Starbucks Corporation (SBUX) CEO Kevin Johnson on Q4 2019 Results - Earnings Call Transcript

Oct. 30, 2019 10:21 PM ET1 comment | 1 Like
by: SA Transcripts

FQ4: 10-30-19 Earnings Summary

Press Release *10-K* *Slides*

EPS of $0.7 | Revenue of $6.75B (7.03% Y/Y) beats by $59.58M

Earning Call Audio

Subscribers Only

0:00:00 -1:20:08

Starbucks Corporation (NASDAQ:SBUX) Q4 2019 Earnings Conference Call October 30, 2019 4:30 PM ET

Company Participants

Durga Doraisamy - Vice President of Investor Relations

Kevin Johnson - President & Chief Executive Officer

Pat Grismer - Chief Financial Officer

Roz Brewer - Chief Operating Officer & Group President Americas

John Culver - Group President, International Channel Development & Global Coffee & Tea.

Conference Call Participants

David Tarantino - Baird

Katherine Fogertey - Goldman Sachs

Jeffrey Bernstein - Barclays

Sara Senatore - AllianceBernstein

David Palmer - Evercore ISI

John Ivankoe - JPMorgan

Sharon Zackfia - William Blair

Matthew DiFrisco - Guggenheim Securities

Dennis Geiger - UBS

Operator

Good afternoon. My name is Hector, and I'll be your conference operator today. I would like to welcome everyone to Starbucks Coffee Company's Fourth Quarter and Fiscal Year 2019 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 Durga Doraisamy, Vice President of Investor Relations. Ms. Doraisamy, you may now begin your conference.

Durga Doraisamy

Good afternoon, everyone and thank you for joining us today to discuss our fourth quarter and fiscal year 2019 results. Today's discussion will be led by Kevin Johnson, President and CEO; and Pat Grismer, CFO. And for Q&A we will be joined by Roz Brewer, Chief Operating Officer and Group President Americas; John Culver, Group President, International Channel Development and Global Coffee and Tea.

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

GAAP results in fiscal 2019 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. Please refer to our website at investor.starbucks.com to find the reconciliation of certain non-GAAP financial measures referenced in today's call with their corresponding GAAP measures.

Additionally as previously announced, restated GAAP and non-GAAP quarterly financial information for fiscal 2018 and through Q3 fiscal 2019 reflecting our realigned operating segment reporting structure and reclassification of certain costs can also be accessed on our Investor Relations website.

I would like to note that during today's call, we will be providing select presentation materials, which can be accessed via the webcast of this call and on our IR website at the conclusion of the call. An archive of the webcast will be available on our website through Thursday, November 28, 2019.

Finally, for your calendar planning purposes, please note that our first quarter fiscal year 2020 earnings conference call has been tentatively scheduled for Tuesday, January 28, 2020.

I will now turn the call over to Kevin.

Kevin Johnson

Well, good afternoon, and welcome. As part of my ongoing visits to Starbucks stores around the world, I'm joining today's call from Tokyo. On this particular trip John Culver and I are joined by Nestlé senior executives to discuss our collective strategies for growth and review the great progress our teams have made implementing Global Coffee Alliance.

Today I'm pleased to share that Starbucks delivered strong operating results again in Q4, capping off a transformative year for the company as we continue to execute our Growth at Scale agenda with focus and discipline.

Pat will review our financial results in more detail later in the call, but I'll start by sharing performance highlights for the quarter and the year as well as some key actions we've taken and important investments we've made to enable predictable, sustainable growth while delivering value for all our stakeholders as we build an enduring company at Starbucks.

In the fourth quarter, Starbucks delivered revenue growth of 10% excluding the 3% impact of streamline activities and foreign exchange led by global comp sales growth of 5% and net store growth of 7% year-over-year. These strong operating results yielded non-GAAP EPS of $0.70 for the quarter up 13% from last year.

In the U.S., we posted comp sales growth of 6% in Q4 including comp transaction growth of 3%. That's a two-year sales comp of 10% for Q4 a sequential improvement over our very strong results in Q3 and our best performance in the U.S. in over two years.

In China we posted 5% comp sales growth in Q4 including comp transaction growth of 2%. That's a two-year sales comp of 6% for Q4 demonstrating continued positive momentum in our fastest-growing business, where we increased our store base by 17% over the prior year.

For the fiscal year, Starbucks delivered record results in both total net revenues and non-GAAP EPS. Total net revenues were $26.5 billion up 10% over the prior year when adjusted for streamline activities and foreign exchange. This included 5% global comp sales growth for the year in over 1,900 net new stores globally, yielding a record non-GAAP EPS of $2.83 for fiscal year 2019 up 17% versus prior year.

With more than 31,000 stores in 82 markets welcoming over 100 million customer occasions each week and enabling over one billion digital customer occasions per year, Starbucks is a part of our customers' everyday routines around the world. And I applaud, the 400,000 green apron partners, who deliver a premium Starbucks Experience to every customer they serve. Because of our partners, we are achieving even higher levels of customer loyalty and brand preference.

Now let me highlight some of the key initiatives and investments that drove our strong growth in fiscal 2019. And have laid the groundwork for what we expect will be another year of strong operating performance, in fiscal 2020.

In keeping with our Growth at Scale agenda, I will talk about how we're accelerating growth in the U.S. and China. How we're extending the reach of our brand through the Global Coffee Alliance with Nestlé. And how we've increased stakeholder returns.

Now I'm very proud of the progress the team has made against our three focused initiatives to accelerate growth in our U.S. business, enhancing the in-store experience, delivering relevant beverage innovation, and driving digital relationships.

We have strong evidence that our approach is working, as demonstrated by the fact that we are seeing traffic growth across all day parts. And we intend to build on this momentum in the year ahead.

We continue to see a strong correlation between Starbucks partner engagement and customer connection, which leads to increased customer frequency. This reinforces our belief that the Starbucks Experience, delivered by our partners is a key competitive advantage.

And therefore, we are making targeted investments to elevate the partner experience, with clear evidence that this in turn elevates the customer experience and drives growth.

Throughout fiscal 2019 in the U.S., we invested in our partners, by allocating additional store labor, increasing store-level training, and simplifying in-store tasks, often with new technology.

For example, we introduced a new staffing and scheduling system to optimize labor allocations based on partner preferences and predictive analytics. These investments in our partners collectively elevated customer connections as evidenced by an all-time high in customer connection scores in Q4.

And we will build on this momentum, with incremental partner investments in fiscal year 2020. We also continue to invest in beverage innovation. And I'm pleased to say that beverages contributed five points of our U.S. comp sales growth in the fourth quarter, led by the strength of our cold beverage platform.

We completed our rollout of Nitro Cold Brew across company-operated stores in the U.S., this summer and introduced new cold pumpkin beverage offering, the Pumpkin Cream Cold Brew.

