Morgan Stanley Global Consumer & Retail Conference

Company Participants

- Patrick Grismer, Executive Vice President and Chief Financial Officer

Other Participants

- John Glass, Analyst, Morgan Stanley

Presentation

John Glass {BIO 2450459 <GO>}

Good morning, everyone. Thanks for joining us. My name is John Glass. I'm the Restaurant Analyst at Morgan Stanley. And on behalf of all my colleagues at Morgan Stanley, welcome to our Global Consumer Conference. I was going to say, welcome to our 25th Global Consumer Conference. It may or may not be, we don't know, but it's been here a long time and so we appreciate it. Now, we did move it back this year in the calendar to December to accommodate some of the retail companies, so hopefully that's productive for you. So I thank you for your attendance. I also particularly appreciate both yours and companies attendance given the weather and the challenges that presented.

It's also my pleasure to introduce our first Company of the conference, Starbucks. I'm going to turn over the podium in a moment to Pat Grismer, the CFO. But I've had the pleasure of following Starbucks nearly from its IPO and watch this Company grow from a 200 or 300 unit, back then we called it a retailer, to really the global behemoth that it is today. Pat's going to make a few opening remarks, and then, we'll sit down and have a more informal chat about the business. So with that, welcome Pat. Thanks for coming out.

Patrick Grismer {BIO 15965217 <GO>}

Thank you, John, and good morning, everyone. John, I'm happy to see, you are proudly displaying your Starbucks cup.

There are a couple of points I'd like to highlight just ahead of our fireside chat. First of all, this is a global consumer and retail conference. So I'd first like to highlight the unique investment characteristics of Starbucks in the global retail food and beverage space. And then, secondly, the improved quality of earnings that we expect in our fiscal '20. But first, I will draw your attention to the safe harbor statement on the screen, because I will be making some forward-looking statements this morning.

Our proprietary consumer and brand equity research substantiates the strength of the Starbucks brand maintaining our competitive edge in our two lead growth markets of the US and China. And we're building on those brand strengths with focused strategies to drive predictable, sustainable sales growth.

In the US, Starbucks remains the clear first choice among retail coffee brands, including independent and local concepts. Our research has also validated that younger consumers in particular have a strong liking for Starbucks. This includes millennials and centennials, and this bodes well for the future of our brand. And in China, Starbucks continues to be customers' first choice for away-from-home coffee, leading the competition on all key brand attributes.

Our customers' exceptional affinity for the Starbucks brand is deeply rooted in the unique connections that our partners make with our customers and we're taking decisive steps to further elevate the in-store experience to create those best moments that uplift the every day. Starbucks is further differentiated on the basis of our ability to provide premium coffee, craft and consistency at scale, often supported by proprietary breakthrough beverage innovation. Examples include Nitro Cold Brew as well as Cold Foam Cold Brew, most recently, our hugely popular Pumpkin Cream Cold Brew and just announced today, our new Irish Cream Cold Brew, a festive twist on a customer favorite.

And finally, Starbucks has industry-leading digital platforms that we are continuing to enhance to accelerate digital customer engagement. In the US, our research confirms that Starbucks leads in having a mobile app that meets consumers' needs. This is helping to fuel the growth of our Starbucks Rewards Loyalty program, where our 90-day active member base grew year-over-year 15% to more than 17 million members at the end of our fourth quarter. This is an important driver of growth because we know from our experience that when customers join our rewards program, their total spend with Starbucks increases meaningfully.

Our digital success has been equally compelling in China, where our loyalty program awareness and conversion metrics exceed those of our competitors. Our up-leveled rewards program was launched a year ago and our 90-day active loyalty base in China grew 45% year-over-year to 10 million members at the end of our fourth quarter.

