expanded our digital footprint of 90-day Starbucks Rewards active members, reaching an all-time high of 17.9 million in Q4. This represents a sequential increase of 5% over Q3 and an increase of 33% over prior year. Frequency of purchases by our gold members remained at pre-pandemic levels despite the mobility limitations in the quarter, demonstrating the effectiveness of

our efforts in up-leveling member engagement. One example was our Star Dash gift with purchase campaign that successfully lifted member frequency and spend and evolved into a highly anticipated activity for members to earn limited availability to Starbucks' 50th anniversary merchandise.

With operations heavily impacted by COVID-related safety restrictions in the quarter, we are laser-focused on what we can control in China, while continuing to elevate our partner and customer experiences to further elevate the Starbucks brand and build on the loyalty that will continue to drive our long-term growth.

Including the US and China, Starbucks presence in 84 markets around the world provides us with a unique perspective on the global recovery from this pandemic. There is no doubt that we are seeing continued recovery in our markets. Latin America grew system sales by 113% in Q4, driven by a strong recovery in Mexico. EMEA posted system sales growth of 52% in the quarter. And Japan navigated through a challenging quarter, turning the corner towards renewed growth. We see positive signs in many other markets as well as reinforcing our belief that pandemic-related headwinds are temporary.

In addition, our strategic channel partnerships with the North American Coffee Partnership with PepsiCo and our Global Coffee Alliance with Nestlé are on plan and have propelled Starbucks to number one share positions in the US and throughout many other markets around the world, further underscoring the strength and resilience of the Starbucks brand and illuminating the decade-long runway of growth ahead.

As we enter fiscal year 2022, we are fully prepared for a record-breaking holiday, with strong growth planned around the world and a holiday campaign designed to build genuine human connection as only Starbucks can at a time when human connection is more important than ever. In addition to new and iconic seasonal products, we are integrating brand-building and transaction-driving marketing programs to demonstrate our values and touch our customers' hearts.

We are prepared with inventory this holiday. And we are also anticipating that nearly \$3 billion will be loaded on Starbucks cards this season by leveraging our digital and out-of-store distribution channels and creating a promotional presence in drive-thru lanes, where we have seen significant channel shift during the pandemic. We are ready for this holiday.

In closing, Starbucks' strong performance through the recovery is a direct result of the hard work and dedication of our partners as well as the investments we made both before and during the pandemic. We remain confident in our future and steadfast in our commitment to deliver long-term value to all stakeholders. This confidence supports the plan we announced today to return \$20 billion to shareholders over the next three years through dividends and share repurchases.

I'm particularly pleased that hundreds of thousands of Starbucks partners, who are also Starbucks shareholders through our Bean Stock program, will also benefit from this plan.

50 years ago, Starbucks was founded as a different kind of company. A company that would balance profit with social conscious and embrace the ideal that doing good for one another and for society would actually be very good for business over the long term. Our performance in 2021 demonstrates the wisdom and correctness of that founding principle. As we enter our second 50 years, we continue to honor our history and heritage, just as we boldly reimagine our future.

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

Rachel Marie Ruggeri

Chief Financial Officer & Executive Vice President, Starbucks Corp.

Thank you, Kevin, and good afternoon, everyone. It's my privilege to share with you Starbucks' strong finish to fiscal 2021, our 50th year in business, delivering the highest full-year revenue, operating income and EPS in company history, an accomplishment that is truly special considering the profound challenges we have navigated throughout the pandemic.

Please note that as Greg discussed at the top of the call, fiscal 2021 results that I will discuss today are non-GAAP, unless noted, and on a 14-week basis for the quarter and a 53-week basis for the year, except year-on-year revenue, comp, operating margin and EPS growth metrics, which will be on a 13-week or 52-week basis to exclude the impact of an extra fiscal week for comparative purposes.

In Q4, Starbucks global revenue reached \$8.1 billion, up 22% from the prior year, setting another quarterly record, along with the fiscal year record of \$29.1 billion, primarily driven by the continued momentum in the US and strong contributions from across the globe despite the severe headwinds of the COVID Delta variant.

Our consolidated operating margin was 19.6% in Q4, up 580 basis points from the prior year. The increase was primarily driven by sales leverage across the P&L as we lapped the COVID-19 impacts and related costs, as well as pricing in North America. These were partially offset by rapid inflation related to logistics, commodities and labor costs across our supply chain. Q4 GAAP EPS was \$1.49, inclusive of \$0.56 divestiture gain from the Starbucks Coffee Korea transaction, which yielded pre-tax proceeds of almost \$1.2 billion. Q4 non-GAAP EPS was \$1, capping off the company's most profitable year ever with non-GAAP EPS of \$3.24.

I will now provide some segment highlights for Q4, and then will provide guidance for fiscal 2022. The North America segment delivered revenue of \$5.8 billion in Q4, 27% higher than the prior year, primarily driven by a 22% increase in comparable store sales, including 18% comp transaction growth and a 3% increase in average ticket.

