

Starbucks Conference Call to discuss its new leadership structure

Company Participants

- Howard Schultz, Chairman, President & CEO
- JoAnn DeGrande, Vice President
- Scott Maw, SVP & Finance
- Troy Alstead, CFO & President, Global Business Services

Other Participants

- David Palmer, Analyst, RBC Capital Markets
- Joe Buckley, Analyst, BofA Merrill Lynch
- John Glass, Analyst, Morgan Stanley
- Karen Holthouse, Analyst, Credit Suisse
- Matthew DiFrisco, Analyst, Buckingham Research Group
- Sara Senatore, Analyst, Sanford C. Bernstein & Co.

Presentation

Operator

Good afternoon. My name is Mike. I will be your conference operator today. At this time, I would like to welcome everyone to Starbucks Coffee Company's conference call. (Operator Instructions)

Ms. DeGrande, you may begin your conference.

JoAnn DeGrande {BIO 2134543 <GO>}

Thank you, Mike. Good afternoon. This is JoAnn DeGrande, Vice President of Investor Relations for Starbucks Coffee Company. Joining me today are Howard Schultz, Chairman, President. And CEO; Troy Alstead, Chief Financial Officer and Group President, Global Business Services; and Scott Maw, Senior Vice President, Finance.

As you know, this afternoon we announced a new senior leadership structure, effective February 3. The intent of this call is to discuss that with you and give you an opportunity to ask questions. So we appreciate you joining us on relatively short notice.

The conference call is also being webcast. And an archive of the webcast will be available on our website at investor.starbucks.com. With that, let me turn the call over to Howard Schultz.

Howard Schultz {BIO 1432255 <GO>}

Joann, thank you very much. As Joann said, thank you all for joining the call on such short notice. I think the press release pretty much speaks for itself. And it is fairly straightforward. But let me put into my own words what I think this is really about so there's no misunderstanding.

First and foremost, it's really about strengthening our organization with proven leaders who are heavily tenured and really understand the nuances of our business, against our core business. And as we spoke last week on our conference call, that core business, mainly our stores domestically and globally, will accelerate over time.

This new organization will bring a new level of discipline, business acumen. And oversight to the business as we accelerate the growth of our retail footprint around the world. That's number one.

Number two, to significantly leverage the undervalued unparalleled physical and digital assets that Starbucks has to create both new revenue streams and to ensure relevancy of the brand inside and outside of our stores. Those are the two main core issues beyond the restructuring of the organization.

What it is not about is it's not about succession planning. And it is definitely not about me leaving or planning to leave the Company. It's not about taking our eye off our core business; and in fact this organization is now put in place to both strengthen and accelerate our core business.

It's not about any acquisition, certainly not anything that is in sight. And it's not about slowing growth. Let me briefly highlight to you the moves that we're making today with specificity with regards to the organization.

In partnership with our senior leadership team, including Starbucks Chief Digital Officer, Adam Brotman. And Chief Strategy Officer, Matt Ryan, I will expand my day-to-day focus on all things innovation, including coffee and tea. But with an emphasis on the Starbucks experience that will really thread into all things digital: digital payments, areas of digital, mobile card, loyalty. And e-commerce.

I think I spoke at length last week about the seismic shift in consumer behavior. That was not a December anomaly; that's going to happen and happen quickly. And we believe strongly that any and all bricks-and-mortar retailers must understand and must embrace this. And we are sitting with a set of assets that is unparalleled.

The investments have been made. And now we're going to ladder that up in ways that I think will add significant value, not only to a new stream of revenue. But in

doing so create more stickiness, more loyalty. And more frequency inside our core business, as we leverage the flywheel of Starbucks. I will also continue to work closely with our senior leadership team to continue to drive disciplined growth and operational excellence around the world, while ensuring that our next wave of growth is achieved through demonstration of our mission and values.

With regard to Troy, first and foremost let me personally congratulate Troy on the promotion of Chief Operating Officer. With my focus on the next wave of global growth, it is my pleasure to announce the promotion of Starbucks Chief Financial Officer, Troy Alstead, to the newly created position of Chief Operating Officer.

The addition of a COO will provide me with more time to focus on innovation and strategic initiatives, while at the same time enable us to continue sharpening our day-to-day operational focus and elevating Starbucks' unique customer experience. In his new role, Troy will continue to report to me. And will be responsible for aligning and prioritizing Company investments across business units.