And we're very encouraged by its reception. We expect this momentum to continue, as we move into the favorable holiday season. And we look forward to sharing more details with you in the weeks ahead.

And finally, we have continued to pursue new opportunities to expand digital customer relationships, investing to meet customers' increasing desire for convenience and personalized offers.

Supported by the successful launch of multi-tier redemption in early Q3, we saw U.S. Starbucks Rewards grow to 17.6 million active members at the end of Q4, a year-over-year increase of 15%.

This is an important growth driver because we know from experience, that when customers join Starbucks Rewards their spend level with Starbucks increases meaningfully.

On our last earnings call, I outlined the important strategic role that our digital flywheel plays in growing digital customer relationships.

Clearly, that strategy is working. I want to highlight another very important element of our digital strategy, artificial intelligence. Over this past year, we have been dialling up our in-house capabilities and investments in AI with an initiative we call, Deep Brew.

Deep Brew will increasingly power our personalization engine, optimize store labor allocations, and drive inventory management in our stores. We plan to leverage Deep Brew in ways that free up our partners, so that they can spend more time connecting with customers. Deep Brew is a key differentiator for the future. And as we continue our quest to build world-class AI capabilities, to better support partners.

Moving on to how we've accelerated growth in China, looking back over this past year, I'm very pleased with the progress we've made to capitalize on one of the world's most compelling growth opportunities led by strong store development, expanded digital customer engagement, and category-leading innovation.

Store development continues to be our number one driver of growth in China. We opened over 600, net new stores in fiscal 2019, and crossed the 4,000 store mark, while maintaining best-in-class new store returns.

As we expand our store footprint, we have also been investing in innovative retail formats, including our Starbucks Now store in Beijing that opened in July, a unique, express retail experience, that seamlessly integrates physical and digital touch points, to enhance the Mobile Order & Pay, and the Starbucks Delivers customer experience.

We are seeing encouraging early results from this new format. And in China we plan to open new Starbucks Now stores in top tier cities in fiscal 2020, leveraging this new store format to complement the third place store formats and increase market penetration.

As we've expanded our physical presence in China, we've also made significant strides expanding our digital presence in this fast-growing market. The Starbucks Rewards program in China, which we upgraded in December 2018, continues to rapidly drive new membership.

At the end of Q4, active members reached 10 million, up 45% over the prior year. To support this growth, we up-leveled our Tmall flagship store in September to offer our Starbucks Rewards members, exclusive products and a tailor-made gift experience. And we enabled members to earn Stars from online shopping.

We recently celebrated the one-year anniversary of our China digital partnership with Alibaba, and I'm pleased to share that we surpassed our goal of expanding Starbucks Delivers to 3,000 stores in 100 cities by the end of the fiscal year. This propelled mobile order sales mix in China to 10% in the fourth quarter with seven points coming from Starbucks Delivers and three points from our recently launched mobile order for pickup.

In the fourth quarter, we also ushered in a new era of digital customer engagement in China with the launch of voice ordering and delivery via Tmall Genie, as we continue to enhance the customer experience around mobile ordering. These elevated digital experiences are key drivers of accelerated growth in Starbucks Rewards membership in China and provides significant momentum for us to introduce further innovations in fiscal year 2020 as we work to constantly elevate the customer experience and reward loyalty.

Moving on to the Global Coffee Alliance, just one year after announcing this alliance with Nestlé, we have launched three new coffee platforms in over 30 new markets: Starbucks by Nespresso, Starbucks by Dolce Gusto, and Starbucks roast and ground coffee. We did this in record time and ahead of schedule. In addition to the coffee platforms, we also launched a new product category Starbucks Creamers in North America in Q4.

We entered China's at-home and food service segments through the alliance, allowing Chinese consumers to enjoy some of their favorite Starbucks coffees in the comfort of their home. This partnership has enabled us to accelerate the global reach of the Starbucks brand in key markets. And looking ahead, we plan to be in 50 global markets in the first half of 2020.

Moving on to returns to one of our key stakeholder groups, our shareholders. In the fourth quarter, we returned nearly $3 billion to shareholders through a combination of share repurchases and dividends bringing our full year shareholder capital returns to $12 billion.

Including what we returned in fiscal year 2018, we've now returned approximately $21 billion to shareholders, well on our way to meeting our three-year commitment of $25 billion by the end of fiscal year 2020.

And I'm pleased to share that our board has approved a 14% dividend increase this quarter, making the 10th consecutive year that we've increased our dividend by a double-digit percentage. Our Growth at Scale model combined with our strong balance sheet position Starbucks to have the financial flexibility to both invest in our growth and reward our shareholders.

In closing, our fiscal year 2019 performance gives us confidence that our Growth at Scale agenda is helping unlock the full potential of the Starbucks brand. With great intentionality, we've invested in our partners, in technology and in our stores to drive long-term growth. And we’ve made significant progress to streamline our company through organizational restructuring and through the licensing of some international markets, enabling us to bring even more focus and discipline to the core of our business.

This has helped us to accelerate the pace of innovation at Starbucks, both at the support center and in the field to deliver relevant, meaningful and inspiring experiences for our partners and our customers.

And with the plans that we've developed for fiscal year 2020 including continued investment, we are excited about our ability to sustain this growth in the years ahead. Reflecting back on the historic Starbucks Leadership Experience, we hosted in Chicago last month, it is my strong belief that the store manager plays a pivotal role in the growth and success of our company.

That is why we convened 12,000 store managers and field leaders from the U.S. and Canada to reflect on and celebrate our mission and values while recommitting to the shared belief that by better serving our partners we enable them to stand shoulder-to-shoulder and create best moments for our customers. This is at the center of who we are as a company, and will remain a guiding light as we go forward.

The Chicago leadership experience was an important milestone in our journey, and we will be back in Chicago again next month for another key milestone, the opening of our sixth Starbucks Reserve Roastery. This will be the largest Starbucks store in the world, a beautifully designed iconic store on Michigan Avenue. And I can't wait to celebrate this opening with our partners and customers, and we hope to see many of you there soon.

With that, I'll turn over the call to Pat and look forward to taking your questions later in the call. Pat?

Pat Grismer

Thank you, Kevin, and good afternoon, everyone. There are three key points that I want to emphasize today. First, fiscal 2019 was a very good year for Starbucks financially, reflecting sustained upward momentum in our business. Second, we are confident in our ability to deliver non-GAAP operating income growth of 8% to 10% in fiscal 2020, underpinned by revenue growth of 6% to 8% demonstrating modest margin expansion even as we continue to invest for the long term. And third, we remain fully committed to our long-term model of double-digit non-GAAP EPS growth.