In the US, comparable store sales reached 22% in Q4, driven by transaction comp of 19%, delivering another sequential improvement in two-year transaction comp in the face of COVID Delta variant disruptions. Simultaneously, we maintained our strength in average ticket up 3% over the prior year in Q4, remaining near record levels and posting two-year ticket comp of over 20% for the 6th consecutive quarter. Cold beverages reached 75% of total sales in Q4, contributing to our ticket strength, along with outstanding results from our fall promotion and another record quarter of food attach. North America's operating margin was 22.5% in Q4, expanding 510 basis points from the prior year, driven by sales leverages as we lap the impacts of COVID, as well as continued strength in ticket, including pricing.

The segment's operating margin exceeded the pre-pandemic level in Q4 fiscal 2019 by 170 basis points, primarily due to the leadership conference and labor hour investments in Q4 fiscal 2019. Strong ticket and the benefit of Trade Area Transformation also offset the margin headwind of approximately 270 basis points over the past two years from sizable investments in wage and benefits, as well as supply chain inflationary pressures.

Moving on to International. The International segment delivered record revenue of \$1.9 billion in Q4, growing 18% over the prior year. The growth was driven by an 8% increase in net new stores over the past 12 months, strong sales growth from our international licensees, as well as a 3% increase in comparable store sales. Both company-operated and licensed markets across our International portfolio are contributing meaningfully with double-digit sales growth in key markets like Japan, the UK, Korea and Mexico. Kevin noted that the COVID-related volatility

drove comp sales down 7% in China in Q4. However, our experienced team and 22 years' history continued to serve us well as operating income was only down 1% versus last year.

Our team in China and across the globe has done a tremendous job of managing through the volatility. In fact, operating margin for the International segment was 22.8% in Q4, expanding 650 basis points from the prior year, well above pre-pandemic levels, mainly driven by sales leverage as the segment continued to recover from the pandemic. Higher government subsidies, lapping store asset impairments in the prior year as well as store and overhead labor efficiencies also contributed to the expansion. We expect margin to settle a bit in fiscal 2022 versus the levels of the past two quarters as government subsidies are not expected to repeat and we have pressures relating to the impacts of inflation. The opportunity ahead, coupled with tremendous experience and a strong diversified portfolio, has us very optimistic for the future growth of China and our other international markets.

On to Channel Development. Revenue was \$438 million in Q4, a decline of 10% from the prior year, primarily driven by Global Coffee Alliance transition-related activities, including a structural change in our single-serve business. When excluding the approximately 20% adverse impact of these transition-related activities, Channel Development's revenue increased by 10% in Q4, primarily driven by growth in the Global Coffee Alliance as well as other international ready-to-drink business. As a reminder, Q4 was the last quarter we will be lapping this transition, so we expect Channel Development to return to more normalized, reported revenue growth levels in fiscal 2022.

The segment's operating margin was 50.2% in Q4, up 950 basis points from the prior year. Normalizing for the 890 basis point impact of Global Coffee Alliance transition-related activities I just mentioned, Channel Development's operating margin expanded 70 basis points in Q4, driven primarily by lower trade spend in our international ready-to-drink business.

Now we'll turn to our fiscal 2022 outlook. For fiscal 2022, we are expecting global comp sales growth to reach high single digits as we lap prior-year impacts of COVID and continue to build on our Q4 momentum. This also reflects our thoughtful pricing actions, which are expected to further bolster our comp growth as we work to offset the impacts of inflation across our supply chain.

New stores will also contribute meaningfully to our growth in fiscal 2022. We expect to add approximately 2,000 net new stores globally in fiscal 2022, up significantly from 1,173 in fiscal 2021 as we successfully completed closures under our North America Trade Area Transformation program and are now refocusing on expansion. We estimate that approximately 75% of our net new stores will come from outside the US as we continue to diversify our global portfolio across highly profitable markets. This represents global net new store growth of 6%, returning to our ongoing growth model. With this powerful combination of global comp and store growth, coupled with the continued strength in our Channel Development segment, we are expecting consolidated revenue to range between \$32.5 billion and \$33 billion in fiscal 2022, growing well above our long-term guidance of 8% to 10% growth, setting us up for another year of record performance.

As Kevin mentioned, fiscal 2022 will be a pivotal year of investment, marked by increase in wage investments to further support our store partners in this critical moment, helping to ensure we have, one, the very best talent to drive our business forward, and two, the ability to continue capturing and maintaining meaningful category share gains.

Accelerating our growth in share is fuel for future margin expansion as sales leverage is one of the most meaningful expansion opportunities we have. So, while we'll see an impact to operating margin in fiscal 2022

resulting from these investments, increasing our share of customers now will drive long-term earnings and value for all Starbucks' stakeholders. The success of Starbucks starts with our partners, and we are committed to continuing to invest in them as a critical strategic differentiator for our business. With these investments we expect fiscal 2022 operating margin to be approximately 17% below our long-term target, driven by approximately 400 basis points of impact related to the wage investments, coupled with an additional headwind of approximately 200 basis points from a combination of inflationary pressures, other growth investments and discontinuation of government subsidies.

