Stifel 2020 Virtual Cross Sector Insight Conference

Company Participants

- Christopher O'Cull, Analyst
- Patrick Grismer, CFO & Executive VP

Presentation

Christopher O'Cull {BIO 15071112 <GO>}

Thanks everyone, for joining us this morning.

My name is Chris O'Cull. I'm the Restaurant analyst at Stifel. And on behalf of all my colleagues, welcome to our Cross Sector Investor Conference.

I want to offer a special thanks to my guest Pat Grismer, who is the CFO of Starbucks. Pat, we really appreciate your willingness to share your time and thoughts with us today. I'm certainly looking forward to discussing the business with you.

Pat is going to make a few opening remarks, and then we'll have a more informal conversation following his comments.

So with that, welcome, Pat. And thank you for participating.

Patrick Grismer {BIO 15965217 <GO>}

Thank you, Chris. Hello, everyone.

There are three thoughts that I'd like to share ahead of our chat with reference to some slides that we're posting to our IR website, highlighting key points that are further detailed in the 8-K that we filed this morning to maintain transparency with all Starbucks stakeholders regarding the journey we're on as we respond to the impact of the COVID-19 pandemic and further position the company for long-term growth.

Three points to highlight.

Number one, Starbucks sales and profits are recovering nicely. The worst is clearly behind us.

Number two, Starbucks' liquidity position remains strong, bridging us to free cash flow positive as we exit our fiscal third quarter.

And number three, Starbucks is capitalizing on an opportunity to accelerate the strategic repositioning of our U.S. urban store base for future growth, supporting our double-digit EPS growth model for the long term.

So I'd like to make just a couple of comments about each one of these three points.

So starting with sales and profit recovery. As we've reopened our stores, we've seen solid sequential improvement in sales, led by our two lead growth markets, China and the U.S. Bearing in mind that China is about two months ahead of the U.S. on the COVID-19 journey, China exited the month of May with weekly comps down 14%, well up from the weekly low of about minus 90% in mid-February. This is much better than we had expected.

So we've raised our outlook for China's Q3 comp accordingly compared to the guidance provided with our Q2 earnings report in early May.

The U.S. exited the month of May with weekly comps down 32%, nicely up from the weekly low of about minus 65% in mid-April and trending ahead of prior expectations. And as sales are improving, so is our margin performance, as we have better visibility to sales and are better positioned to manage store-level profitability.

So the second point as to our solid liquidity position. We issued $3 billion of bonds in May at very attractive rates, covering our fiscal third quarter free cash flow deficit, protecting two quarters of dividend payments as we turn the corner to free cash flow positive at the end of our fiscal third quarter and prefunding bond maturities that come due next fiscal year. And importantly we have a clear path to meet our leverage target of 3x rent-adjusted EBITDA in the latter part of fiscal 2021.

And the third point, accelerated strategic repositioning of our U.S. urban store base. The second pillar of our 3-point "Bridge to the Future" is an accelerated transformation of the third place, adapting the Starbucks Experience to cater to consumers' increasing demand for convenience. Planning for this initiative has been underway over the past two years, and we had contemplated an implementation time frame of three to five years.

But now we're accelerating that to two to three years. This includes accelerating some store closures to pave the way for repositioned assets.

So again, three points -- sales and profit recovery; solid liquidity position; and accelerated strategic positioning for growth.

With that, Chris, I'm happy to take your questions.

Questions And Answers

A - Christopher O'Cull {BIO 15071112 <GO>}

Thanks, Pat. I wanted to start by just discussing the path to recovery in China. The company, as you mentioned, improved its comparable sales guidance for China in the third quarter. I'd like to see if you could just elaborate on what drove the better sales outlook. And what's needed to get the comparable sales to flattish by fiscal year-end?

A - Patrick Grismer {BIO 15965217 <GO>}

We could not be more pleased with how the business in China has been recovering. Of course the first step of that was rapidly reopening stores as market conditions and government guidelines would allow and pivoting quickly to accommodate customers' new expectations around physical distancing.

So the team moved quickly to accommodate customers how they wanted to be met, and that included dialing up our focus on Mobile Order & Pay and the mobile order for delivery.