I will begin by sharing segment highlights for our fourth quarter and an overview of key trends across fiscal 2019 followed by our guidance for fiscal 2020. Our Americas segment delivered 9% revenue growth in Q4 driven by comp sales growth of 6% and net new store growth of 3% over the past 12 months. Lapping 4% comp sales growth in Q4 of last year, our U.S. business delivered an impressive 6% comp sales growth in Q4 of this year, driven equally by transactions and average ticket. These results were led by an improved in-store experience a strong beverage lineup and increased digital engagement as Kevin mentioned.

Transactions grew across all dayparts for the second consecutive quarter and beverage led our comp growth for a fifth consecutive quarter driving five points of comp sales growth with food contributing the remaining point.

The majority of the beverage growth was driven by our cold platform, which grew across all dayparts led by cold coffee, refreshment and tea. The Nitro Cold Brew platform, which reached full penetration of our company-operated stores by the end of Q4, and was supported by national advertising for the first time in August continued to be well received drawing more occasional customers and slightly favoring the afternoon daypart.

Our fall beverage lineup also performed extremely well, driven by the success of our pumpkin platform, along with cold coffee and Nitro. Beverage attach, beverage mix and pricing contributed evenly to the 3% growth in the average ticket for the quarter.

Americas' non-GAAP operating margin contracted by 100 basis points to 20.2% in Q4 primarily due to the onetime investment in our leadership conference as we've discussed on previous calls growth in wages and benefits and increased investments in labor hours to elevate the in-store experience, while accommodating higher volumes. These increases in expense more than offset meaningful contributions from sales leverage and cost savings initiatives, notably supply chain efficiencies.

Moving on to our International segment which delivered revenue growth of 6% on a reported basis in Q4. Excluding the unfavorable impact of streamline-related activities and foreign exchange at 5% and 1% respectively, revenue grew 12% in the quarter. This was driven by 11% net new store growth over the past 12 months and 3% comp sales growth.

I would now like to highlight the fourth quarter performance of our lead international growth market, China. New store development continues to be our number one driver of growth in China and I'm pleased to say that, our pace of development in Q4 set a new record as we opened 201 net new stores growing store count by 17% versus the prior year.

Importantly, our new stores continued to deliver exceptionally high returns even as we extended our presence to new cities, while infilling established cities. China delivered comp sales growth of 5% in Q4, including 2% comp transaction growth led by the strength in digital customer engagement, primarily the growth of delivery Starbucks Rewards loyalty program and MOP.

Our International segments non-GAAP operating margin increased by 70 basis points to 21.7% in Q4. When excluding the 60 basis point favorable impact from streamline-related activities, the segment's non-GAAP operating margin increased by 10 basis points as the benefits of sales leverage cost savings initiatives and labor productivity were largely offset by growth in wages and benefits, an unfavorable shift in product mix and strategic investments.

On to Channel Development, revenue declined 6% in Q4. Excluding the impact of streamline-related activities primarily the Global Coffee Alliance segment revenues increased approximately 5%. Non-GAAP operating margin declined by 510 basis points to 37.6% in Q4, when excluding the 310 basis point impact related to streamline, Channel Development's operating margin declined 200 basis points in Q4 fiscal 2019, primarily due to an and unfavorable shift in revenue mix.

I'd now like to take a step back and share some key insights from our full year performance underscoring our upward momentum across the year. Let's start with revenue. For the year, we reported top line growth of 7%. Excluding the 3% unfavorable impact of streamline and foreign exchange combined our revenues grew 10% above our long-term growth algorithm of 7% to 9%. These results demonstrate our potential to outperform our long-term model.

In the first six months of fiscal 2019 be reversed the negative trend in U.S. comp transaction growth that had persisted for several quarters and sustained it at 3% in the second half of the year. The turnaround in China's comp transaction growth moving from declines in the low to mid-single digits last year to an increase of 2% this year was equally impressive, especially considering our accelerated pace of store development in that market.

And speaking of China development it's worth noting that our store openings in lower-tier cities in China accounted for a meaningfully higher percentage of total store growth in that market versus the prior year. Yet portfolio investment returns remained very robust demonstrating Starbucks' resonance with China's growing middle class. Our store development in the U.S. was also quite healthy as we grew net new stores by 3% in fiscal over 19 even with the higher level of closures relative to the prior year as we repositioned our store portfolio for future growth. This is industry-leading domestic growth for a retail business of Starbucks' scale and coupled with relatively low penetration in certain geographies gives us confidence that we'll continue to achieve our 3% to 4% ongoing net new store growth target in the U.S.

Moving to margin. We reported consolidated operating margin of 17.2% for fiscal 2019 on a non-GAAP basis, down 80 basis points year-over-year and in line with our ongoing model of 17% to 18%. That said, I would like to highlight some anomalous items that impacted our year-over-year margin performance, four headwinds and one tailwind. The four headwinds were 70 basis points from streamline-driven activities; 50 basis points from U.S. tax reform-funded investments; 20 basis points from Siren Retail; and another 20 basis points from our onetime investment in the Chicago leadership conference. The one tailwind was 40 basis points from stored value card breakage due to a change in accounting treatment.

Adjusting for all these items, consolidated non-GAAP operating margin was up 40 basis points, reflecting the benefits of sales leverage and productivity improvements, partially offset by nontax reform-funded investments in our partners, technology, product innovation and stores. As Kevin mentioned earlier, we believe these investments are critical to strengthening our competitive position in order to sustain long-term growth consistent with our ongoing growth algorithm.

And finally EPS. We reported full year non-GAAP EPS of $2.83 above the high end of our previous guidance. Excluding a 7% benefit from unplanned tax favorability and a 1% benefit from streamline-related activities, partially offset by a 1% headwind from foreign exchange, non-GAAP EPS growth was 10% consistent with our long-term EPS growth model of at least 10%.

So in summary, our fiscal 2019 results not only reinforce our confidence in the strategies we're implementing to grow the business, but also demonstrate the robustness of our long-term double-digit EPS growth algorithm.

Moving on to our guidance for fiscal 2020 starting with the key driver of our growth company-operated comp sales growth. Globally, we are expecting comp sales growth of 3% to 4% in fiscal 2020 fueled by our two lead growth markets: the U.S. at 3% at 4% and China at 1% to 3%. All of this is consistent with our ongoing growth model.

Moving on to the next key growth driver retail store development. We expect to add approximately 2000 net new Starbucks stores globally in fiscal 2020 a sequential improvement over fiscal 2019. Over half will be located in the U.S. and China combined with China delivering approximately 600 net new stores representing mid-teens growth versus the prior year. As with comp growth this is consistent with our ongoing growth model.

With his combination of comp growth and unit growth, we are expecting enterprise-level top line growth of 6% to 8% in fiscal 2020. The one percentage point difference between next year's expected revenue growth and our ongoing growth model of 7% to 9% revenue growth is attributable to two things: number one the sale of our ownership interest in

Thailand in mid-fiscal 2019; and number two an expected 7% to 8% decline in Channel Development's revenue as we lap certain items related to the Global Coffee Alliance that benefited the segment's top line growth in fiscal 2019.