Further, our fiscal 2022 margin expectation reflects factors unrelated to our core performance within an approximately 40 basis point diluted impact from a combination of the Starbucks Korea transition as well as the change in non-GAAP reporting treatment, both representing a one-time stepdown in margin. However, we will meaningfully offset these margin impacts in fiscal year 2022 with benefits from pricing, leverage on our expected strong sales and productivity gain. Importantly, given our continued proactive actions to continue to drive margin expansion and leverage accelerated sales growth, we expect our operating margin to return to the ongoing target of 18% to 19% in fiscal 2023.

While fiscal 2022 margin represents a departure from our long-term growth algorithm, we believe the value these strategic investments will create for our partners, our business, and all of our stakeholders will endure for many years to come.

We are pleased that, as we had previously committed, we successfully managed our leverage ratio back within our target at the end of fiscal 2021. As a result, we plan to reinstitute our share repurchase program beginning this quarter and are committed to returning \$20 billion to shareholders or approximately 15% of our current market capitalization over the next three years. With this commitment, Starbucks will have returned over \$45 billion to shareholders since fiscal 2018 or approximately 35% of our current market capitalization while simultaneously delivering on our algorithm for double digit EPS growth at scale.

Approximately two-thirds of this \$20 billion will come in the form of share repurchases with the proceeds from the Korea transaction pushing fiscal 2022 repurchases a bit higher than the following two years. The remaining one-third will come through a very competitive dividend targeting an approximate 50% payout. To support this plan, we plan on issuing a moderate amount of incremental debt while retaining leverage below our target of three times rent-adjusted EBITDA consistent with our existing BBB+ rating.

As a result, we expect interest expense to be between \$490 million and \$500 million in fiscal 2022 versus \$470 million in fiscal 2021.

Capital expenditures in fiscal 2022 are expected to total approximately \$2 billion, up from \$1.5 billion in fiscal 2021 and back to pre-COVID levels, reflecting increases in new store development and technology initiatives in our stores. As always, we plan to focus on capital spending in fiscal 2022 on opportunities that drive significant returns across our global retail portfolio.

We expect our non-GAAP effective tax rate to be between 24% and 25%. This range translates to an EPS headwind of roughly 4% year-on-year and is meaningfully higher than the non-GAAP tax rate of 21.3% in fiscal 2021 which benefited from certain discrete tax benefits that are not expected to repeat to the same degree in fiscal 2022.

When you add it all up, on a 52-week comparative basis, we expect fiscal 2022 GAAP EPS to decline by 4% or less. We expect our fiscal 2022 non-GAAP EPS growth to be at least 10% from the base of \$3.10 in fiscal 2021 that excludes the extra week and is adjusted for the change in non-GAAP treatment of certain integration costs.

With the phased rollouts of wage investments and the ongoing global recovery from COVID throughout the year, we expect fiscal 2022 quarterly non-GAAP EPS to be the lowest in Q2 before peaking in Q3 to form a strong back half of the year.

We recognize that this earnings guidance is a temporary change from the outlook discussed at our Investor Day in December 2020 driven by wage investments as well as faster than expected recovery in fiscal 2021. We continue, however, to stand by our commitment to the growth algorithm over the longer term. The strategic investments in our partners are the right thing to do for our business and all of our stakeholders, and we are confident this provides the foundation necessary to continue to grow our coffee leadership position for many years to come.

To summarize, here are the three takeaways from my discussion today.

First, we are thrilled with what we accomplished in fiscal 2021, far surpassing the pre-pandemic performance levels to deliver record high revenue, operating income and EPS, even as global consumer mobility remains suppressed and inflationary headwinds pressure our business.

Second, fiscal 2022 will be a year of outsized investments prioritizing our store partners and ensuring we have the very best talent to drive, capture and maintain lasting category share gains, while still delivering double-digit EPS growth and initiating a return of \$20 billion to our shareholders over the next three years.

And finally, we remain fully committed to our ongoing growth model and expect to progress towards our algorithm with an operating margin of 18% to 19% in fiscal 2023, while continuing to balance returns and investments necessary to sustain this performance over the long term.

Of course, all of this is made possible because of the significant efforts of our Starbucks partners around the world who proudly wear the green apron. It is their unwavering commitment towards serving our customers that drives the financial results and outlook that I've shared today.

With that, Kevin and I are happy to take your questions joined by John Culver, Michael Conway and Leo Tsoi. Thank you, operator.

QUESTION AND ANSWER SECTION

Operator: Thank you. [Operator Instructions] Our first 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. My question, Rachel, is on the margin outlook that you gave, 17% this year and then growing to 18% to 19% in 2023. And I'm just wondering if you could sort of paint the picture of how you get from this year's margin outlook to next year's margin outlook. Are there certain offsets that are going to develop throughout the year that will lead to better performance? Or is there something onetime in the cost structure this year? Anything you can do to help provide some visibility on that path would be great.

Rachel Marie Ruggeri

Chief Financial Officer & Executive Vice President, Starbucks Corp.