So as we mentioned in our 8-K, we saw nice improvement compared to pre-COVID-19 levels that appear to be fairly sticky in terms of the extent to which consumers are pivoting to more of a Mobile Order & Pay or mobile order for delivery experience.

So we're pleased with how the team has pivoted in that regard.

They also moved quickly to bring new product news, new innovation around both food and beverages, highlighting our commitment to plant-based milk alternatives as well as plant-based proteins. And these messages have resonated well with Chinese consumers. And as the markets increasingly open up, we're seeing good progression.

As you would expect, there is some variability across the portfolio. In those trade areas that are more tourist and transportation related, particularly in the Tier 1 cities, we're seeing softer recovery, but we're seeing very strong recovery in commercial areas across all cities. And overall, the lower-tier cities are performing better, but we're very pleased with the progression.

Now you asked about how we're going to achieve what our current outlook is by way of getting back to about flat by the end of the fourth quarter. And it's more of the same.

It's continuing to evolve and innovate our mobile offerings, including our Starbucks Rewards program, where we've recently introduced multi-tier redemption, very similar to what we rolled out here in the U.S. last year; as well as continuing to bring new news to our products, both beverages and food.

A - Christopher O'Cull {BIO 15071112 <GO>}

That's helpful. In light of your expectation for China comps to trend flat by the end of the fourth quarter, your guidance for the International segment seems to suggest a weaker recovery in Japan, even though there's -- 98% of the stores are open there today. Can you speak to what is happening in Japan and how the company thinks about its recovery in comparison to what you're seeing in China?

A - Patrick Grismer {BIO 15965217 <GO>}

Absolutely. The impacts to Japan lagged the impacts in China.

It was more towards the middle to end of March into April that we began to see significant pressure in Japan. And the Prime Minister declared a state of emergency, which effectively put the country in near-complete lockdown. And so we had nearly all of our stores closed in Japan for an extended period of time.

And to provide a bit of insight into the impact that, that has, we don't have a very high percentage of drive-through stores in Japan, and we're not as well penetrated with mobile ordering and payment or delivery. And so that limited our ability to capture sales during that period of near lockdown, and that explains why Japan performed less well than either China or the U.S. at the depth of the crisis.

It was around the middle of May that the state of emergency was lifted. And the team did a remarkable job of rapidly reopening stores in Japan, and we could not be more pleased with how the business is recovering following that broad reopening.

But because Japan is a company-owned market for us or a company-operated market, the deleverage on that near-complete shutdown for a period of about six weeks has weighed heavily on our Q3 results in terms of both revenue and profit. And that does roll up, and that's what is perhaps weighing down the international comp compared to what some might have expected, given the very strong recovery that we're seeing in China.

A - Christopher O'Cull {BIO 15071112 <GO>}

I assume you're expecting Japan to follow some kind of a similar recovery pace maybe as China, just delayed a couple of months.

A - Patrick Grismer {BIO 15965217 <GO>}

I don't think that it would be the same as China. We've even signaled that the U.S. will take a bit more time to fully recover compared to China for different reasons. I think it's too early to say whether Japan will recover along the same curve as China.

We do expect these markets broadly to demonstrate what might be characterized as a checkmark recovery or an asymmetrical V, where there's a sharp downturn followed by a prolonged recovery, but recovery nonetheless.

But I think it's early to call Japan is recovering as quickly as China, maybe more in line with the U.S.

A - Christopher O'Cull {BIO 15071112 <GO>}

Perfect. And now I want to turn to the U.S. recovery path.

First, can you help us understand the underlying dynamics of the comp sales results in the opened U.S. stores?

I know on April 28, open stores were comping down, I think, 25% with half of the locations opened. In your release this morning, open stores were comping down 28% with 91% of the stores opened.

So are you seeing underlying improvements in the stores that have been in the pool of open stores longer, maybe just offset by more recent opening stores entering that base at a weaker level? Or are you seeing a more uniform run rate across all open stores around that negative 25% to 30% level?

A - Patrick Grismer {BIO 15965217 <GO>}

Very good question, Chris.