The group presidents, Cliff Burrows, who leads the US, Americas. And Teavana. And John Culver, who will lead China Asia Pacific, Channel Development. And Emerging Brands, will now report to Troy, along with EMEA president, Kris Engskov. The Company's new CFO, who I will discuss next, will also report to Troy, as well as his existing senior direct reports, who lead the Company's global technology and global supply chain organizations.

I couldn't be more grateful of and proud of Troy for his significant contribution to Starbucks over the past 22 years. And I look forward to working with him for many more. I would also like to thank Cliff and John for all they've done to make Starbucks record FY13 and Q1 possible. I look forward to continue partnering with John and Cliff as trusted members of our senior leadership team.

With regard to our CFO, I would like to formally welcome and congratulate Scott Maw. With Troy's appointment to COO, I'm pleased to share with you that Scott Maw, Starbucks' Senior Vice President of Corporate Finance, has been promoted to Executive Vice President and CFO. Scott joined Starbucks as Global Controller in 2011. And brings more than two decades of finance leadership experience to this new role, including senior finance leadership roles with JP Morgan Chase and GE.

And finally, it gives me great pride to announce Craig Russell's promotion to Executive Vice President of Global Coffee. Craig has been in a Starbucks department since 2001. And has embraced his role as Starbucks' voice and advocate for coffee with passion, imagination. And humility.

The elevation of these strong, experienced Starbucks leaders will bring an even greater financial and operational discipline to our day-to-day business in our three regions around the world. And I would say personally there's never been a greater opportunity for Starbucks to significantly grow, expand our business. And to do it in

the style and the elegance that we have in the past. And that is driving performance through the lens of humanity.

We are on the cusp of another great inflection point in Starbucks' journey. I couldn't be more optimistic about the Company's readiness to benefit from the converging retail, digital. And team environment.

Simply put, there's never been a more exciting, a more important time to be a Starbucks' customer, Starbucks partner, or Starbucks' shareholder. With that, it gives me great pride and admiration and respect to give the call over to Troy.

Troy Alstead {BIO 5724238 <GO>}

Thank you, Howard. First let me say that I had the chance to work with many of you who are calling into the call today over the past five-plus years. And I want to take the opportunity to thank you all for the support you've given me and to Starbucks during my time as CFO. It really is an immense honor to be given the opportunity to lead the day-to-day operations at Starbucks after more than two decades with the Company.

When I joined Starbucks it was a small, privately-held company of stores, primarily in the northwest, with high aspirations and goals. And of course, now it is a global growth company.

I've had the privilege of working closely with Howard and the business unit leaders over many years. And I couldn't be more proud of what we've achieved, nor more confident in the opportunities ahead. It's no secret that one of Howard's great strengths, among many, is that of a visionary and strategic thinker.

Providing him the opportunity to focus even more sharply on innovation and Starbucks' strategic initiatives while I take on daily oversight of our global operations will allow us to realize our growth ambitions more quickly. Howard and I have a great trust between us and a great working relationship. We share a passion for what Starbucks stands for. And a commitment to our partners and to the values that have made Starbucks really what it is today.

I've also had the great opportunity to work closely for many years with our strong business leaders in Cliff Burrows, John Culver. And Kris Engskov leading our operations around the world. I now look forward in this new role to working directly with them to align and prioritize strategies and investments to ensure we as a Company deliver the discipline, growth. And operational and financial excellent that we're committed to.

Let me now speak a bit further about our new Chief Financial Officer, Scott Maw, who I recruited into Starbucks a few years ago as a key leader in the finance organization. During that time, Scott and I have worked very closely together as he has gradually assumed more and more of the finance function. And has taken on increasingly

more responsibility, making a significant impact on the finance organization and the Company as a whole.

In addition to the impact he's made in his time here, Scott brings depth and experience from a number of previous CFO and finance leadership roles in other companies. Many of you have had the opportunity to meet Scott in the past couple of years when he has joined me on road shows or at meetings here in Seattle. For those of you who have met him, I know you experienced firsthand his deep knowledge and understanding of the business.

Howard, the Board. And I am highly confident of Scott's capabilities to be a fantastic next CFO for Starbucks. Scott and I will work closely together as I transition into my new role and Scott into his.

We will be meeting with the financial community together over the next few months. And for those of you who haven't met Scott already, I look forward to introducing him to you in person. I'll now turn the call over to Scott for a few comments. Scott?