A

Yeah. Thank you for the question. What I'd say is when we look at our margin that we're guiding for this year and we think about where we're headed to next year, as you know, there are over 640 basis points of dilution to our margin this year, given the investments we're making as well as some of the inflationary headwinds and changes, as outlined in my prepared remarks. We're going to work this year to offset the majority of that through pricing, through sales leverage, through productivity and other efficiency measures.

As we move into FY 2023, we'll continue those efforts. And that's going to allow us to return back to the 18% to 19% margin that we guided for the long term. We feel confident in that given that our growth at scale agenda and our focus on pipeline of innovation, our ability to continue to grow our digital customer memberships and our ability to continue to accelerate the service experience through new stores and through the experience we're creating in stores, coupled with productivity and efficiency, throughout our global network is really what allows us to continue on that path towards 18% to 19% margin, in line with our long-term guidance.

Kevin Johnson

President, Chief Executive Officer & Director, Starbucks Corp.

A

And, David, this is Kevin. Let me just add to Rachel's comments. The strategic investment we are making in wage, here's how to think about it. First, our Q4 and FY 2021 revenue results demonstrate that we are growing faster than the coffee addressable market as estimated by Euromonitor. We are taking market share.

Then if you look at consumer mobility, it's going to continue to increase, and we want to recruit and retain the very best talent for our stores. The most important investment we can make is in our green apron partners. We know this to be true because it has been proven time and time again throughout our 50-year history that when we take care of our partners, they always rise to the occasion and create that unique Starbucks experience for our customers.

Clearly, from my perspective, this investment in our partners is not only the right thing to do for them, it's also the right thing to do for all stakeholders, including our shareholders. We're on the front foot right now and we have this opportunity to accelerate by investing into the growth curve. This means with this investment, we predict higher market share gains as consumers return to our stores, and these share gains will be permanent and these share gains will create long-term shareholder value.

If you think about it and you model this, those permanent gains, we know we get operating leverage as we get more customers. So, if you just take the share gains and you run the spreadsheets on operating leverage, that is what's going to create – this is actually going to increase the terminal value calculation for Starbucks. And we're so confident in this strategy, in this investment, that's why we're committing this \$20 billion return to shareholders over the next three years.

So, this is all about leaning into the growth, taking market share that's going to be permanent, and the benefit of that market share is going to create significantly more shareholder value than we would have created without the investment. And we're so confident with \$20 billion return to shareholders in dividends and buybacks. That's how I think about it and that's how I think every shareholder ought to think about this investment.

David E. Tarantino

Analyst, Robert W. Baird & Co., Inc.

Great. Thank you.

Q

Operator: Thank you. Your next question comes from Andrew Charles with Cowen. Please proceed with your question.

Andrew Charles

Analyst, Cowen and Company

Great. Thanks. I just have a two-part question. Kevin, what do you attribute to the US acceleration in September? I think investors are trying to get a sense if this is something more enduring, like a post – like a larger post-Labor Day return to office, or perhaps something more transitory like a successful PSL season. And, Rachel, just to clarify one piece of the guidance, does the non-GAAP EPS guidance of \$3.40 plus, does that incorporate share buybacks? Or is that excluded from EPS guidance? And if you can just provide a share count that guidance is contingent on to help flesh that out, that would be very helpful. Thanks.

Q

Kevin Johnson

President, Chief Executive Officer & Director, Starbucks Corp.

Yeah, Andrew. I'll take the first part of your question. Then I'll hand it to Rachel. Look, with COVID cases, in this case the Delta variant, it creates this variability in consumer behavior. So, as you saw in the United States, more government restrictions. And many of these were done state by state and city by city that we had to respond to. That I think was the impact in August. And as we responded to those and certainly as, I think, consumers start to see the Delta variant, the curve starting to slow, consumer mobility unfolds.

A

So, these are all transitory, and they're unpredictable. It is all related to the pandemic. So, the acceleration that we saw in both the US and China are the exact same reason. It's just the variable of dealing with a global pandemic, and when these Delta variants and these other things pop up, it does have some impact on consumer mobility.

But the one thing we know for sure, absolutely, we see it in every market around the world, that as the spread of COVID gets under control in – market by market, customers return to our stores immediately. That's why this investment in wage and ensuring we staff our stores with the very best, the most talented green apron partners we can is so important. This is the right time to make that investment, and we're confident that, that investment is going to return significant value to shareholders.

Rachel, do you want to take the second part of the question?

Rachel Marie Ruggeri

Chief Financial Officer & Executive Vice President, Starbucks Corp.

A

Sure. And to the second part, Andrew, what I would say is generally we're looking at about approximately 1% impact to EPS from the share repurchases, which is in line with our long term guidance. Slightly elevated this year just given that this year's repurchases will be a little bit higher than 2023 and 2024 given the impact of the proceeds from Korea, but approximately 1%. And that's provided in our guidance.