I think it's important to bear in mind that for a period of about six weeks, we had anywhere from 45% to 50% of our stores open in the U.S., those that had drive-throughs or that could accommodate delivery, a very small number of cafés that were open to support first-line responders.

And so as we very significantly and very swiftly reopened stores in the second week of May, that drove some measure of sales transfer from stores that have been opened and operating during the period of widespread closure. And that sales transfer was absorbed by the entire system as we reached now more than 95% of stores open in the U.S.

So as we look at the performance overall of the market, we're actually very pleased. And compared to what we were anticipating at the time that we reported our Q2 earnings and gave some qualitative guidance in relation to a U.S. recovery, we're running ahead of expectations.

As you would expect, again, much like China, there's significant variability across the country. We have some regions that are actually comping in the single digits negative as well as several that are in the mid-teens negative. I would highlight the New York metro area is the most challenged, in part because half of the stores that remain closed currently are in the New York metro area.

So that weighs on comp performance, given that for comp reporting purposes, we do fully include closed stores, which are basically at minus 100%.

So a lot of variability, but overall, moving in the right direction and ahead of our prior expectations.

A - Christopher O'Cull {BIO 15071112 <GO>}

The company is targeting comp sales down 10% to 20% in the fourth quarter in the U.S., while open locations, I think, are running down 28% in the recent week. What internal or external variables are really critical for you to be able to achieve that target?

A - Patrick Grismer {BIO 15965217 <GO>}

Three things. I would highlight, first of all, the high level of engagement of our partners -- of our store partners and what they deliver by way of an extraordinary experience for our customers. That is the number one driver of our business.

So in addition to the improving sales, what gives us a lot of confidence is that we're seeing record-high customer connection scores. Customers are thrilled to reengage with the brand. They're having a wonderful experience engaging with our partners.

I suppose another indication would be that tips are at an all-time high.

So we're seeing strong engagement that remains on an upward trajectory. That gives us a lot of confidence for the future.

The second would be how we're quickly innovating to establish new channels of distribution in our stores.

So while some regions remain under some restrictions around physical distancing, we have been able to innovate entryway pickup or window handoff, in addition to where we have drive-throughs, also driving delivery with special offers through our partnership with Uber Eats.

So the new channel innovation, if you will, would be the second factor.

The third would be our marketing support. We went dark in the U.S. for a period of about six weeks. And then a couple of weeks after we had very significantly very dramatically ramped up store openings, more than 3,000 stores inside of two weeks we opened up for business, we then came behind that with very strong marketing support, advertising, promotions through Starbucks Rewards to reward customers for increasing their frequency, for increasing their spend.

Alongside that, new marketing message, highlighting what we call our Summer 1 promotion. We had effectively delayed what was part of sort of a Spring two promotion. That evolved into a Summer 1 promotion with new product news around both beverages and food, and consumers have responded well.

So it would be all three of those levers: continued strong customer experience, given the extent to which that drives our sales; continued innovation, including things like curbside delivery in order to increasingly meet customers where they're at in the current environment; and then number three, continued strong marketing and product innovation support.

We anticipate that continuing through to the end of the fiscal year. And that underpins our belief in the guidance we gave regarding Q4 and full year comps for the U.S. business.

A - Christopher O'Cull {BIO 15071112 <GO>}

Does the company believe that restaurants can fully recover their pre-crisis sales volumes without fully utilizing the dining room capacity?

A - Patrick Grismer {BIO 15965217 <GO>}

It's early to say. I think it's going to depend quite a lot based on trade area and what are the primary drivers of traffic in that trade area. For example, in dense urban metro markets that are more dependent on customer commuting traffic, where those customer patterns or behaviors have been disrupted because more people are working from home, I think it will be more challenging to recover that traffic. In the U.S., our urban stores account for about 15% of our total portfolio, and we are seeing varying levels of recovery.

But it is that morning peak in those particular markets that will be more challenging to recover for Starbucks.

We are seeing some of that traffic move to suburban markets. If people are working from home, they're taking time out of their workday to visit their local Starbucks for the habit or the visit that they were previously accustomed to satisfying near their workplace. And then, of course we're moving quickly to drive delivery and to open up other channels of distribution to meet customers where they are and where they want to receive their Starbucks.