The strength of our brand and the effectiveness of our growth strategies are reflected in a superior growth profile. Compared to other large-scale global brands in the retail food and beverage sector, Starbucks is growing system-wide stores at a much faster rate. Globally, we're expecting robust net new unit growth at 6% to 7%. This includes 3% to 4% net new unit growth in the US, which is industry-leading for a concept of our size. Importantly, Starbucks is the only brand at this scale which has grown store count in the US in the past three years and still Starbucks is far from full penetration in our home market, expanding in the Central and Southern regions of the country primarily with high volume drivers.

This stronger pace of development for a concept of our scale is enabled by the substantial investment returns that we realize through new store development. So let's look at the facts. As a beverage-forward concept, we enjoy a relatively high product margin coupled with limited kitchen investment. Our margin is further enhanced by our unique brand stature that generates unpaid media exposure, reducing our need for advertising expense compared to other concepts. These unique economic characteristics yield overall investment returns that are very attractive and act as a catalyst for shareholder value creating Company store development in our two lead growth markets, as well as asset free license store development everywhere we operate.

Moving on to our outlook for fiscal 2020 non-GAAP EPS growth, where we expect the quality of our earnings growth to improve compared to fiscal 2019. Now, as a reminder, our non-GAAP EPS growth in fiscal '19 was 17%, and it was lifted by several non-operating items, including unplanned tax favorability with core operating results, contributing 6 points of growth. At the midpoint of our non-GAAP EPS guidance for fiscal 2020, a more modest rate of revenue growth is expected to more than offset stronger margin performance, reversing a trend from the last three years.

This yields 9 percentage points of EPS growth from operating results at the midpoint of our guidance, up 3 percentage points from the prior year. And when excluding the impacts of various non-operating items like tax and streamline and foreign exchange, our non-GAAP EPS growth rate in fiscal '20 is expected to be 12% at the midpoint, which is in line with our long-term growth model of at least 10% non-GAAP EPS growth.

So in closing, with Starbucks exceptional brand strength and superior growth profile, we are confident in our ability to deliver our long-term growth algorithm of double-digit EPS growth, coupled with a dividend yield of approximately 2%, which is quite compelling for a double-digit grower.

So this concludes my opening remarks and I'm now happy to join John for our fireside chat and thank you for your attention.

Questions And Answers

Q - John Glass {BIO 2450459 <GO>}

Thanks very much Pat. I wonder if we can start by talking about the US business and you alluded to success with some of the new beverage innovation. But I think the question we often get as analysts and investors ask is, you've seen a meaningful step up in the performance in the US comp store sales in the last two quarters on an one and two-year basis. And many of the things you've been doing over the past year have been present all along. So what has really driven that material step up in the momentum in the business? If you could sort of walk through the two or three things you think are contributing most to that improved performance relative to, say, three or four quarters ago?

A - Patrick Grismer {BIO 15965217 <GO>}

Well, for us it really has been more of a journey. We are very pleased with the steadily building momentum in our business on the back of significantly increased focus and discipline across every dimension of our business. This includes the three pillars that I mentioned previously, the in-store experience, beverage innovation and digital customer engagement, and it has been a steady stream of activities across each of those pillars that collectively have yielded this increased momentum.

And I'll cite as an example, the rollout of Nitro Cold Brew. So we were rolling out Nitro Cold Brew equipment across our Company-owned store portfolio for the last 12 to 18 months. We achieved 80% penetration in the US in August, which gave us the ability then to go on air to advertise, to build awareness around the Nitro Cold Brew platform and its unique characteristics. We achieved full penetration by the end of our fiscal year. So that's an example of the type of activity that has been rolling out over a period of time, providing us with this upward momentum for the last couple of years following what had been a couple of years of relatively uneven performance. Our goal in all of this is to lay the groundwork for predictable, sustainable growth over the long term.

Q - John Glass {BIO 2450459 <GO>}

That's helpful. Can you talk a little bit more specifically about beverage innovation. It's beverage-forward Company. So a couple of years ago, I think, there was a pivot toward food, thinking that food maybe was an answer. And I think maybe one of the insights maybe more recently has been more focus on beverage. So can you talk a little bit more about how you see that beverage platform unfolding? And in particular cold beverages have been driving your business, Is there a concern as the cold weather months are around the head -- around the corner here now, you're launching a cold beverage platform, Irish Cream today, does that diminish the impact of cold beverages or is that not the right way to think about that?