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

John Ivankoe

Analyst, JPMorgan Securities LLC

Q

Hi. Thank you. Just looking at the numbers, it seems like one of your biggest opportunities is bringing back the US traffic counts I guess to at least what they were in 2019 if not even above what they were in 2019. So, I wanted to get your sense of the visibility of that happening, if there are any green shoots, for example suburban drive-thrus, for example, that are seeing that increase in traffic. And do you think you have the staffing today in the stores that would allow that return to traffic? Or would it be necessary to add a step function change in some of the labor hours to reach that increased consumer demand? Thank you.

Kevin Johnson

President, Chief Executive Officer & Director, Starbucks Corp.

A

Thanks, John. We'll head to John Culver to share perspective on the question.

John Culver

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

A

Yeah. John, we're seeing obviously a record number of customers coming back into our stores, and that's signaled by the significant transaction growth we saw quarter-over-quarter at plus 18%.

What we're seeing from a behavior standpoint are very similar behaviors from customers as we've had in prior quarters and pre-COVID. So, routines are beginning to normalize. I think, it speaks a little bit around what Kevin said that as people become more mobile, and particularly as we launched our fall campaign, normal routines entered with kids going back to school.

Our peak hours have returned to pre-COVID behavior. They started in Q3, and it continued into Q4. Morning daypart, very strong growth on a year-over-year basis as well as midday. And then into the afternoon, we're seeing a very high beverage and food attach and really a shift to cold beverages that we talked about on the last earnings call.

Cold beverages actually accounted for 75% of our beverage sales in the quarter, but food equally was strong. We're up 35%. Espresso was up 34%. And we are seeing larger tickets come through as well.

So, when you look at it from a store standpoint, we're very pleased with what the performance has been first in rural and suburban areas where our drive-thrus are most common and which helped carry us through the COVID period and over the last 18 months were very strong. And they continue to show strong performance. Our urban stores have reached recovered status, and we're very encouraged by that.

And then from then from a central business district, recovery has been slower, but it continues for the second quarter in a row. Central business district is returned to a positive comp performance as well.

And then the last thing I would just leave you with is what we're seeing on the convenience aspect of Starbucks, and in particular, the growth of drive-thru and the growth of MOP. And we've done a lot of this during the Trade Area Transformation work we did around the stores. Today, drive-thru and MOP accounted for 70% of transactions, which is up 15% versus pre-pandemic levels.

So, we're very encouraged with the momentum that we've been able to build. And then, obviously, with the investments that we're making in our people from a wage perspective, we expect to continue to increase staffing levels, continue to increase the training for our partners, and we are very, very well-positioned for very strong holiday season.

Operator: Thank you. Our next question comes from Sharon Zackfia, William Blair. Please proceed with your question.

Sharon Zackfia

Analyst, William Blair & Co. LLC

Q

Hi. Just kind of building on John's question. Could you quantify where US staffing is, relative to pre-pandemic? And maybe even some metrics around where your hourly turnover and managerial turnover is relative to 2019 would be helpful.

John Culver

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

A

Yeah. What I'd say, Sharon, is a couple things. Obviously, like all other retailers, we're navigating in very complex and unprecedented environments. And, yes, we have seen some staffing challenges in certain parts of the country, but I think from the results we've been able to deliver, it demonstrates our ability to navigate through these challenges, whether it be staffing, whether it be any of the supply chain challenges, or any of the inflationary pressures.

When you look at it, one of the things that we've done during this time, as we've looked at adjusting the staffing levels and how do we manage through this is, we've also taken action to adjust store operating hours. And when I say that, we've really looked at the evening daypart and pulled that back from an hours perspective, and that has enabled us to redeploy staffing into other stores where we need it. So, we're continuing to do that.

In terms of your question around attrition. We are, over the last year, we have approximately 70% of our hourly partners are new to Starbucks. And we continue to make investments in them from a training standpoint, as we announced yesterday for all our partners. In addition, we've made investments now, and we announced this yesterday, around recruiting and adding recruiters, more recruiters, into the regions to really focus and find and attract new talent. And then also, at the same time, we continue to work very closely with our partners to understand how we can continue to make them effective, as well as reduce complexity in the store. Complexity is a big thing for us. A big focus.

And in that, we're looking at two things. Number one is driving automation in the stores. We've driven automated ordering for food and merchandise that will be fully rolled-out across all of our US company-owned stores by the middle of this quarter. And then in addition, we continue to make investments in equipment. And from an equipment standpoint, whether it's the strainer, whether it's our warming ovens, or whether it's our Cold Brew

system, all these equipment investments also make our partners more effective and free-up time for them as they do their tasks. So, a lot of work going on. I'm very proud of the way in which our partners have navigated over the course of the last year, in particular, and as we've experienced some of these challenges. And we feel as though we are in a very good spot in managing through this, and we'll continue to make investments in this area. It's an area we're watching very closely.

Operator: Thank you. Our next question comes from the line of Sara Senatore with Bank of America. Please proceed with your question.

Kevin Johnson

President, Chief Executive Officer & Director, Starbucks Corp.

Sara?