A - Christopher O'Cull {BIO 15071112 <GO>}

That's great. Now Pat, I'd like to spend some time digging into the company's transformational plan to address growing demand for these on-the-go occasions. I know you described how this effort will result in a new store format.

But can you describe how the customer experience will be different in one of these new Starbucks pickup locations?

A - Patrick Grismer {BIO 15965217 <GO>}

Yes. And first to clarify, we are going to be picking up the pace of development compared to our previous plans for these new units. They will, however not dominate the Starbucks landscape in these markets. These will supplement our traditional cafés to provide a range of retail formats that will best cater to the needs of customers in those trade areas.

So we do anticipate there will be a bit of a network effect here where customers can have a different type of experience, depending on what their need state is in a particular market at a particular time of day. Because we know that the same Starbucks customer has different experiences depending on where they're at in their daily lives.

So the same customer who might enjoy a sit-and-stay occasion at one of our cafés at a -- on a different day or at a different time of day, in the same or an adjacent trade area, may be looking for a more convenient option that can be satisfied by doing a walk-through basically order ahead and pay through the Starbucks mobile app, sail through the Starbucks pickup location, pick up their beverage and go on their way. No different from what they're currently experiencing in one of our cafés.

But with the retail format, it will be less crowded and that will cater specifically to this type of occasion, and that will be set up for enhanced operating efficiency.

We will also be able to satisfy mobile orders for delivery from these locations or other locations, traditional cafés included, in these trade areas.

So we anticipate in these densely populated urban metro trade areas that there will be a transformation of the estate in the next couple of years that will include the introduction of the Starbucks pickup stores mixing in with existing locations, replacing some of those existing locations, which is why we also signaled an accelerated store closure program over these next two years as part of this overall transformation effort.

A - Christopher O'Cull {BIO 15071112 <GO>}

Just to clarify, will the pickup locations only accept digital orders?

A - Patrick Grismer {BIO 15965217 <GO>}

Currently they accept both in-store and digital. The longer-term vision would be that it would be digital-only. That's how it's set up in China with a similar concept called Starbucks Now.

But it will depend on how customer behavior continues to evolve. We certainly don't want to turn away customer traffic. And we think that it may take some time for customers in these trade areas to migrate completely to Mobile Order & Pay.

So we are set up currently and we anticipate the first set of units would still receive orders in the store.

A - Christopher O'Cull {BIO 15071112 <GO>}

Great. Could you outline what operational efficiencies you may be able to capture with this new strategy of introducing Starbucks pickups to markets, maybe in terms of how it reduces congestion? And do you ultimately expect the ability to increase off-premise throughput in these markets where you introduce these new formats?

A - Patrick Grismer {BIO 15965217 <GO>}

We do. The reality is that when you set up a coffee bar that is in plain view of the customer, it's not set up for maximum operating efficiency. And so one of the benefits of the pickup location where the beverage preparation still handled order by order, customized to what the customers' preferences are, still prepared by hand, handcrafted every single beverage, that happens behind the wall, if you will, out of view of the customer and the -- it could be set up more like an assembly line, thereby supporting more rapid preparation. And that brings inherent operating efficiency.

And then, of course with what would be a smaller asset overall without seating area, that enhances the fixed cost profile of the store, which further contributes to an improved margin profile.

A - Christopher O'Cull {BIO 15071112 <GO>}

Will the results at the pickup store alone be used to evaluate whether it's an investment success? Or will you -- will there be more of a holistic approach to the total sales across, say, the pickup store and the one or two traditional locations that it's situated between?

A - Patrick Grismer {BIO 15965217 <GO>}

It will be a holistic approach for sure. And that speaks to the complexity of the analysis and a bit to the pacing of our rollout as well. Because we fully expect to learn as we go and to further refine our plans in relation to the specific locations, the setup, the interplay between these different formats based on how customers are continuing to evolve their behavior.

But we are looking trade area by trade area, taking into account sales transfer dynamics as we close stores and then reopen. And in many cases, what we're looking to do is not close stores until we have opened the new store that we expect to receive sales from that closed location, recognizing that not only the new location but other existing locations in the trade area will be the beneficiaries of that sales transfer.