A - Patrick Grismer {BIO 15965217 <GO>}

Well, first, with respect to how we have thought about innovating behind beverages versus the first part of your question, there is no doubt that food remains an important part of what we offer. But as I mentioned before, one of the aspects of our business that has been instrumental to the overall positive momentum that we've witnessed for the last 12 to 18 months, has been focus. And we've taken our product innovation resources and focused them more around beverage as opposed to what traditionally had been split between food and beverage. We recognize that we are a beverage-forward concept, beverage is our key point of differentiation. It contributed 5 of the 6 points of comp sales growth in the most recent quarter in the US. And so by applying more focus and more resource to beverage innovation and driving more consumer research to drive more insights around what is going to resonate most with our customer base, particularly young customers, we've identified those insights that have allowed us to introduce new products that have performed better than in earlier years. And I would say out of that has come significant insight around cold beverages, which have figured quite prominently in the growth of our beverage platform in the last couple of years. And this speaks to what appeals to young people and also what resonates across all dayparts.

Cold beverages have performed very well for us, not only in the afternoon as you would expect during the warmer months, but truly year round, and even in the morning hours, where oftentimes consumers are looking for something that is more refreshing, not necessarily something that is strictly hot.

In response to your question then around whether we're seeing any pressure on hot beverages, we continue to see growth in our hot beverage platform and so we're seeing growth across the entire range of beverages, and we remain very pleased with the insights that we're gaining that we're able to capitalize in the way that we introduce new product news. The other thing I would highlight that has changed from two years ago is that we were previously more reliant on limited time offer beverages, so what we called Sparks, which drove spikes in our business and caused a lot of disruption in our store operations. And so the approach that we're taking today is to land more innovative beverage platforms around which we can innovate going forward. So Cold Foam would be a perfect example of that. We used Cold Foam to launch our Cloud Macchiato platform. We introduced Cold Foam with the hugely popular Pumpkin Cream Cold Foam beverage that was part of our fall lineup and Cold Foam is the key differentiator for the Irish Cream Cold Foam that we launched just today. So those are some examples of how we have introduced platforms that help us introduce new innovation in ways that don't drive a lot of disruption in our stores.

Q - John Glass {BIO 2450459 <GO>}

And then, just finally on that topic, can you talk about the afternoon business, right? That was a big hole in the business as Frappuccino's appeal waned over the last few years. Have you recaptured those afternoon sales or is that still a drag on the comp? How do you characterize how the afternoon business has done in the last few quarters?

A - Patrick Grismer {BIO 15965217 <GO>}

So afternoon daypart had been a challenge for us for many years, in many ways because of the strength of Frappuccino several years ago. And as consumers, we're looking to pivot away from the more indulgent beverage, we saw Frappuccino sales decline and that weighed particularly on our afternoon daypart. What has happened is two things: number one, the reduction or the decline in Frappuccino sales has plateaued. It's still a meaningful part of our business, but we're not seeing the rate of decline that we had seen in previous years, and at the same time, we've been very successful with what we've launched by way of new cold beverages that have taken up some of that demand. So not just Nitro Cold Brew or Cold Foam Cold Brew or Cold Foam Cold Brew, but also our Refreshers line and our line of flavored iced teas. Those have outperformed really well and it contributed to the turnaround in our afternoon business for the last few quarters.

Q - John Glass {BIO 2450459 <GO>}

That's very helpful. I want to pivot now to digital, and a couple of questions on digital. Starbucks really I think pioneered in many ways the digital relationship it has with its customers through its loyalty program. Now, it's transformed into mobile order and pay and ultimately to delivery. You have changed that loyalty program there, which was sort of the keystone a couple of times, right, it migrated from Value of Stars and now you've changed it again to the redemption levels. I think that was done in the third quarter, the June quarter, if I got that correct. So how has the response been to that? Has that gone smoothly, has that actually increased utilization as you had hoped of the digital and the royalty program?