Scott Maw {BIO 18637895 <GO>}

Thanks Troy. First of all, let me say I'm very honored and humbled to serve as the CFO of Starbucks. I've long admired Starbucks' financial achievements that combine rapid growth, world-class innovation. And return on investment at a scale few others can match.

Over the past few years, I have learned much more about what makes Starbucks a very successful and very different kind of Company. Even more unique than our financial performance is the ability to achieve these results while leading the way as a global citizen, via our deep commitment to environmental sustainability, the communities we serve, our partners. And our customers.

I'm excited to join the leadership team and our partners around the world as we continue to elevate the Starbucks experience. And I look forward to meeting many of you and working with you in the future. With that, we'll turn the call back to the operator to open the line for questions. Operator.

Questions And Answers

Operator

(Operator Instructions)

Your first question comes from Sara Senatore with Sanford Bernstein.

Q - Sara Senatore {BIO 16508078 <GO>}

Great. Thank you very much. Troy, congratulations to you on this. It's been great working with you. I look forward to continuing that. If I may, could you talk about -- you said the split with you and Howard will allow to you accelerate the growth going forward. Can you talk specifically about what that means? Would we expect a step-up very literally in investments? Is it more just about the focus? Can you just maybe give us a little more detail on that?

And on a related note, could you talk explicitly about your growth in China? Howard mentioned that on the conference call last week. And obviously there's been some concern. So maybe how that fits into accelerating growth?

A - Troy Alstead {BIO 5724238 <GO>}

Thanks. First, Sara, thanks for your congratulations. I appreciate that. Let me speak to this. One of the overarching goals of this org structure, as Howard said, is really to focus a number of places. Him to focus in innovation and our initiatives by allowing him to step up a little bit and hand off some of that daily oversight of the business to me working and partnering very closely with the great teams we have around the world and the leaders we have in Cliff and John and then Kris, leading Europe for us.

One of the key goals of this is for us to build upon the great success we've had in our operations around the world. And continually challenging ourselves to say, how do we elevate that further? Where does this come next? How do we execute better than ever before, both in terms of the experiences that we're providing the customers, how we're leading our partners? And yes, the growth that we can drive throughout the business.

If there's anything that we've learned in the last few years, it is that our global upside is bigger than it's ever been before. We came out of the difficult days of 2008 and 2009. And have continually ramped up our pace of development since then. And concurrently ramped up volumes per store, profitability per store, return on capital, have every single year increased to new levels. And we believe we've got an opportunity to pick up the pace of growth in the coming years in a very responsible, disciplined way and continue elevating every metric we have, again, first starting with the customer. So that is a big part of what we're going in to for. I'm really confident we can do that.

Specific to China. And I would just say I think that there's concerns you were mentioning. I think that's more broadly about China, not about Starbucks. As we said on the call last week, our results in China actually accelerated in this most recent quarter. Traffic growth accelerated, two-year comp growth accelerated. Our profitability accelerated dramatically, far faster even than the top line, which was pretty remarkable itself in China. So our goal there is to continue the fantastic progress we have, continue working to build capabilities so we can responsibility accelerate even further from here as we approach the coming years.

And by the way, look at opportunities outside of the Starbucks store to grow, not unlike what we've done in other markets. Huge opportunity ahead. None of the

concerns you may have heard others are in the least bit showing up in our business. And I wouldn't expect them to.

Q - Sara Senatore {BIO 16508078 <GO>}

Thank you.

Operator

Your next question is from Joe Buckley with Bank of America Merrill Lynch.

Q - Joe Buckley {BIO 1491816 <GO>}

Thank you. This may be too simplistic. But is it fair for us to think about these moves as entrusting the physical assets of the business to Troy while you, Howard, try to further develop the digital opportunity? Is that a fair way to categorize the moves, or is that too simplistic?

A - Howard Schultz {BIO 1432255 <GO>}

I mean, I don't think I'd go that far. Troy's office and my office is about, I don't think it's 15 yards apart. So every single day that we're in the office, we are talking about the business holistically. And I see this continuing.

However, as Troy indicated in terms of the last question, this frees me up to really focus, I think, on the assets that we have that we think are under-leveraged. When you look at mobile payment and what we're able to do there. And you look at the card and MSR and what we did during Q1, calendar Q1 with -- I'm sorry, calendar Q4 with 1.4 billion on the card, I think there are enormous opportunities for us to take advantage of this. I think it's twofold. One is that unto themselves, we think these assets can create new revenue streams and significantly long-term profit for us.