Operator: Sara, please proceed with your question.

Sara H. Senatore

Analyst, BofA Securities, Inc.

Hi. Sorry. Can you hear me now? Hello?

Rachel Marie Ruggeri

Chief Financial Officer & Executive Vice President, Starbucks Corp.

Yes.

Sara H. Senatore

Analyst, BofA Securities, Inc.

Okay. Sorry about that. A question and then a follow up. The first is on China. It sounds like you are seeing just the impact of the pandemic rather than, say, slower macro growth or what others have alluded to, or competition. So, I guess, just – if you could just talk about that in the context of what you're seeing there in terms of transaction and ticket. Given back a little bit of the ticket, I didn't know if there's sort of an underlying dynamic there outside of just the pandemic that might be playing out.

And then my follow up was on the investments you're making holistically. I certainly understand why, and to your point, the payoff has been visible. But why not sort of approach it more ratably as opposed to a lot upfront in the coming year, just given the volatility in the operating environment and you're coming off of kind, obviously, depressed earnings growth from the pandemic? Can you just talk about the timing and sort of the front-loading of it? Thanks.

Kevin Johnson

President, Chief Executive Officer & Director, Starbucks Corp.

Yeah. Thanks, Sara. For your first question on China, Leo is joining us on the call from Shanghai. So, Leo, why don't I hand the question over to you?

Leo Tsoi

Chief Executive Officer, Starbucks China, Starbucks Corp.

Certainly. Thank you, Kevin. Hi, Sara. My pleasure to take this question. Actually, in Q4 last year, last fiscal year, we were impacted by three waves of COVID resurgence in the entire quarter, which hit 42 cities in total across the

quarter. Now, what it means is that we saw elevated public health measures were implemented, which significantly reduced the customer mobility and disrupted the consumption patterns. As you know, the borders also remained closed. And when you see what this impacts to us, it means that over half of our stores were located in cities hit by local cases. And around 80% of our stores were operating under the elevated safety protocols at the peak of the resurgence. So that's why while weighted down by these headwinds in Q4 delivered an 11% revenue growth year-on-year, as Kevin pointed out. And that means in Q4 the comp was minus 7%, or minus 3%, if we exclude the lapping over of FY 2020 VAT release.

However, I must say that when we exclude the stores in the cities with local cases as well as transportation and tourist stores, our comp was actually positive, excluding the FY 2020 VAT release. And more importantly, as Rachel also pointed out, our operating income was minus 1% versus last year. And if we actually exclude the one-off COVID-related benefit in FY 2020, we actually achieved an improvement on the operating income. So, this is really showing and demonstrating our team's operating agility.

So, I'll say, Sara, we are seeing these pandemic dynamics happening in the market. But I'm confident in saying that it is short term and they are going to recover. We're going to recover. And this is why our focus right now is focused on what we can control, to navigate all these short-term volatilities with our team's ability while capturing the key opportunity by, for example, accelerating our store growth and elevating our in-store engagement and our customer experience. I think, this all is going to power our future growth and build sustainable competitive advantage of Starbucks China. Kevin, over to you.

Kevin Johnson

President, Chief Executive Officer & Director, Starbucks Corp.

A

Thank you. Thank you, Leo. Let me – Sara, let me take the second half of your question, the back half of your question regarding these investments.

I just wanted to start by just sort of looking back at some of the strategic investments that we made through this pandemic, starting with the decision we took in March of 2020 to give our partners economic certainty and pay them with no layoffs, no furloughs, pay them while we closed all of our stores in the United States, and just kept drive-thrus open. That was a big strategic decision, and we made that decision certainly staying true to our mission, values and taking care of our partners. But we also knew that as this pandemic began to ease and the recovery came back, our partners would be there. And they were. And so why do you think we drove a faster recovery than people expected? Why did we drive a faster recovery than others in the industry? Answer, because we had the courage to make that strategic bet at that time in March of 2020.

Then in June of 2020 we made the strategic decision to transform the Trade Area portfolio, the store portfolio in the United States. We basically repositioned nearly 600 stores to reposition them to better serve our customers and to give us better economics and to elevate the customer experience. That strategic decision, we had the courage to make that, and that strategic position today is giving us margin expansion, an elevated customer experience, and that too is contributing to our recovery. I think about this decision on this wage investment the very same way we have in the past. We're going to stay true to our mission and values. And we know. We know for certain because we've seen it time and time again that when we invest in our partners they rise to the occasion.

And we also know this pandemic is transitory. We know vaccines works. We know that when we see markets as governments just reduce restrictions, customers are back into our stores. So, this is an opportunity for us to move now. We can't wait. This is the time to take that market share that we know we can take, and that market share gain is permanent.

That market share gain will build long-term customer engagement, long-term customer loyalty. And that market share gain will also drive operating leverage in our stores. In addition to that, we also know that we have a combination of in-store productivity innovation that's going to help offset that. We also have pricing power. And we're very thoughtful about how we take price. But we are taking price and we will continue to take price in an inflationary environment.