Adjusting for these items, Channel Development's revenue growth in fiscal 2020 is expected to be at the lower end of our ongoing range of 4% to 6%. The Global Coffee Alliance became EPS accretive in fiscal 2019, outperforming our original expectations. And we expect it to continue to be EPS accretive on a cumulative basis, including the associated share repurchase benefit funded in Q1 of fiscal 2019 by $5 billion of after-tax proceeds from Nestlé.

Let's move on to fiscal 2020 operating margin. Globally and across each of our operating segments, non-GAAP operating margin is expected to improve modestly over fiscal 2019, primarily due to sales leverage, cost savings initiatives across our supply chain and overhead efficiencies. The favorability from these items is expected to be partially offset by continued investments in our company-operated retail business primarily related to our partners and technology.

Let me add two additional points to the operating margin equation for fiscal 2020. First, commodities are expected to have minimal year-over-year impact on cost of goods sold, as we expect favorability in green coffee prices, net of farmer support payments to be more than offset by higher dairy costs. At this point, our overall coffee needs are over 80% price locked for fiscal 2020.

Second, a few comments on G&A. Net of investments, we expect meaningful G&A leverage in fiscal 2020 due to organizational efficiencies, the completion of Roastery development and the lap of our leadership conference. The recent reclassification of certain line items in the middle of our P&L also meaningfully benefits G&A, while adversely impacting store operating expenses. As a result, while our long-term operating income margin target of 17% to 18% still includes a 100 basis point overhead efficiency improvement through fiscal 2021, it is now spread across G&A and store operating expenses.

Below the operating income line, we expect considerably higher interest expense ranging between $415 million and $425 million in fiscal 2020 versus approximately $330 million in fiscal 2019. This is driven by debt issuances totaling $5 billion in the past 14 months combined with what we expect to issue this fiscal year. Importantly, we remain committed to maintaining our leverage ratio below three times adjusted debt to EBITDAR.

As to the tax rate in fiscal 2020, we expect our effective GAAP and non-GAAP tax rates to be between 22% and 24%. This compares with a non-GAAP rate of 19.4% in fiscal 2019, which benefited from certain unplanned tax items that are not expected to repeat to the same degree in fiscal 2020.

Capital expenditures in fiscal 2020 are expected to total approximately $1.8 billion roughly flat to fiscal 2019, reflecting the opening of our final Roastery next month and the licensing of several company operated markets. Over 80% of our capital spending in fiscal 2020 will be allocated to where we see significant return opportunities within our Starbucks retail portfolio, new stores and strategic store-related initiatives including renovations of existing locations.

Finally, at this juncture, we foresee minimal impact from foreign currency movements in fiscal 2020. So when you add it all up, our total revenue growth of 6% to 8% for fiscal 2020 is expected to translate into non-GAAP operating income growth of 8% to 10% consistent with our ongoing growth model.

We expect GAAP EPS in the range of $2.84 to $2.89, down slightly from fiscal 2019 due largely to the lap of the one-time gain attributable to the licensing of our Thailand operations. We expect non-GAAP EPS in the range of $3 to $3.05, representing growth of 6% to 8%. Excluding the increase in our effective tax rate as we lap certain items that benefited fiscal 2019, this equates to expected non-GAAP EPS growth of 11% to 13% in fiscal 2020 consistent with our ongoing model of at least 10% EPS growth.

As a reminder, we expect the lap of income tax rate favorability for fiscal 2019 will impact our quarter-to-quarter non-GAAP EPS growth in fiscal 2020 with Q1 being the lowest at flat to down slightly given a nine percentage point EPS growth headwind tied to last year's tax rate.

Additionally, with the lap of the leadership conference in fiscal 2019, we expect year-over-year non-GAAP EPS growth to be at its highest in Q4 for fiscal 2020. And with respect to quarterly cash flows, we expect to make a tax payment of approximately $1 billion related to the Nestlé transaction in early Q2.

So let me wrap things up. First, we are very pleased with our in fiscal 2019 results. Second, we expect that fiscal 2020 will be another good year for Starbucks, delivering 8% to 10% operating profit growth. This demonstrates that we are executing very well from an operational perspective, underpinned by continued focus in discipline. And third, we are fully committed to our long-term model of double-digit non-GAAP EPS growth and will continue to make the investments necessary to sustain this growth over the long term.

With that, Kevin and I are happy to take your questions joined by Roz Brewer and John Culver, as Durga outlined at the top of our call. Thank you. Operator?

Question-and-Answer Session

Operator

Thank you. [Operator Instructions] Your first question comes from the line of David Tarantino with Baird. Please proceed with your question.

David Tarantino

Hi. Good afternoon. Congratulations on great results here. My question is on the Americas traffic strength you've seen; it seems like you've picked up some momentum here even as you look at relative to the last quarter you're cycling a tougher comparison. So I was wondering if you could just talk about the elements that drove that? And whether operations -- I know you said you saw traffic positive throughout all the dayparts. I'm wondering how big of an impact you think operations have versus some of the product news you had during the quarter? Thanks.

Kevin Johnson

David, thanks for the question. Roz, do you want to take that one for us?

Roz Brewer

Sure, I'll take that one. David, thank you for the congratulations. And it was a combination of both. So within the quarter two things happened. We -- beverage innovation continued, but we also promoted beverages pretty heavily in the quarter. And so we promoted what the plans were for early July beginning with our flavored iced teas and then the fall beverage lineup highlighted by the pumpkin platform.

And that helped immensely in addition to the work that we've done to free up the work and the administrative work of our partners in the stores so that they can engage with the customers, allowed them to have great interactions and we were able to see that in all dayparts.

Additionally our drive-through business continues to grow well and you'll see that continue through fiscal year 2020. I will also mention that the work that we continue to do to engage our customers from a digital perspective has also been helpful particularly when we introduced multitier redemption. And that's allowing us to speak with our occasional customer and they're engaged in both the afternoon as well as our Happy Hour business.

Kevin Johnson

And David I'll just punctuate. The Growth at Scale agenda really is about delivering predictable sustainable growth. And to do that we've really sharpened the focus on the elements that Roz mentioned and are executing with discipline. So if you look at the three initiatives that we prioritize for this elevate the experience in our stores drive relevant beverage innovation for our customers and grow digital customer relationships. Those three things are what's driving an all-time high in customer connection scores. That is in turn driving traffic growth.

And those same three priorities that we've focused on throughout fiscal year 2019 will be the same ones we continue to drive in fiscal year 2020. And that's part of what gives us confidence that we are pushing on the right elements that we think differentiates the Starbucks brand versus alternatives in the market, strengthens the connection between our partners and the customers, driving customer connection scores to an all-time high and in turn driving traffic and growth.