So I feel very good about the extraordinary data analytics capability that our team has developed and the ability to rapidly learn and adjust as we go as we accelerate these plans over the next couple of years.

A - Christopher O'Cull {BIO 15071112 <GO>}

Are there insights that have led you -- or led the company to conclude that the overall sales potential for the trade area, once you introduce one of these new locations, could increase as a result of adding the distribution point? Or is this more of a tactic of trying to maintain the sales that you have in those markets?

A - Patrick Grismer {BIO 15965217 <GO>}

We expect to see sales go up for two reasons. Number one is that as we introduce a more efficient format that has a higher level of productivity that can serve customers faster, we will reduce the bulking that can, at times, occur in these urban locations because of the natural speed, if you will, of the current traditional format.

So we do expect to be able to unlock sales through improved efficiency.

The other would be is that with a more nimble asset format, we can gain retail presence in certain trade areas or sub-trade areas that we couldn't previously with our more traditional format. We do expect that in the near term, as we accelerate these efforts, that we will see pressure on sales, and that would be in fiscal 2021, but that we would then reaccelerate in fiscal 2022.

So as a consequence of the closures and the timing of the closures in relation to the openings, we would see near-term revenue decline in those trade areas, however enhanced profitability because we're effectively trading out less profitable stores and, in some cases, unprofitable stores with much more profitable stores.

So we're solving for the bottom line as we're solving for the top line in terms of maintaining our share and growing our share over time while enhancing the profitability of the business.

A - Christopher O'Cull {BIO 15071112 <GO>}

Okay. We did get a question come across from listeners. The question relates to the planned closings for -- the 400 planned closings. I think the question essentially is trying to get to what do you expect the net additional or net opening rate to be when you incorporate the number of openings versus closures over the next 12 months. And then I know longer term, the company guided to 3% to 4% unit growth in the U.S. Is that the net addition rate? Or is that the opening rate?

A - Patrick Grismer {BIO 15965217 <GO>}

So I'll speak to the net new store growth rate because it's on that basis that we guide. And you're right, our long-term growth model calls for 3% to 4% net new store growth in the U.S. and for the Americas business segment. We expect to be on that pace in fiscal 2022. We will not be on that pace in fiscal 2021, but we expect to be positive.

But it will not be 3% to 4% because of the volume of closures that we're pulling forward in both the U.S. and Canada.

So we will provide more explicit guidance for fiscal '21 when we provide our full range of guidance for next fiscal year in conjunction with our Q4 earnings call.

A - Christopher O'Cull {BIO 15071112 <GO>}

Perfect. Many people believe working from home will become the new normal for at least a portion of the U.S. workforce. Does the repositioning of stores help reduce reliance on the commuter business?

A - Patrick Grismer {BIO 15965217 <GO>}

It does. It does to some degree -- in part because we're rightsizing our assets to meet the type of demand that we expect in the metro markets. And as I mentioned earlier, we're seeing some pickup in residential drive-throughs, catering to people who are working from home out of the cities.

But we also know for a lot of professionals who work in the cities, they live in the cities, too. And their Starbucks location -- because we're well penetrated in those markets, that it was closer to where they live in the city -- is benefiting from some business that they didn't have before, while the locations closer to maybe the commercial centers are experiencing some pressure. And that is all figuring into what we call our trade area transformation strategy for U.S. urban markets in the next couple of years.

A - Christopher O'Cull {BIO 15071112 <GO>}

So I know Starbucks take -- their approach is always holistic and very comprehensive and thoughtful when they implement new strategies like this.

I mean in this environment with less commuting, what other changes does the brand potentially need to make beside just the store format or the location to make -- to remain relevant in an environment with less commuting?

A - Patrick Grismer {BIO 15965217 <GO>}

Well, less commuting means that consumers may be consuming in a different trade area because they're not commuting to their office, but they're closer to home.

