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Q4 2021 Earnings Call

Company Participants

- Greg Smith, Vice President, Investor Relations
- John Culver, Group President, North America and Chief Operating Officer
- Kevin Johnson, President and Chief Executive Officer
- Leo Tsoi, Chairman and Chief Executive Officer, Starbucks China
- Rachel Ruggeri, Chief Financial Officer
- Unidentified Speaker

Other Participants

- Andrew Charles
- David Tarantino
- Jeffrey Bernstein, Analyst
- John Glass
- John Ivankoe
- John Tower, Analyst
- Sara Senatore
- Sharon Zackfia
- Unidentified Participant

Presentation

Operator

Good afternoon. My name is Alex, and I will be your conference operator today.

I would like to welcome everyone to Starbucks 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 {BIO 22395447 <GO>}

Good afternoon everyone, thank you for joining us today to discuss Starbucks' 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; Mike 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 any of 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 our earnings release in our website at investor.starbucks.com to find a reconciliation of those non-GAAP measures to their 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, the 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 market 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 year 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 split 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 {BIO 3773960 <GO>}

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Well, thank you, Greg and welcome everyone to today's call. I'm very pleased to comment on the record Q4 and FY '21 results Starbucks reported today. I'm particularly pleased that we were able to deliver these results in Starbucks 50th anniversary year and in the phase 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 '21 performance with record highs in revenue, non-GAAP operating income, and non-GAAP EPS. Our performance accelerated throughout FY '21 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. We 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 we 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 longstanding view is that our partners guide this company, and we applaud other like-minded 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 offer paid company healthcare 25 years before the Affordable Care Act, equity ownership in the form of being 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 Lira. Investing in our people is the cornerstone of our storied 50-year history and tradition and these investments continue 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 '22 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 in 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 '22. We'll then move on to 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 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 temporary closed and accelerating our U.S. store portfolio transformation by opportunistically repositioning 500 stores to better locations with more favorable economics.

This last point, we expanded our portfolio of drive-throughs, introduced new store formats to meet our customers where they are, and turbo charge growth in our digital customer relationships in the U.S. and China. As a result of these successful investments, we are entering fiscal '22 with strong momentum around the world. In the U.S., Our largest global market, our key growth driver is comparable sales, we grew a strong two-year comp to a 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 move through the quarter by increasing production at existing suppliers, onboarding new suppliers, and strategically prioritizing key holiday in Q1 merchandise.

While we made significant progress in addressing supply chain challenges as fiscal 2021 progressed, we remained cautious and vigilant as we enter fiscal '22, given the dynamic nature of the situation. The recovery in Q4 searched 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 towards more premium beverages and strong food attach.

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We have great confidence for the year ahead, given the comp momentum throughout the quarter combined with holiday plan 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 U.S. in fiscal '22 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 a historic partner investments and meaningful wage increases we made in fiscal year '21 and prioritize a significant additional investment to address inflation and wage compression that our ten year partners have experienced while also increasing our wage forum. In December 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 December 22 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.

In next summer, hourly partners in the U.S. will make an average of nearly $17 an hour with reach to rates ranging from $50 to $23 an hour, across the country. In total, the FY '21 and FY '22 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 U.S. market is at a unique inflection point. Stakeholders and companies whose leaders correctly identify emerging trends by fully shaped 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 '21 to 24.8 million members. Noteworthy is that in Q4, 51% of U.S. tender for company-operated stores was generated by this loyal customer base.

We continue 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 back 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

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tokenized arts, 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, enhanced digital services, and exchange other loyalty points for Starz 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 holds 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 that ever increased demand in our stores and enable our partners to connect and engage with our customers, which is at the heart of the Starbucks experience. Starbucks is entering fiscal year '22 with strong customer demand and solid momentum in our U.S. business and expanding and accelerating in-store channels and digital flywheel and Green Apron partners eager to deliver an elevated Starbucks experience to their customers.

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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 and 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. There is still 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 Starbuck's 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 end of 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 and 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 recovering momentum was below expectation and pushed our two-year comps to a minus 10% in Q4.

So these 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 U.S., 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 lab of that subsidy we received in fiscal year 20. Along with the stores and cities that experienced local COVID cases or were in transportation and tourism zones, our core fleet of stores comp 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 days 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 Stardash gift with purchase campaign to 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 U.S. 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

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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 Nestle are on plan and have propelled Starbucks to Number 1 share positions in the U.S. and throughout many other markets around the world further underscoring the strength and resilience of the Starbucks brand and eliminating the decade long runway of growth ahead. As we enter fiscal year '22, we are fully prepared for a record breaking holiday with strong growth plan 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 through lanes where we've 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 destock 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 consciousness 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 re-imagine our future.