A - Patrick Grismer {BIO 15965217 <GO>}

We could not be more pleased with how our relaunch of Starbucks Rewards landed in April. So it was the start of our third fiscal quarter as you mentioned. And the structural change that we made was one that increased the flexibility with which Starbucks Rewards or Stars are both earned and redeemed. Previously, one of the friction points in loyalty program membership was a green tier, where customers needed to accumulate 300 Stars to reach gold status and then had to accumulate another 125 Stars in order to start redeeming. So with the introduction of multi-tier redemption, or MTR as we call it in April, we removed that green tier and we allowed customers to start redeeming with as few as 25 Stars and we expanded the range of products available for redemption. So a range of redemption levels from 25 Stars up to 400 Stars, including merchandise and at-home coffee purchases. And we've seen significant positive customer response to this change, which was exactly what we had designed for because in fact there was significant customer research that went into the program design and a significant effort to educate our partners and customers about the changes, so that there wasn't a surprise, and so the customers and partners alike could understand the value that is unlocked by providing this level of flexibility.

And so on the back of that program, we have seen improved customer engagement with the loyalty program. We've attracted more, what we call, occasional customers into the program, which means that they don't visit Starbucks as frequently, which for us creates significant opportunity because we know from our experience that as we migrate customers from what we call digitally registered into full rewards members, we see their spend increase substantially. Now, I would highlight this change as something that has more of a flip-the-switch impact to our business as opposed to the steady build that I was mentioning earlier, because from the moment we turned on that program, we saw these positive results start to accumulate.

The other thing I would mention is that when we introduced MTR in April, we took the opportunity to introduce an enhanced personalized marketing engine into our technology stack. And the importance of this is that it allows us through machine learning to gain increasing insights around what matters most to our customers, which informs the offers that we make to them digitally. And on the back of these enhancements, we have seen the contribution from digital customer engagement increase from what had been closer to 1% comp to 2 points of comp in the last two quarters.

Q - John Glass {BIO 2450459 <GO>}

And just to be clear on that, you said it was an immediate impact when you changed and that was a result of new non-users of the loyalty program coming in or was it the spend increase? I think one of your observations early on about loyalty was your loyalty users were spending more and that was driving a lot back when traffic was more scarce, check was really driving your comp and check impact was driven by loyalty members. Is that still the case, or are you seeing this new program actually resulting in traffic or some other -- manifesting itself in some other way in comps?

A - Patrick Grismer {BIO 15965217 <GO>}

We are seeing both. So we are seeing, as in the last quarter, a 15% increase and acceleration in the growth of our membership base and we are seeing increased frequency.

Q - John Glass {BIO 2450459 <GO>}

Before leaving the US, I want to ask about delivery. It's obviously an important topic in the industry. I think there is still a debate as to what delivery ultimately yields to the restaurant industry. In particular for Starbucks, provide us where you are on delivery? And more importantly, how do you think about this business? Or is this a -- we're going to see -- (inaudible) to see because we don't really understand what the use case may or may not for delivering coffee?

A - Patrick Grismer {BIO 15965217 <GO>}

So I'll talk about delivery with respect to our two lead growth markets, because we're seeing a different profile of delivery business in the US versus China. In the US, it's a slower build. I think in part because compared to food and beverage delivery generally, we are at a lower ticket and so the delivery charge is a higher percentage of ticket and probably acts as a bit of a barrier to utilization of delivery for beverages only. So we are very pleased with the program that we've established in partnership with Uber Eats. We selected Uber Eats because of their national coverage and we do expect to achieve national coverage of our stores with delivery in fiscal '20. But it has been a slow build. So we aren't seeing it mix at a very high rate. What we are getting, we are seeing incrementality, which is important because delivery transactions on the margin are margin dilutive because they include additional costs, both the delivery commission, as well as packaging. But if the delivery transactions are highly incremental then we're growing total profits even at the expense of our margin percentage. But it's early days in the US. As I mentioned, we're seeing a slow build, but we expect that over time, this could increase as consumers are increasingly looking for convenience.