So whether continuing to build drive-throughs in suburban markets, and that remains a significant element of our longer-term growth strategy in the U.S., given penetration levels, relative penetration levels in suburban markets or the advent of curbside delivery or at-home delivery. Because with our partnership through Uber Eats, we've seen some growth, not to the extent that we've seen in China, but nonetheless encouraging growth in our delivery business. And we do believe that, that is something that will grow over time.

So it's by continuing to innovate the retail format to offer convenience to consumers who are, as you mentioned -- or maybe increasingly working from home or also meeting them at their home without occasion through delivery.

A - Christopher O'Cull {BIO 15071112 <GO>}

What would it take for the company to accelerate growth in the delivery channel, particularly in dense urban settings? Is it packaging, delivery kitchens, maybe commission rates that are different?

A - Patrick Grismer {BIO 15965217 <GO>}

I think it's going to be customer behavior. We're just not seeing customer -- broad customer acceptance of or migration to a delivered beverage occasion. Again, very different from what we're seeing in China.

But we have seen improvements as we've gone to national coverage and certainly helped by some of the more recent promotion we've been doing in partnership with Uber Eats.

So I just think that the delivered beverage occasion compared to the delivered meal occasion, it doesn't seem to be as relevant to customers in the current environment.

But we know that customers are dynamic. We know that over time, they're looking for more convenience.

So we anticipate that this is something that will grow over time.

A - Christopher O'Cull {BIO 15071112 <GO>}

What do you believe are the biggest obstacles for consumers desiring coffee delivered or beverages delivered?

A - Patrick Grismer {BIO 15965217 <GO>}

It could be, as you mentioned, the commission in relation to the ticket size.

So commission having a fixed and variable component in relation to the ticket size for a full meal, it's a more attractive economic proposition from a consumer perspective, less so for a single beverage. Now we are seeing in our delivery business an increased order size, oftentimes with higher rates of food attached, which speaks to the fact that people are looking for a delivered meal or they're doing group ordering.

In either case, I think that demonstrates that they may be focused on how they can maximize the return on their investment in the delivery fee and/or commission.

A - Christopher O'Cull {BIO 15071112 <GO>}

As you mentioned and Kevin mentioned in the "Bridge to the Future" letter, he called out more drive-throughs as a possible result of the repositioning. I think about 60% of your U.S. company stores currently have a drive-through.

So how much could that increase by -- that mix increase in the U.S.?

A - Patrick Grismer {BIO 15965217 <GO>}

Well I think the best way to respond to that question is to highlight the mix of our new store development that is drive-through, which is around 80%. And that may increase over time.

So as you're mixing in new stores at a much higher rate, that should give some indication as to how we would expect that overall percentage from 60% to continue to increase over time.

A - Christopher O'Cull {BIO 15071112 <GO>}

Great. And then we did have a couple of questions come through, one regarding portfolio optimization outside of the U.S. How do you foresee the portfolio optimization unfolding outside of the U.S. for licensed locations? And overall, what is the CapEx you're allocating to this optimization effort?

A - Patrick Grismer {BIO 15965217 <GO>}

So outside the U.S., in our company-owned markets, we are already evolving in China with the Starbucks Now concept, about 10 units opened today. Another 40 to 50 will be added between now and the end of the year, I believe.

So some nice progress there. I don't know if that's so much trade area optimization as it is mixing in a new format in a high-growth market in a way that continues to cater to the growing customer need state of convenience.

In our other markets -- company-operated markets like Japan and the U.K., I think it's -- it doesn't seem to be as much of an opportunity currently compared to what is so compelling in the U.S., given the current profile of our retail presence in dense urban markets.

So I don't know that there's as much of an opportunity there. Plus, those are much smaller markets.

What I would highlight, and it was mentioned in our 8-K, not so much portfolio optimization from the standpoint of how we mix in new retail formats.

But we did highlight for Canada, which is another company-operated market, that we will be pursuing a restructuring of that business in the next two years. And that would involve the acceleration of up to 200 store closures, and that is more about addressing underperforming locations and consolidating our operations there in a fashion that will improve the overall profitability of that business.

A - Christopher O'Cull {BIO 15071112 <GO>}

And just to stay on licensed -- or to talk about licensed locations briefly how has the crisis changed the returns on new licensed units? And have licensees indicated they maybe are planning to alter their growth plans, either in the U.S. or Europe? And also, can you talk a little bit about what kind of relief you've been able to provide them and how long that may persist?