So, we just believe this is the absolute right thing to do at this moment in time. And this investment, like the other two that I just described, will return value to shareholders. Because of that, that's why we reinforce our confidence with this \$20 billion return to shareholders in the form of repurchases and buybacks. Thanks for your question.

Operator: Thank you. 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. In addition to the wage pressure, you've called out the supply chain pressures. I'm wondering how transient you think those are. Is that something that dissipates over the next couple of quarters? And maybe specifically what are those issues? What specific items? Is it coffee? Is it food? Is it supplies for stores? And how do you – are you confident or certain you've got the supplies needed, I guess, to get through this holiday season, given you're expecting such a large increase in sales? Thanks.

Kevin Johnson

President, Chief Executive Officer & Director, Starbucks Corp.

A

Okay. Let me – I'll have Rachel comment, and I want John Culver to give you sort of the perspective on where we're at in supply chain. But Rachel?

Rachel Marie Ruggeri

Chief Financial Officer & Executive Vice President, Starbucks Corp.

A

Yeah. Thank you. I'll start with the perspective in terms of how we think about it within our guidance, and then I'll turn it over to John, he can speak more to the specifics. But from a guidance standpoint, as I talked about in my prepared remarks, there were about 200 basis points of margin dilution related to a combination of supply chain pressures, [ph] inflation related to the supply chain pressures as well as lapping over government subsidies from prior-year investments.

When we look at this past quarter, Q4, we had about a 90-basis-point impact from inflationary pressures across the globe. It was a combination of logistics, labor, as well as commodities. As we move into Q1 and Q2, we would expect that to increase. And that'll start to settle in Q3 and Q4. But we've included it as part of our guidance throughout the year because we really don't know when these are going to – when these inflationary pressures will subside. And to that point, we've got them planned in this year. Of course, they could increase. We don't know what's going to happen. But we feel confident we've got at least an approach based on what we've seen in Q3 and Q4 this year, and we've accounted for that into next year. But it does impact us more meaningfully in Q1 and Q2 than what we would have originally thought and then again settles in Q3 and Q4 from a margin perspective.

And so, with that, I'll turn it over to John for specifics.

John Culver

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

A

Yeah, John. Just real quick, on the inflationary impacts from a supply chain standpoint, we are seeing impacts. And that's evident by some of the inventory levels in our stores. But I feel very good about the way in which we've been able to navigate it. Those supply impacts began in mid-fiscal 2021. And we would expect that they will continue into this coming year, all right? And what we're seeing is headwinds on commodity pricing, challenges around transportation, and also the ability for our distributors and manufacturers to find labor to work in their factories and distribution centers.

A couple of things that we've done with the team is, number one, we've worked very closely to add new manufacturing and supply partners across our critical categories. And that is paying dividends for us. And we're seeing inventory ease in those categories, i.e., oat milk, breakfast sandwiches, egg bites, etcetera. We're building throughput and production capacity. We have suppliers adding new lines so that they can increase their safety stock. We've worked with suppliers to invest in wage for their workers, and many of them have done so.

And the last thing I would say that what we've done is we've really focused our production efforts on high-volume items. And some of those lower-volume items we pulled back on and deprioritized. So, all that work and the actions that we've taken, we started early on as we began to see these challenges. We've addressed them. We're not out of the woods yet, but we feel very good about the path that we're on. And as Kevin highlighted, we're very confident that as we head into holiday, our inventory position is very strong. And we'll continue to watch this very closely and we'll continue to work with our supply network to ensure we've got an adequate supply of products in our stores.

And then the last thing I would say is that clearly, like other retailers, we're seeing customers come back into our stores at record levels. And the strength of our business is very strong. So, we're very encouraged around the progress that we're making and the growth opportunities that we see going forward.

Kevin Johnson

President, Chief Executive Officer & Director, Starbucks Corp.

A

And since you raised coffee, John, we're 14 months price-locked on coffee with several months of inventory in the warehouse. So, we're – there's not a risk on coffee.

John Glass

Analyst, Morgan Stanley & Co. LLC

Q

Thank you.

Operator: Thank you. Our next question comes from Jeffrey Bernstein with Barclays. Please proceed with your question.

Jeffrey A. Bernstein

Analyst, Barclays Capital, Inc.

Q

Great. Thank you very much. Just a follow-on to that return-of-cash discussion, which is obviously a bullish sign, that \$20 billion investment you're making. But with that said, Kevin, just thinking bigger picture. I think you said in your press release that you're currently 50/50, company-owned and licensed. Just wondering what the thoughts are around increasing that licensing mix over time, which would seemingly generate a higher-margin annuity stream of royalty income, allow for greater balance sheet leverage, maybe return incremental cash. Not sure

whether that would require a change in the China ownership structure, but we've obviously seen that with your largest multinational QSR peers. So I'm just essentially looking for an update to the thoughts on that 10/20/30 scenario from the 2020 Investor Day just to kind of get your sense for the outlook on the ownership structure. Thank you.