Operator

Your next question comes from the line of Katherine Fogertey with Goldman Sachs. Please proceed with your question.

Katherine Fogertey

Great. Thank you. My question actually is about the new espresso machines that you guys were trialing and testing, but it looks like you're rolling them out a little bit more broadly here. Curious what kind of benefits you're seeing from the new machines both in customer satisfaction, quality, and throughput. How many stores have them? And how long will it take for the whole base to, at least in the company-owned side, to get an upgrade to these new machines? Thank you.

Roz Brewer

Yes. So...

Kevin Johnson

Go ahead, Roz.

Roz Brewer

Katherine – sure so concerning the Mastrena machines that you're referring to for espresso engagement in our stores yes, we are improving the number of Mastrena machines we have across the fleet. In addition to that I think you're aware that we also placed Nitro machines in all of our U.S. company-operated stores as well. This is representing the work that we're doing with beverage innovation. We're continuing that expansion with Mastrena and should finish that work in the next 12 months or so.

Kevin Johnson

Katherine, there's three key benefits of this new Mastrena machine that I want to really punctuate. Number one, is it can pull a triple shot espresso with one pull. Today in our older machines you have to pull a Doubleshot and then another single shot for any beverage that has three shots of espresso. So just that alone reduces the amount of time that a partner at the bar would need to take if they're preparing a beverage that has three shots of espresso in it. So that's number one big efficiency unlock.

Number two, those machines have Internet of Things sensors built into them. And so we get telemetry data that comes into our support center. We can see every shot of espresso that's being pulled and we can see centrally if there is a machine that's out there that needs tuning or maintenance. And that allows us to improve the quality of the shots that we're pulling.

And third, with the Deep Brew and our predictive analytics, we're going to be able to determine if a machine needs preventative maintenance on it before it breaks. And so that simplifies things for our partners. John you want to comment on the--

John Culver

I would just say Katherine on the international side we're also rolling the machines out internationally as well. And I think the benefits that both Roz and Kevin hit on are important benefits that we're seeing translate into the international markets as well.

I would also just add that our partners absolutely love these machines and it gives them much more visibility to the customer due to the lower profile of the machine itself being able to interact with customers and engage with them. And the benefits thus far are very meaningful for the business across all markets.

Operator

Your next question comes from the line of Jeffrey Bernstein with Barclays. Please proceed with your question.

Jeffrey Bernstein

Great. Thank you very much. Question relates to China. Clearly, it seems like you're back to solid mid-single-digit growth the past couple of quarters. I'm wondering using 2020 hindsight here maybe what you think were the greatest challenges over the fourth quarter period or so where it seems like the comp trends were really challenged whether you thought it was internal or macro or competition? What do you think kind of resurrected that business?

And with that as a backdrop, again, having done mid-single-digits the past two quarters just wondering why you think the fiscal 2020 guidance for 1% to 3% is appropriate when it seems like you're on track and running ahead of that level? Thank you.

Kevin Johnson

Thanks Jeffrey. John why don't you --

John Culver

Yes, I think Jeffrey this -- what we're seeing in China is a direct result of the digital footprint that we've been able to build there as well as the meaningful innovation that we're bringing products in Modern Mixology and then the innovation that we're doing around our store footprint.

And digital obviously is moving very fast. And for us, as Kevin highlighted in his comments, digital orders represent 10% of the business that we saw in the quarter, 7% of that coming through delivery which is an entirely new channel for us and then 3% coming through Mobile Order & Pay. So, digital has had a meaningful impact a positive impact on the business.

And just beyond the comp performance we talk a lot about the acceleration of the store footprint and we had record new stores opened in the quarter. We continue to see very strong economic returns. We continue to see very strong revenue growth of 18% in the quarter, majority of that is driven by new stores.

And then new customers and existing customers frequenting our stores, total transactions in the market grew at solid double-digit for another quarter which is great results by the team. So, feel very confident about our position in China and the work that the team is doing there.

Kevin Johnson

Pat why don't you take the second question around that the Growth at Scale long-term Growth at Scale growth model and specifically the way we think about our comp guidance in China.

Pat Grismer

Absolutely. Jeff we are very pleased with our overall momentum that we're seeing in our business. But it's premature to revise the ongoing long-term guidance that we provided at our 2018 Investor Day. Our policy is to guide conservatively communicating expected outcomes that we have a high degree of confidence we can deliver. It's the predictable sustainable growth that Kevin referenced earlier.

Specifically in relation to China, the market dynamics there that are impacting our comp are unchanged from where they were a year ago. We are continuing to open new units at an accelerated pace. And of course that puts pressure on existing units through sales transfer. We're also continuing to see a slower overall growth rate in the economy. And we're seeing a more intense level of competition, I would say in part because of the success of that we've enjoyed and the opportunity we've highlighted in the specialty retail coffee category.

So, when you take all of those together we believe that it is prudent to guide to comp growth in China in the range of 1% to 3% again consistent with our ongoing model. We're delighted with the performance of the business this past year but it's -- and we certainly are optimistic about our ability to sustain strong performance into fiscal 2020. But we believe it's prudent to reaffirm our guidance of 1% to 3%.

Operator

Your next question comes from the line of Sara Senatore with AllianceBernstein. Please proceed with your question.

Sara Senatore

Thank you. I wanted to ask a bit about some of the investments you've talked about making whether it's in the Americas or in China perhaps. Because with such good comps you talked about a little bit of the offset and the headwinds from some of these investments. So, in the Americas, when I look at the operating -- store operating expenses, it looks like it's grown a bit faster than top line. Should we expect that to be the case going forward, which is to say this year was more like a step up in some of the investments you are making in your partners? Or should we just expect that going forward in order to sustain the kind of service levels and customer and partner engagement you have, you're going to probably need to continue to invest at this pace?

And then with respect to China, if you could just talk about investments there and maybe even the product mix, you talked about as being unfavorable. Is it value? Or is it just food or other things that are going on? Just some of the margin headwinds specifically please?

Kevin Johnson

Pat, why don't I let you take that with Sara, and then we'll see if Roz and John need to add to it. But why don't you go ahead and lead?

Pat Grismer

Okay. Thank you, Kevin. Sara, what I'd like to do first is maybe just step -- take a step back and talk about Q4 in total. In my prepared remarks, I talked about consolidated margin across all of fiscal 2019. I'd like to focus more specifically on Q4 here, because the dynamics were a bit different. So, on a reported basis, our non-GAAP operating margin of 17.2% represented a 90 basis point decline compared to Q4 of last year.

But what I would highlight is that embedded in that is a 70 basis point impact from our leadership conference as well as a 30 basis point impact from streamline-driven activities. So when you exclude those, our non-GAAP operating margin actually improved 20 basis points.