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

Rachel Ruggeri {BIO 20021043 <GO>}

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 and 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 '21 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 U.S. 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, a 580 basis points from the prior year. The increase was primarily driven by sales leverage across the P&L as we lap 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 cost across our supply chain, Q4 GAAP EPS was $1.49 inclusive of a $0.56 divesture gain from the Starbucks Coffee Korea transaction which yielded pre-tax proceeds of almost $1.2 billion. Q4 non-GAAP EPS was a $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 we'll provide guidance for fiscal 2022. The North America segment delivered revenue of $5.8 million 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 U.S., comparable store sales reached 22% 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 of 3% over the prior year in Q4, remaining near record levels and posting two year ticket comp of over 20% for the sixth consecutive quarter. Cold beverages reached 75% of total sales in Q4 contributing to our ticket strength along with outstanding results from our fall promotions and another record quarter of food attach.

North America's operating margin was 22.5% in Q4, if any 510 basis points from the prior year driven by sales leverage 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 investments in Q4 fiscal 2019.

Strong ticket and the benefit of trade area transformation also help 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 million in Q4, 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.

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Kevin noted that the COVID related volatility drove comp sales down 7% in China in Q4. However, our experienced team in 22 years' history continue 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 '22 versus the levels of the past two quarters as government subsidies are not expected to repeat, we have pressures relating to the impacts of inflation.

The opportunity ahead coupled with tremendous experience and a strong diversified portfolio has been 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 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 of 960 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 will turn to our fiscal '22 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 and process 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 U.S. 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 running well above our long-term guidance of 8% to 10% growth, setting us up for another year of record performance.

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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 won 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 shared is fuel for future margin expansion as sales leverage is one of the most meaningful expansion opportunities we have.

So while we will 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 point 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 with an approximately 40 basis point dilutive impact from a combination of the Starbucks Korea transition as well as the change in non-GAAP reporting treatment, both representing a one-time step down 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 gains. 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 of 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 return to 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-third 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

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our existing triple B plus 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% of lap. 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 phase rollout of wage investments in 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 key 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 remain 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 our 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 to our serving our customers that drive the financial results and outlook that I've shared today.

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

Questions And Answers

Operator

(Operator Instructions)

Our first question comes from the line of David Tarantino with Baird. Please proceed with your question.

Q - David Tarantino {BIO 16201249 <GO>}

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 one time in the cost structure of this year. Anything you can do to help provide some visibility on that path would be great.

A - Rachel Ruggeri {BIO 20021043 <GO>}

Yes, thank you for the question. What I'd say is when we look at our margin that we're guiding to this year and we think about where we're headed into 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 '23, we'll continue those efforts and that's one to let how 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.

A - Kevin Johnson {BIO 3773960 <GO>}

And Dave, this is Kevin, let me just add to Rachel's comment. The strategic investment we are making in wage, here's how to think about it. First, our Q4 in FY '21 revenue results demonstrate that we are growing faster than the coffee addressable market as estimated by your own 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 all is right to the occasion, and create that unique Starbucks experience for our customers. Clearly from

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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 (inaudible) we know we get operating leverage as we get more customers. So if you just take the share gains and you run the spreadsheets of 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 leading into the growth, taking market share that is going to be permanent and the benefit of that market share is going to create significantly more shareholder value than we would create it without the investment, and we're so confident with $20 billion return to shareholders in dividend buybacks. That's how I think about it and that's how I think every shareholder ought to think about this investment.

Q - David Tarantino {BIO 16201249 <GO>}

Okay, thank you.

Operator

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

Q - Andrew Charles {BIO 16591426 <GO>}

Great, thanks. I have a two-part question here, Kevin, what do you attribute to the U.S. acceleration of 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 pressing more transitory like a successful PSL season and Rachel, Just to clarify one piece of the guidance, does the non-GAAP EPS guidance of 340 plus, does that incorporate share buybacks or is that excluded from EPS guidance? And if you just provide a share count that guidance is contingent on to help flesh that out to be very helpful, thanks.

A - Kevin Johnson {BIO 3773960 <GO>}

Yeah. Andrew, I'll take the first part of your question, I'll hand it to Rachel. Look with COVID cases, in this case the delta variant, it creates a 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 variance curve starting to slow, consumer mobility (inaudible), so these are all transitory and they are unpredictable. It is all related to the pandemic. So the acceleration that we saw in both the U.S. and China are the exact same reason. It's just the variable of

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dealing with a global pandemic and these delta variants, these other things pop up, it does have some impact on consumer mobility, but the one thing we know for sure, absolutely, we see 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 a very best most talented Green Apron partners we can is so important.