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

A

Yeah. Jeffrey, thanks for the question. I think clearly, our growth at scale agenda identifies the US and China as our two lead markets. And we're very happy with that agenda. I think China still has a significantly long runway of growth. And you see us continue to expand and accelerate the number of new stores we're building in market, as Leo highlighted. And so, we're very bullish on the long term in China. US continues to – the comp growth that we're seeing and the opportunities we see to continue to grow the US in terms of new stores and comp growth, still very, very bullish on that as well.

As we said in December 2020, we're always evaluating markets. And you saw that the Korea joint venture, we did sell our 50% stake to a long-term license partner, Shinsegae, who's been operating in that market and will continue to operate that market. So, we're always evaluating that. But we're happy with where we are today, and I guess, that's how – that's why I've said, you think about US and China, our two lead growth markets, I think, we're very happy with where we are today and we see long-term growth ahead in both of those markets.

Operator: Thank you. Our final question comes from Jon Tower with Wells Fargo. Please proceed with your question.

Jon Tower*Analyst, Wells Fargo Securities LLC*

Q

Great. Thanks for taking the question. I know, Kevin, you have mentioned a couple times on this call pricing action and the idea that you have a good amount of pricing power kind of pent up in your business. So, I was wondering if you could give us some guide on what you're expecting for fiscal 2022 given like food-away-from-home inflation is in that mid single-digit range right now and, obviously, the inflationary pressures are going to remain. And then just following up on the guidance piece, Rachel. I was hoping you could give us a little bit more clarity on the EPS that you had offered. I think you had mentioned about 10% EPS growth off the non-GAAP fiscal 2021 at \$3.10. And I think based on the metrics that you offered, I'm having a hard time getting to that \$3.40 plus range in 2022. So maybe some more clarity on some of the line items would be great, please.

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

A

All right. Jon. Let me take the first part of your question, and then I'll hand it to Rachel on the second part. Look, when it comes to pricing, we continue to be very thoughtful and very strategic in how we look at pricing. And we're actually using machine learning and some of the Deep Brew technologies that inform our pricing team on where and how to take that price. I prefer not to say, hey, here's the amount of price we've built into this plan.

But I think we certainly have more upside in price, if we need it. But it is a dynamic thing because we're watching inflation, and we really want to do this in a way that stays true to the thoughtfulness that we've always had in the past. And part of this is, how do you take the right amount of price at the right time and not have customer attrition? We're the share. We want to grow share of customer occasions right now, and so that's the balance that we strike. And it's really a fairly dynamic thing. So, for us to – we just prefer not to say, here's what we've built in, because I think we actually have more, if we need it, and we could take less if we don't need it. All I will say is that

I think we've got a world-class pricing team backed up by a world-class analytics and insights, and we are – we were very good at this in fiscal 2021, and we're going to be very good at it going forward. Rachel?

Rachel Marie Ruggeri

Chief Financial Officer & Executive Vice President, Starbucks Corp.

A

Sure. And Jon, what I would say is, if you look at our non-GAAP EPS for FY 2021, the \$3.24, from a baseline perspective, we're removing an additional week, so that's about \$0.10. In addition to that we have a change in our treatment of some non-GAAP reporting for purposes of integration costs related to acquisitions. That's another \$0.04. So that combination of the \$0.14 is what we're reducing this year's non-GAAP EPS of \$3.24 down to adjusted FY 2021 non-GAAP EPS of \$3.10. And then we're encouraging a growth rate off of that baseline of at least 10%.

And, again, that 10% is given the dynamic operating environment that we're in, this unprecedented level of investments that we're taking, as well as the pressures we still see related to the supply chain and the inflationary pressures, as well as the pressures we're seeing from the COVID environment. We think the combination of that and the dynamic environment we're in that that at least 10% growth reflects a lot of confidence and optimism for where we're headed, even though it's quite a challenging environment ahead.

Operator: Thank you. At this time, there are no further questions. I will now turn the call over to Kevin Johnson for closing remarks.

Kevin Johnson

President, Chief Executive Officer & Director, Starbucks Corp.

Well, thank you. And before we close today's call, I want to take this opportunity to welcome Tiffany Willis to Starbucks as our new Vice President of Investor Relations. And I also want to congratulate Greg Smith on his new role leading finance for our International and Channels business. Tiffany brings great experience in finance and IR from multiple industries, including food and beverage, consumer products and technology. And we look forward to introducing her to our investment community as she begins her journey in Starbucks with us. So, Tiffany, welcome.

I also want to reiterate for all of you that consumer demand is strong. And this moment in time is an inflection point. It's an opportunity for Starbucks to invest ahead of the growth curve and deliver long-term gains for all stakeholders. I think, with the strategic actions that we've made, we are well positioned to grow share of customer occasions and dramatically strengthen engagement and loyalty for long-term sustainable growth.

And with that, we look forward to welcoming all of you to our stores this holiday season so that you can enjoy your seasonal favorites. And with that, have a great evening. Thanks, everybody.

Operator: This concludes Starbucks' fourth quarter and fiscal year end 2021 conference call. You may now disconnect.

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