The other thing I would highlight is that we are seeing with our delivery transactions a significantly greater average check and that's because with delivery, we see higher rates of food attach than we see in our stores and we're also seeing a higher average party size, particularly in an office environment, where if one individual, if one customer is sending out for Starbucks, chances are others will hop on to the order.

So I contrast that with China. China, we launched delivery a little over a year ago in partnership with Alibaba and we've seen a nice steady build in that business. In the most recent quarter, delivery mix did about 7% of our total sales. And we're seeing that in China as opposed to the US, consumers perceive this as offering even greater value because of the value they place on convenience and having the beverages brought to them. So I think it's a more established use case, it's a more established customer behavior and we're seeing that in the way that our business is building there. But as in the US, those transactions come at a slightly lower margin for the reasons I mentioned, but we're seeing nice incrementality to an extent that builds our total profits.

Q - John Glass {BIO 2450459 <GO>}

I want to pivot to China, but just as we think about the difference in delivery between the US and China, how different are the economics both to you and the consumer? Is it popular or growing faster in China because it's just a better value proposition to the consumers, relative to the size of the check and how are the economics looking to Starbucks delivery US versus China?

A - Patrick Grismer {BIO 15965217 <GO>}

So from a consumer perspective, I would say that the value proposition given the commission structure is more attractive than in the US. And I would say from a Company perspective, there are also differences in the commission structure such that the profitability of those delivered transactions is longer in China than in the US.

Q - John Glass {BIO 2450459 <GO>}

I want to now talk about China as a whole. And before maybe getting into the details, the competitive landscape in China has been a subject of debate right, large market obviously, and attractive category, usually attracts competition, and you've got one competitor in particular, it's grown rapidly and the results recently have been relatively strong. Your results by the way, at least through the last couple of quarters, have also been strong. What have you learned, what has Luckin taught you about the business in China? What lessons do you take from their successes to the extent you observe them and how is that reflected differently now in your business?

A - Patrick Grismer {BIO 15965217 <GO>}

So the way I think about it is that Luckin has validated what we have known for years, which is that the specialty coffee retail category in China is very attractive and has significant growth potential. And I think that this is particularly striking for a culture like China that is based in tea drinking. But for many years now, Starbucks has demonstrated the growing appeal of premium coffee. When you look at the statistics in the US, per capita coffee consumption is around 300 cups. In China, it's fewer than four cups. So there is significant headroom for growth and Starbucks has demonstrated again the appeal and the growth potential of that category. And that has attracted -- our success has attracted a lot of competitors, Luckin being one.

I think it is also important to put Luckin's performance into perspective. They frequently highlight the number of points of distribution that they have opened in

China, but they also I think clarify that more than 90% of those points of distribution are pickup locations. They're very different from the third place environment, the premium experience that Starbucks offers. We feel very good about the position that we've staked out competitively in China, the first mover advantages that we've gained with our strong brand awareness and brand affinity. And we believe that the space is large enough today and in the future to accommodate this competition. In many ways, the competition has helped to build further awareness of the specialty retail coffee. It has grown the category and we believe that with our points of differentiation around premium coffee and a premium third place experience, that we will continue to thrive.

Q - John Glass {BIO 2450459 <GO>}

Do you think though -- I mean they do -- it's not just that they are in the category, would you -- they approach the consumer relationship differently, right, it's all digital, a lot of it's pickup and delivery itself. There is a lot -- it's a different -- and the pricing is very different, there isn't really a set menu pricing. Has those experiences changed the way you think about how you want to engage consumer? And I guess to that point you've changed, so that you've got more order and pay now in China, you hadn't had it really before, like materialized, you've been doing I guess what Starbucks Now stores which are these more pickup. So maybe can you talk about the things that are -- you are evolving maybe it's just that the consumer is there and how Starbucks has responded to those changes in the consumer?