This is the right time to make that investment and we're confident that the investment is going to return significant value to shareholders. Rachel is going to take the second question.

A - Rachel Ruggeri {BIO 20021043 <GO>}

And for 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 '23 and '24, 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 J.P. Morgan. Please proceed with your question.

Q - John Ivankoe {BIO 1556651 <GO>}

Hi, thank you. Just looking at the numbers, it seems like one of your biggest opportunities is bringing back the U.S. 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-throughs, for example that I was seeing an 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.

A - John Culver {BIO 15817924 <GO>}

Thank you. This is John Culver, it is your perspective on that. Good question. Yeah, John, we're seeing obviously a record number of customers coming back into our stores and that is 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 that continued into Q4. Morning daypart, very strong growth on a year-over-year basis, as well as mid-day and then into the afternoon.

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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, were 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-throughs are most common and which help 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 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-through and the growth of the MLP and we've done a lot of this during the trade area transformation work we did around the stores.

Today drive-through and MLP 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 a very strong holiday season.

Operator

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

Q - Sharon Zackfia {BIO 4804954 <GO>}

Hi, just kind of building on John's question, could you kind of quantify where U.S. 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.

A - Kevin Johnson {BIO 3773960 <GO>}

Yes. What I'd say, Sharon is couple of things. Obviously like all other retailers who are navigating a very complex and unprecedented environment 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'd be staffing, whether it'd 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

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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 (inaudible) 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, and 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, it will be fully rolled out across all of our U.S. 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 strain up, 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 task. So a lot of work going on and 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 scenario 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. Sara, please proceed with your question.

Q - Sara Senatore {BIO 22426028 <GO>}

Hi, sorry. Can you hear me now?

Yes. Okay, sorry about that. I have a question and then a follow-up. The first is on China, it sounds like you're seeing just the impact of the pandemic rather than say, slower macro growth or what others have alluded to or competition. So I guess if you could just kind of talk about that, in the context of what you're seeing there in terms of transaction and ticket, giving back a little bit of the ticket. I didn't know if they are 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 pay-off 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 of obviously depressed earnings growth from the pandemic. Can you just talk about the timing and sort of the front-loading of it. Thanks.

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A - Kevin Johnson {BIO 3773960 <GO>}

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?

A - Leo Tsoi {BIO 19965066 <GO>}

Certainly. Thank you, Kevin. Hi, Sara. My pleasure to put these question. Actually in Q4 last year, last fiscal year, we were impacted by the three waves of COVID insurgence in the entire quarter, which hit 42 cities in total across the quarter. Now, what it means is we saw Alberta Public Health measures that implemented, which significantly reduced the customer mobility and disrupted the consumption patterns.

As you know, the borders also remain closed and when we see what this impact to us, it means that over half of our stores were located in cities hit it by local cases and around 80% of our stores were operating under the Alberta safety protocols at the peak of the resurgence.

So that's why (inaudible) these headwinds we in Q4 delivered a 11% revenue growth year-over-year as Kevin pointed out, and that means in Q4 the (inaudible) minus 7% or minus 3% if we exclude the lapping over of FY '20 VAT release. However, I must say that when we exclude the start (inaudible) with local cases as well as transportation and tourist spots, our com was actually partly excluding the FY '20 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-ofo COVID related (inaudible) FY '20, we actually achieved improvement on the operating income.

So this is really showing and demonstrating our team's operation ability. So what I was telling you say Sara, we are seeing this pandemic dynamics happening in the market, but I'm confident in saying that is short-term and they're 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 the short-term volatilities with our team's ability while capturing the key opportunity by, for example, accelerating our growth and elevating our fiscal engagements and our customer experience.

I think it's all going to power our future growth and build sustainable competitive advantage of Starbucks China.

Kevin over to you.

A - Kevin Johnson {BIO 3773960 <GO>}

Thank you, Leo. so let me take the second half of your question, backup your question regarding these investments, and it is going 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 close all of our stores in the United States and just cut drive-throughs open.

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That was a big strategic decision and we made that decision certainly staying true to our mission and 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 will 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 get better economics and to elevate the customer experience. That strategic decision, we had the courage to make that and that strategic decision today is giving us margin expansion, and 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 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 work. 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 gains, 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 is why we reinforce our confidence with this $20 billion return to shareholders in the form of repurchases and buybacks. Thanks for your questions.