Now I think your point, admittedly a 20 basis point margin improvement seems very modest in the context of a 5% global sales comp for the quarter, particularly in relation to other quarters. So what I'd like to do is highlight what was unique to Q4, including recent trends impacting our flow through, which primarily relates to two margin drivers within our Americas segment.

The first driver relates to the investments we're making to sustain long-term growth exactly to your point. Along with the tax reform funded investments in partner wages and benefits that we initiated in fiscal 2018, we invested in additional labor hours in Q4 to build on our positive sales momentum drive higher levels of customer connection and explore opportunities to unlock capacity in stores that we believe are best positioned to capture incremental sales at peak.

This effort tested the upper limits of investment potential to determine where the future payback could be greatest in terms of incremental sales. This investment was not intended to completely payback during the quarter.

However, it provided us and this was our goal with a substantial amount of data. And we're leveraging these insights to optimize our labor deployment going forward. This is the artificial intelligence and machine learning that Kevin referred to earlier.

So, in addition to those labor hours, we also invested in store-level equipment, as Roz mentioned, to support new product platforms like Nitro Cold Brew and to improve our operating efficiency. So that's the first driver, it’s really in the area of investment.

The second driver relates to inflationary pressures in wages and benefits as well as occupancy expense. Now consistent with our discussion in Q3, we are seeing margin pressure from continued increases in statutory minimum wages coupled with inflationary increases in rent, culinary maintenance and real estate taxes.

All that said we do expect modest margin expansion in fiscal 2020 as we've guided as we continue to balance our investments with expected benefits from sales leverage and ongoing cost savings initiatives notably in our supply chain.

Now, I'd also like to take a minute or two to talk about China, because of the dynamics there are slightly different. We do expect to continue to make investments there in order to sustain strong comp growth even as we have accelerated our pace of development. But one thing that is slightly different is product mix.

Product mix in the last year -- and we foresee this continuing into fiscal 2020 is a bit of a headwind in China. And one of the drivers of that is the growth in our delivery sales mix. As we've discussed before, delivery transactions are on the margin dilutive to our total margin.

However, they are highly incremental. So even while diluting our margin percentage, they grow total profit dollars. And that is different from what we are seeing in our U.S. where delivery is in the very early stages and growing more immodesty. So that is probably the key difference between China and the U.S.

But what is consistent across both and is an important part of our strategy going forward is continuing to make those strategic investments in our business that strengthen key points of competitive difference and help us to sustain top line growth for the long term. But it does come at the expense of what would otherwise be much stronger margin expansion on the back of the consistent comp growth that we're expecting going forward.

Operator

Your next question comes from the line of David Palmer with Evercore ISI. Please proceed with your question.

David Palmer

Great. Thanks. Good evening. Question on the key drivers between the U.S. and China. Even as I listened to this call, it sounds like there is an interesting contrast where China's more of a digital flywheel story with that 45% growth in rewards and you had that big jump up in digital order partly fueled by delivery. In the U.S., you've had that mid-teens growth in rewards users. But all the while this year you've been ramping up as your cold beverage growth seems to be ramping. So I wanted to ask you, do you agree with that characterization in terms of the top drivers in each market? And how do you think those will play out in fiscal 2020? Thanks.

Kevin Johnson

Yes. Let me just frame kind of my thinking at a high level David and then I'll hand over to Roz and John to comment specifically on U.S. and China. I do think that while we're focused on the same key things to create a great experience in our stores to drive beverage innovation that's relevant to our customers and to grow digital customer relationships the two markets are very different. Clearly, in China this past year, we've seen a significant step forward in our digital customer relationships. A lot of that driven with our China digital partnership with Alibaba, we introduced a spend-based rewards program in December. We launched the ability for mobile order for pickup. We launched Starbucks Delivers.

And in China what you see is the consumer base in China is much more digitally savvy than any other market in the world. You just look at the percent of tender that's paid on the mobile app with Alipay or WeChat Pay. You look at the numbers scenarios in China that are digital mobile scenarios. And so the work that Belinda and Leo and our great China leadership team did this year in many ways was anchored around taking a big step forward in the digital flywheel. And that's where a year ago we didn't have mobile ordering for pickup or delivery. Now 10% of our sales mix is coming from that with seven points from Starbucks Delivers and three for mobile order for pickup.

In the U.S., I think in that particular market, we've had digital flywheel and the active rewards member growth for several years now. And I think in the U.S. a lot of this was continuing to extend and accelerate that. But I think more importantly, the work that's gone into creating -- elevating the customer experience in our stores and really sharpening our focus on the beverage innovation, while at the same time expanding digital customer relationships has helped. I don't -- delivery Starbucks Delivers in the U.S. still is very small. It's less than 1% of our sales mix. And I think part of that is because the cost dynamics are different in China versus the U.S.

And I think the Chinese consumer is much more advanced in these digital scenarios than in the U.S. But I think we're going to continue to watch and see how that evolves in the U.S. Let me hand over to -- so I guess the net is David I think we do have two very different markets with the consumer behavior and the state of evolution of Starbucks. And our capabilities in those markets continues to evolve in a way that's relevant to the customer mix in each of those two markets. Roz, why don't you add the things you think are important on the U.S. side? And then John, why don't you do the same on China?

Roz Brewer

Sure. I'll just add a few things here just to highlight that we're still seeing growth in our digital flywheel. Just in this quarter alone our loyalty programs contributed nearly two points of comp and that's making up about 42% of our tender right now. And typically in the fourth quarter where we usually see retraction, we actually saw active member growth of about 15% year-over-year approaching almost 18 million members. And then the new Starbucks Rewards which we're calling Starbucks Rewards 4.0 we're seeing good performance in our 90-day active consumers. And it's in line with our expectation. So we're still seeing improvement in growth in our relationships and our digital platforms. And we'll continue to see that as we get into fiscal year 2020.

John Culver

Yes. And David from a China standpoint I agree with what Kevin's comments were around the Chinese consumer and their digital capability and the savvy that they have. Just to put that into context, you've seen in our report our reported earnings the growth of the Starbucks Rewards program. So we up-leveled that December. We now have crossed the 10 million Starbucks Rewards members in China. We grew that 45% year-over-year. And our total member base is now in China sitting at 32.5 million which is up 66% over a year ago.

So really just strong digital engagement from the customers, when you drill down a little bit deeper into MOP, we've expanded MOP at China speed. We're now at more than 2,600 stores across 15 cities and we're continuing to expand that program. So we've got about 65% of our store base covered. We're seeing a very strong healthy repeat on purchases where -- which is enabling us to bring new users into the Starbucks Rewards program and penetrate that more deeply.

And then you translate that into the new channel of delivery. We're seeing good success in delivery. We stand out over 3,000 stores, in 100 cities. We now cover 80% of our store base.

As we said, 7% of the sales mix, we're seeing a higher ticket, through delivery, and stronger food attach. And we're seeing morning and lunch day part increasing, so, very optimistic about that.