A - Patrick Grismer {BIO 15965217 <GO>}

No change to long-term growth plans or expectations because our licensees believe, as we do, that the current circumstances are temporary. There will be recovery in time.

It may take longer in some markets versus others, but the early indications are that consumers have deep love for Starbucks. They're intensely loyal. They can't wait to reengage. And over time as markets open up and people adjust to the new normal and as we provide the safe experience that our partners and customers expect, we and our licensees expect that the new unit returns will remain very attractive. And therefore, no change to long-term growth expectations.

But the near-term impacts are significant. As we've disclosed for our third quarter, at the depth of the crisis, the month of April in particular, but then continuing but abating in May. And now, of course we're anticipating June to be closer to breakeven and then free cash flow-positive by the end of our fiscal third quarter, end of June.

So things are moving in a very positive direction.

But because of those temporary circumstances, we saw the need for some of our license partners for additional support. We deferred payments on outstanding receivables to provide cash flow relief. We granted flexibility around inventory ordering. We granted flexibility around development commitments and renovation commitments. Not erasing those comments, but giving some flexibility around timing and meeting those commitments.

And then the other thing we did in Q3 alone was we typically applied extraordinary step of granting a royalty holiday to our international licensees.

So not just the deferral of royalties owed, but in view of the impacts to markets around the world, we granted a complete holiday. That means no royalty income on licensees' sales in Q3. That's fully reflected in our -- in the guidance we provided this morning for Q3 EPS.

We feel very good about steps we've taken to take care of our licensees as important business partners as well as so many other stakeholders. We've taken care of our partners, making significant investments, industry-leading investments around partner care during a time of crisis, and that is reflected in our Q3 operating results.

But we feel good about those investments, consistent with our mission and values as a company. And we remain very confident that there will be a strong return on that investment in the form of partner engagement and customer goodwill.

So licensees are just -- they're another stakeholder group important to us, and we saw the need and our ability to make meaningful investments to further deepen the partnership. We also took steps to protect key strategic suppliers by accelerating payments to them during the time of crisis. My treasurer has reminded me that it put us in an interesting squeeze position where we deferred receivables but accelerated payables, but that was something we did knowingly and intentionally in order to take care of license partners, supplier partners as well as our store partners and then, of course the communities we serve through very significant grants around community service.

A - Christopher O'Cull {BIO 15071112 <GO>}

Great. And then just one last question. And we've heard the company describe the Global Coffee Alliance as one of the more underappreciated aspects of the company. Prior to the crisis, I think guidance called for the Channel Development segment to contribute more significantly to total revenue growth after fiscal '22 than the 4% to 6% intermediate-term rate. Has the crisis altered the outlook for this business in any way?

A - Patrick Grismer {BIO 15965217 <GO>}

Not materially. There have been a couple of things moving in opposite directions. We announced earlier this year a modified relationship with KDP in relation to the pod manufacturing in conjunction with our Global Coffee Alliance with Nestlé, delivering favorable economics this year flowing through the Channel Development business. That has been offset by relative softness in the foodservice channel of the Global Coffee Alliance. Think hotels and universities where foodservice is provided, those channels have been under pressure. And then, of course that has been somewhat offset by the tailwind in grocery stores, who saw extraordinary sales in the third quarter.

So things moving in different directions, pretty much netting to flat versus our prior expectations. We're really pleased with the progress we're making through our Global Coffee Alliance with Nestlé to expand the presence of the Starbucks brand in so many markets around the world; and in partnership with Nestlé and their world-class innovation, bringing forward new products that are helping to grow the overall business.

So no change versus prior expectations.

A - Christopher O'Cull {BIO 15071112 <GO>}

Great. And Pat, I want to thank you again for your time today. This has been a very helpful discussion, and we look forward to hearing about the business -- how the business is progressing when we have the opportunity to speak again.

But again, appreciate your time.

A - Patrick Grismer {BIO 15965217 <GO>}

Thank you. My pleasure. Appreciate it.