A - Patrick Grismer {BIO 15965217 <GO>}

We feel very good about our track record of innovation in China. We have continued to evolve as a concept and innovate along with the Chinese consumers and their growing and evolving tastes and preferences. Yes, it's true, in the last year, we have made significant progress on the digital front. It was, as I mentioned, a little over a year ago that we established our partnership with Alibaba and used that as a basis for launching delivery, which has added meaningful layer to our business. It was about a year ago that we also relaunched our loyalty program, moving to a spend-based loyalty program. And as I mentioned earlier, in the most recent quarter now lapping nearly the one year launch of that program, 45% growth in our loyalty base.

And then, finally, as you mentioned, more recently, I think starting in the month of May, we rolled out our mobile order and pay. And through the end of September, we were already in two-thirds of our stores across the market. And we're seeing nice customer acceptance of that offer. And in the summer we innovated our very first Starbucks Now pick up and go location. We opened our second location recently in Beijing and we expect to open many more in the coming fiscal year. So I think that this is more of a continuation of what has been a long rich history of innovation and evolution of the concept to meet the evolving taste of customers.

The other thing I'd want to say again just to put Luckin's business in perspective and as much as they have talked about their points of distribution in the most recent quarter, and of course, this information is now available to all, their total sales were about one-third of Starbucks' total sales. So yes, increasing points of distribution, but significantly lower average unit volumes. And I think it's fair to say based on what it is they offer customers, they're going after a different customer, they're going after a different occasion. We feel very good about the position that we've staked in premium coffee and a premium experience and we believe that we are well positioned to further capitalize on that as the category continues to grow.

Q - John Glass {BIO 2450459 <GO>}

And then just finally I'm trying to -- you framed your comp guidance for this year and long-term still at 1% to 3%. You've been running 5% to 6%. What is the hesitation? And whereas I think your outlook for the US, although that range maybe can change, obviously, it's been emboldened by recent trends. What is the hesitation, is trying to just less certain around where the outcomes could be, or do you see something you get concerned about as you looked into the back half of 2020?

A - Patrick Grismer {BIO 15965217 <GO>}

There has been variability in the performance of our China business in the last couple of years. In the most recent two quarters, we were lapping some weaker performance arguably. And we feel that a target of 1% to 3% in the current environment is prudent for three reasons. We've highlighted before that our overall rate of comp sales growth has been impacted by three things. And that explains why we're guiding to the low-single digits as opposed to what had traditionally been mid-to-high single digits.

Number one is that we have picked up the pace of new unit development. And with that comes cannibalization. And we're doing that because again we see the significant growth potential in the market and the opportunity to capitalize on the strength of our brand position. So the first piece is, we're effectively doing it to ourselves by doing it intentionally in the interest of growing total transactions and total sales.

Number two is, as I mentioned before, our success has proven the attractiveness of the category and has drawn a lot of competition. That's impacting us on the margin. No one particular competitor, but the competitive set in the aggregate has intensified, has grown and it is impacting us. And the third is in the last two to three years, the rate of economic growth in the market has slowed. It's still pretty healthy at around 6%, but that's down from where it was previously. And that is impacting retail footfall and that is another contributing factor to a low-single digit comp sales growth, which we feel is a prudent long-term guidance for that business.

Q - John Glass {BIO 2450459 <GO>}

I wanted to ask briefly now on the Global Coffee Alliance, an important part of your business in the CPG, or Channel Development business. And that is,18 months ago, you sold or you licensed the business to Nestle to distribute your packaged coffee around the world. Can you talk just about where you are standing now 18 months later in terms of the growth of that business? And I know there is a dynamic in 2020 on revenue growth. I just want to make sure we understand what the headwinds and tailwinds are in '20, and how we should think about the growth of the CPG of Global Coffee lines going forward?