And then, just don't lose sight of the need for us to continue to gain first-mover advantage on store growth. And we're going to continue to focus on accelerating our store growth.

Clearly, the returns that we see in terms of new stores indicate, that there is a lot of opportunity in that area. And as we continue to cultivate, the coffee consumption in China, which now sits at less than four cups per year, per person, compared to 300 in the U.S. this is a huge opportunity.

And then, just one other thing, and then, I'll stop, is the Global Coffee Alliance. And as Kevin shared, we spent the last few days, in China. We're here in Japan today, talking about the opportunity that the Global Coffee Alliance has for us in China.

And we've announced that in August. We're rolling out across for platforms. We have over 20 products that we've launched. We walked the aisle, in Shanghai. The Starbucks presence is absolutely stunning.

And then, foodservice is going to be a big opportunity as we focus in on office, as we focus in on universities, and as we focus in on the five-star hotels. So we're very optimistic about China.

Operator

Your next question comes from the line of John Ivankoe with JPMorgan. Please proceed with your question.

John Ivankoe

Hi. Thank you. Yeah. First, I'm actually just going to stay on the Global Coffee Alliance. I think, what you said, there's a 7% to 8% reduction in revenue relative to some things that happened in 2019.

I was just hoping you could talk about that. And just the comments that we're being made on accretion after buyback, just seem to be interesting that they were made at all.

Just overall from a profitability perspective as we think about that segment was fiscal 2020 in line with relative to what you originally thought? And if not why, and then, I'll have a couple follow-ups.

Kevin Johnson

Pat, why don't you take that, if you could?

Pat Grismer

Certainly, so John, what I'd like to highlight is what is driving the difference between our total revenue growth guidance for fiscal 2020, and our long-term growth model. So we've guided to a range of 6% to 8%.

Our long-term growth model is 7% to 9%. That one percentage point difference is attributable to two things. One is the sale of our ownership interest in Thailand in fiscal 2019, and how that extends then, with its impact into fiscal 2020.

But then the second is, and I think this is more directly to your question, what we're expecting by way of a revenue decline in Channel Development from fiscal 2019, into fiscal 2020, even though we had lapped, the onset of the Global Coffee Alliance.

There were some temporary business transition activities, in fiscal 2019. And that are non-recurring. And they tend to mask the growth profile of our Channel Development business for fiscal 2020.

And they relate primarily to lapping some elevated inventory sales to Nestlé in preparation for their direct fulfilment of customer orders, in addition to, what were some final sales of Tazo-branded products that fell into fiscal 2019.

So, when you normalize for these temporary transition items in Channel Development and as well as for the ownership change in Thailand, we get back to a normalized total revenue growth rate of 7% to 9%.

What I would like to highlight specifically in relation to Channel Development, given that we are guiding to an adjusted revenue growth rate of 4%, which is at the bottom end of our ongoing range of 4% to 6% is that, we would expect it to be 4% to 5% in the near-term and then 5% to 6% longer term with what we expect by way of an accelerated pace of international market expansion.

So really what you see happening is a combination of things. Number one, it's overlapping some unusual benefits that we realized in fiscal 2019. But it's also the fact that the international market acceleration and how that impacts the shape of our revenue growth for the Channel Development segment particularly, we see happening further out into the future.

Kevin Johnson

John, you want to just comment on the international market expansion on Global Coffee Alliance, kind of what we achieved in fiscal 2019, and the outlook for fiscal 2020?

John Culver

Yeah. So we've had some great work that's happened between us and Nestlé as we rolled out this -- the Global Coffee Alliance. Clearly, the U.S. market is the most established business.

We had a smaller business in Europe, but then the rest of the world was Greenfield as it relates to CPG and foodservice channels.

We now have products available in over 30 markets around the world. And as Kevin highlighted, we're on our way to having 50 markets up and running, by the spring of 2020.

We've got 28 SKUs that we've launched across four different platforms. Particularly, the work that we've done with Nespresso is paying dividends. We're seeing very good strong growth and uptick for the Nespresso Starbucks-branded capsules.

We're also seeing very good, strong uptick with Dolce Gusto, in the Dolce Gusto platform. So we're very optimistic about the single-serve opportunity that exists around the world, not just in the U.S.

We did have a meaningful launch of creamers in the U.S. and we anticipate that -- taking that to other markets. We launched four flavors in August and we earned about 10.4 billion impressions as we made that announcement. So there is a lot of consumer excitement about this and a lot of market excitement. And then we're going to continue to drive meaningful innovation within the Global Coffee Alliance. I think at the speed at which we've been able to create the product platforms, the speed at which we've been able to bring those into the markets that is going to continue. And that's been a big piece of the discussions that we've been having here over the last 2.5 days with the Nestlé team and we're both very optimistic about the opportunity going forward.

Pat Grismer

And John there was a second part to your question in relation I believe to the EPS accretion from the Global Coffee Alliance. So just to reaffirm, that Global Coffee Alliance became EPS accretive in fiscal 2019 which is faster than we had originally expected when we completed the transaction. And we continue to expect -- even with that revenue decline that I mentioned we continue to expect that it will remain EPS accretive on a cumulative basis. And that includes the beneficial impact of the share repurchases that were funded with the after-tax upfront cash payment from Nestlé.

Operator

Your next question comes from the line of Sharon Zackfia with William Blair. Please proceed with your question.

Sharon Zackfia

Hi. Good afternoon. I actually had two questions, but one's pretty quick. I know in the past you've talked about the digital information you have now on people who are not yet rewards members and I think you've given that number in the past. I'm just curious if that continues to grow in the U.S?

And then secondarily on the margin outlook, I guess, I'm a little confused on the Americas particularly. I know the margin there has stabilized. So you had some benefit from the change in the gift card breakage. So I'm just wondering whether or not we should expect Americas margins to stabilize or not in 2020 as well?

Kevin Johnson

Thanks, Sharon. Roz, why don't you take the first question on the digitally registered customers that Sharon asked. And then Pat why don't you take the margin question if you could? So Roz?

Roz Brewer

Great. Thank you. Sol just on those digitally registered customers that we've seen in this recent quarters first of all, we've seen the redemption shifted to new tiers and that's not impacting our overall Starbucks Rewards growth. The customers we've seen they've embraced the choices provided by these multiple redemption tiers. The 150-Star tier continues to see the majority of the redemption volume. And we've also seen that our low-frequency members that you've heard us referred to as our occasional customers they're driving a more significant portion of the active members.

So right now we're seeing good movement in that space. And again our Starbucks Rewards customers we've seen acceleration there in that member growth of about 15% to roughly 18 million members. Actually that number is 17.6 million. The other thing I'll mention is that we continue to grow at peak in our morning peak time frame and we're seeing actually growth across all dayparts. That occasional customer that we're introducing to Starbucks Rewards is coming in in the afternoons. And so we probably are seeing a lift through all the dayparts. And so that is the work that's happening by adding the new multitiers to the program.