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Operator

Thank you. My next question comes from the line of John Glass with Morgan Stanley. Please proceed with your question.

Q - John Glass {BIO 2450459 <GO>}

Thanks very much. In addition to the wage pressure, you called out the supply chain pressures, I'm wondering how transient you think those are, is that something you anticipate 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 are you confident or

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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.

A - Unidentified Speaker

Okay. Let me hit, look I've Rachel to comment, I want John Culver to give you sort of the perspective on where we're at supply chain. Rachel?

A - Rachel Ruggeri {BIO 20021043 <GO>}

I'll start with the perspective in terms of how we think about it. Within our guidance, now turn it over to John, he can speak more to the specifics. But from a guidance standpoint, as I talked about my prepared remarks, about 200 basis points of margin dilution related to a combination of supply chain pressures, exploration related to the supply chain pressures, as well as at the local 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 with the combination of logistics, labor as well as commodities. As we move into Q1 and Q2, we would expect that to increase and that it will start to settle in Q3 and Q4.

But, we concluded that as part of our guidance, jump in year because we really don't know when these inflationary pressures will subside and at that point we've got some plans 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 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 that again settles in Q3 and Q4 from a margin perspective. And so with that, I'll turn it over to John for specifics.

A - John Culver {BIO 15817924 <GO>}

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 etc, where it is building throughput and production capacity, we have suppliers adding new lines so that they can increase their safety stock.

We work 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

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pulled back on and deprioritized. So all of that work and the actions that we've taken, we started early on as we begin 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 had in the 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.

A - Greg Smith {BIO 22395447 <GO>}

And since you raised coffee John, we are 14 months price locked on coffee with several months of inventory in the warehouse. So there is not a risk on call.

Q - Unidentified Participant

Thank you.

Operator

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

Q - Jeffrey Bernstein {BIO 7208345 <GO>}

Great, thank you very much. Just the 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. I'm not sure whether that would require a change in the China ownership structure. But we've obviously seen that at your largest multinational QSR peers, I am 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.

A - Kevin Johnson {BIO 3773960 <GO>}

Yeah, let me take 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. And I think China still has a significantly long runway of growth and you see us continuing 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

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seeing and the opportunities we see to continue to grow in 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 partners (inaudible), who has been operating that market, will continue to operate that market. So we're always evaluating that, but we're happy with where we are today and and I guess that's how we are doing about in 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.

Q - John Tower {BIO 18857052 <GO>}

Great, thanks for taking the question. I know, Kevin, you had mentioned a couple of 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 I think (inaudible) 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'd mentioned about a 10% EPS growth off the non-GAAP fiscal 21 of 310 and I think based on the metrics that you offered, I'm having a hard time getting to that 340 plus range in 2022. So maybe some more clarity on some of the line items will be great please.

A - Kevin Johnson {BIO 3773960 <GO>}

All right, so let me take the first part of your question and then again to Rachel on the second part. But 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 price we've built into this plan, but I think we certainly have more upside in price that 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 want to grow share of customer for occasions right now and so that's the balance that we strike and it's really a fairly dynamic thing. So we just prefer not to say, here's what we've built. Because I think we actually have more if we need it and we can 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 world-class analytics and insights and we were very good at this in fiscal 2021, and we're going to be very good at going forward. Rachel.

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A - Rachel Ruggeri {BIO 20021043 <GO>}

And John, what I would say is, if you look at our non-GAAP EPS for FY 21 to $3.24, from a baseline perspective, we're removing the additional week. So that's about $0.10. In addition to that, we have a change in our treatment as for non-GAAP reporting for purposes of integration costs related to acquisitions. That's another $0.4. So that combination of the $0.14 is what we're reducing this year's non-GAAP EPS of 324, down to an adjusted FY21 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, you know From the COVID vaccine for the COVID environment.

We think the combination of that and the dynamic environment we are 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.

A - Kevin Johnson {BIO 3773960 <GO>}

Well, thank you. And now before we close today's call, I want to take this opportunity to welcome Tiffany Willers to Starbucks as our new Vice President of Investor Relations. And I also want to congratulate Greg Smith on his new role of leading Finance for our International and Channel Business. Tiffany brings great experience in Finance and IR in multiple industries, including food and beverage, consumer products and technology, and we look forward to introducing her to our investment community as she begins for various 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 favorite. And with that, have a great evening. Thanks, everybody.

Operator

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

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