A - Patrick Grismer {BIO 15965217 <GO>}

So we could not be more pleased with how the Global Coffee Alliance with Nestle has landed in terms of what it has done to accelerate the penetration of the Starbucks brand in international markets. In the first year of the alliance, we expanded to more than 30 markets and we expect to get up to 50 markets in the first half of fiscal 2020. That is much faster than we could have ever penetrated those markets on our own. So we're pleased with how that is building the awareness and the presence of our brand globally in CPG channels.

It isn't showing up in our revenues in fiscal '20 the way that we expect it to show at much longer term because there is a headwind from some of the inventory building that was done in fiscal '19. So we're overlapping that in fiscal '20. And we do expect that as we accelerate the pace of international market penetration, our royalty income will grow. So we had outlook for the Channel Development business in our long-term model, revenue growth of 4% to 6%. The way I would segment that is in the near term, it's more 4% to 5%, and in the medium-to-long term it's 5% to 6%.

Q - John Glass {BIO 2450459 <GO>}

Got it. That's very helpful. And then, finally, let's talk a little bit about the financials. You highlighted the earnings model that the Company has of at least 10% earnings growth and how you're going to see higher quality earnings growth in 2020. I think your comment was around margins. Can you talk about what you think the margin potential in this business is? I think a year ago, you framed it at 17% to 18% operating margin, but historically it's been higher. And there has been some changes in the structure of the business. But what is the longer-term opportunity in margins? Is this the kind of business where you'd like to manage it to those margins, the reinvestment and reinvest continue sort of competitive advantage or maybe talk a little bit about where you think those targets can be?

A - Patrick Grismer {BIO 15965217 <GO>}

Absolutely. Where we start is around what is necessary in order to sustain long term, healthy top-line growth. And one of the things we know about our brand is that, it requires a level of investment to maintain clear points of differentiation around our partners and technology. And so that does come at the expense of margin. I still feel very good about the margin guidance of 17% to 18% for the next three years. That's not to suggest that we don't have the potential to move beyond that, but it really comes down to how we think about balancing the need to invest, in particular behind partners and technology, to sustain top-line growth that provides us a sales leverage that helps to pay for those investments and cover inflation. I would also say that we continue to be very diligent in finding productivity opportunities at store level and above store to create more capacity for the investments that, again, we know are instrumental to our ability to sustain that predictable, sustainable top-line growth.

Q - John Glass {BIO 2450459 <GO>}

Can you just talk a little bit more specifically about where the margin opportunities are? I think a year or so ago G&A was a target and you had a hard number of, I think, it was $1.7 billion by 2021. And now it's changed a bit, maybe part of it's the re-segmenting of the business, part of it is maybe you've just explored other options around supply chain. So where do you see the biggest buckets in terms of opportunity as we look at your P&L?

A - Patrick Grismer {BIO 15965217 <GO>}

So, the opportunities remain in G&A and we remain committed to delivering those efficiency gains that were identified a couple of years ago, and that will play out through the end of fiscal '21. You're right, the re-segmentation has clouded that a little bit, but nonetheless in the guidance that we provide, we continue to expect significant efficiency gains in G&A. That will show up in our P&L in fiscal '20. And as we've re-segmented and changed some of the line and classifications we've applied that historically and retroactively. So the like-for-like percentages of G&A relative to revenue will demonstrate in fiscal '20 that improvement.

We're also expecting, as you mentioned, supply chain to continue to deliver. We've been very successful over the years through our increasing scale and through the relationships we have with our suppliers, as well as through the work that we're doing on product innovation to optimize gross margin. We do expect that will continue to be a source of margin improvement.

And then, finally, I would highlight what we're continuing to do at the store level. Even as we continue to invest behind partner labor and behind technology, we're finding those opportunities to realize efficiencies in the way that we operate to create more capacity for those investments in ways that enable us to manage through that 17% to 18% a year in the near term, while still having the potential to go beyond that depending on how we balance sales growth against those investments in any particular year.

Q - John Glass {BIO 2450459 <GO>}

Fantastic. Thanks very much for coming out this morning. We really appreciate your time and for those of you want to follow-up on this conversation, we're going to breakout immediately following this. So, thanks.