Pat Grismer

And then Sharon with respect to your question on margin, what I first want to clarify is that we are expecting modest margin improvement across each one of our segments in fiscal 2020. Specifically on the Americas you asked about breakage and then just Americas margin generally. So I first want to clarify what's happening with breakage. As a reminder we adopted this new revenue recognition accounting standard starting in first quarter fiscal 2019. And one that impact of that was to reclassify stored value card breakage from the interest in other line below operating income and outside of segment results to the revenue line at the segment level. It's mostly a matter of P&L geography that does not have an impact on EPS.

On a full year basis, the change in accounting did have a beneficial impact to non-GAAP operating margin of about 40 basis points in fiscal 2019 and the greatest impact was in Q2 due to seasonality. But I also want to clarify that breakage is not accounted for in comp sales. It's just another revenue driver after new stores and comp sales. We will lap this impact in the first quarter of fiscal 2020 at which point the benefit to our revenue and operating margin will already be embedded in our base. So breakage will not be a driver of margin performance in fiscal 2020.

We do expect in the Americas like the other segments that there will be a modest margin expansion in fiscal 2020. And that's a function of the sales leverage that we expect from the comp growth that we're guiding in the range of 3% to 4% as well as the significant cost savings that we're expecting, particularly in our supply chain, and that that will be sufficient to offset the investments that we're looking to make in fiscal 2020 to continue to drive the top line.

I will also say that the Americas margin will benefit in 2020 -- fiscal 2020 from the lap of the leadership conference in the fourth quarter. So as you think about the shape of our margin performance across the year, what that means is it will probably be flattish in Q1. We'll see that modest improvement in Q2 and Q3, and then we will see a very robust margin improvement in the fourth quarter.

Operator

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

Matthew DiFrisco

Thank you. I just have a follow-up a little bit there on Sharon's also. With respect to the incremental of that 17.6 million and the 15% growth, can you dig into that and see sort of -- are you seeing a little bit of a broader demographic maybe coming on board than you had in the past? I know there were some theories out there in the last couple of years when it did decelerate that perhaps the brand was hitting its max as a premium position brand.

I'm curious as far as just your overall value perception. I know you maybe seeing also the tier -- the change to a tiered rewards program has it opened you up maybe to a broader demographic that maybe you're resonating better as a value and you're expanding the tent to include more people above maybe lower incomes than you had in the past?

Kevin Johnson

Roz, why don't you go ahead and take that for us?

Roz Brewer

Okay, great. Thanks, Kevin. So, what we are seeing is that we are seeing a broader array of customers that are attracted to Starbucks at the moment. In terms of qualifying their demographic to understand if they're value or non-value, we don't have the kind of data at this point. But I will tell you that we know that they are attracted in the -- to the beverage program, less attracted to the food program.

At this time, we are encouraged by the ticket that we're seeing with this customer and their attraction to things like Happy Hour and also to the time of day. And so, as we learn more we'll share that with you. But right now, we're encouraged that we are moving these customers to the Starbucks Rewards level. And we're pleased that we did add the other layers of redemption just so that we can expand the excitement of the Starbucks brand to a broader customer. So, we'll come back to you with more information on that, but right now we don't have the demographics on those customers.

Kevin Johnson

Let me just add a comment on the strength of the Starbucks brand. Growth at Scale has really enabled us to really sharpen our focus on those things that we believe differentiate Starbucks from all other opportunities and all other experiences. So the focus that we've put on the customer experience in our stores, the focus we've put on beverage innovation, the focus we've put on digital customer relationships and the fact that we have executed against this with discipline has driven our customer connection scores to an all time high.

The brand is healthy and strong and growing. And so, in many ways our Growth at Scale agenda has really enabled us to put our energy behind the things that matter most and the things candidly that differentiate us from all others in the marketplace. And I think that is the significant reason why we're seeing transaction traffic growth, we're seeing comp growth and we're seeing momentum across all aspects of Starbucks. And that is helping us in many ways both digitally. But it's also more importantly really amplified by the experience that our Starbucks partners, who proudly wear the green apron create for our customers each and every day.

Operator

The last question today comes from Dennis Geiger with UBS. Please proceed with your question.

Dennis Geiger

Great. Thanks for the question. Just wanted to quickly touch a bit more on some of those key drivers that you talked about in the U.S. And I guess specifically, as you kind of think about beverage, the in-store experience as well as digital looking ahead, just anything incremental you could say about that leverage pipeline. Obviously Nitro is relatively new across the system, but about how you feel about that beverage pipeline looking ahead? How much incremental opportunity there is on the in-store experience? And I guess similarly, with digital, a lot of commentary there. But just where you go from here, if you'd characterize winning and just the opportunity that'd be great? Thank you.

Kevin Johnson

That's great. Roz, why don't you take that for us?

Roz Brewer

Sure. There's a couple reasons, why we feel confident about our future in what we've been doing with the beverage innovation, the work we've been doing with in-store experience and our digital engagement. First of all, behind these things a lot of the work that we've done in-store is around the work that we did with the team works rollout in third quarter fiscal year '19. And so we'll benefit a lot from that in fiscal year '20.

Then there is a significant work in progress around inventory routines and automation, the food prep test that we do backroom optimization. And all of those items are fueling the work as Kevin mentioned around machine learning and our applications to fuel Deep Brew. So, we feel confident about that work that's ongoing and that is already in process.

In terms of beverage innovation, because, we have been looking at not only beverage innovation, but equipment, having Mastrena there is an opportunity, having Nitro there. We introduced Cold Foam last year. It's allowing us to create new beverage combinations that our customers are really responding to in addition to the growth in cold. So, if you look at our sales in detail, cold which is our Refreshers, our iced teas, our cold coffee and our Nitro Cold Brew are all doing extremely well for us. And so that innovation will be ongoing.

And then, from the point of the digital relationships, the more we learn about our customer base, the better we had been marketing to them. And so, you will see our marketing become more personalized and that will help with retention and driving frequency in our stores. So, we feel like there is more to come in those three areas, so we'll continue on the pathway we those three important initiatives for us because there's still more to be done in those areas.

Operator

That was our last question today. I will now turn the call over to Kevin Johnson for closing remarks.

Kevin Johnson

Thanks, Hector. As we close today's call, I want you all to know how much we appreciate the support and the encouragement we've received from the investment community over this past year, as we've undertaken significant efforts to streamline the company sharpen our focus and drive improvements in operating performance. This would not be possible without the 400,000 talented Starbucks partners that I have the privilege to serve each and every day. Together, we look forward to a great year ahead and to sharing our results and our progress in future quarters. Thank you.

Operator

This concludes Starbucks Coffee Company's Fourth Quarter and Fiscal Year 2019 Conference Call. You may now disconnect.