But in doing so, I think we can integrate them into the core retail business. And as a result of that have a positive effect on being able to drive more frequency and more value for our customers. I think in the previous question in terms of growth, Troy indicated also, I think there's opportunities in the long term to increase average unit volumes. And I think by leveraging the digital assets we have and mobile payment that we have, there are things that we can do around that and loyalty that we have not done before.

We've learned a great deal most recently about what we're able to do in other channels in distribution. We've processed over 2 million Starbucks' Stars that have been processed as a result of people buying pounds of coffee in the grocery aisle. That is another indication to us that there is a currency that relates to Stars that can go further in the future. I think we're just beginning to understand that. If you just take all of that and the seismic change, we are going to be on the right side of this to date. And we believe we have the winning hand with assets that are significantly under-leveraged that are highly complementary to our core business.

Q - Joe Buckley {BIO 1491816 <GO>}

Thank you. That's a good overview.

Operator

Your next question is from Matthew DiFrisco with Buckingham Research.

Q - Matthew DiFrisco {BIO 3948570 <GO>}

Thank you. You actually answered a little bit of my question there. I was wondering about that, about the cross-selling opportunity. I think it was a couple of conference calls ago, maybe two, where you were mentioning the introduction of cross-selling into not only the card and the loyalty, into the grocery channel as well. I guess is that somewhat the opportunity that we could see, just not confining the mobile payment opportunity, or even the mobile app and your connection with your consumer confined to your stores. But is it a broader opportunity? Can you talk about that, what channels they could be outside of the Starbucks store?

A - Howard Schultz {BIO 1432255 <GO>}

Let me try and answer that. And with the caveat that I want to ensure the fact that we are not in any way over-promising what our capabilities are. But instead talking about our aspiration and what might be possible. So let's make sure that my words are not misunderstood.

As we sit today, processing almost 5 million mobile transaction -- payments a week, we are so far ahead of any other national retailer of scale. I don't even if anyone is processing 1 million payments a week. That has garnered the attention of leading tech companies, all of whom are chasing with great fervor, who is going to be able to create the standard de facto of mobile payments. What I will say is that I think there are things that we can take advantage of. And that we can leverage, that are outside of the ecosystems of Starbucks.

And this new organizational change will free me up to really create and innovate around not only mobile payment. But the things that we are doing with new channels of distribution in which we can cross-promote and cross-reward our customers with Stars as currency. I think we're in the nascent stage of all this. But as we sit down with leading companies in the space, what has become very clear to us is that we have a set of unparalleled assets coupled with one of the most trusted brands in the world.

That is a very valuable component of what ultimately will make up one or many standards of mobile payment around the country. And I think this organizational change is a significant pivot point that is designed to strengthen our core business at a time when we have the wind at our back. And take advantage of the investments we've made. And leveraging the equity of the brand and the -- what we believe to be the convergence of the consumer integrating their lifestyle and their shopping

habits between mobile, the web. And bricks-and-mortar retail stores. And we are going to be at the cutting edge of that.

Q - Matthew DiFrisco {BIO 3948570 <GO>}

Okay. I have a follow-up question, if I could just ask on that. That was very good. Thank you for that answer.

A - Howard Schultz {BIO 1432255 <GO>}

Go ahead.

Q - Matthew DiFrisco {BIO 3948570 <GO>}

With respect to, I guess, if you think 10 years ago, you guys always used to not market. You used to say your real estate was key. I guess, do you see the young consumer and the future consumer, the incremental guy that you're gaining coming into the workforce, is digital the future of real estate? I mean, is that how people are - is digital and the way you are going to pay become -- are you seeing trends become more increasingly more component to why I choose the place I'm going to buy at, rather than what real estate might have been 10 to 20 years ago?

A - Howard Schultz {BIO 1432255 <GO>}

I think that's a fascinating question. I think if we look at the assets that we have as a Company, I think the strongest critic would be hard-pressed to say that Starbucks probably has the best real estate portfolio of any national footprint company in America. And when you look at the fact that the majority of our stores are Company-owned, we have the nimbleness and the flexibility to do things outside of our stores that a typically franchise system does not, because of the inherent conflicts and cannibalization.

Having said that, our core real estate will always be a major asset of the Company. However, there's no question that the consumer is rapidly embracing and involved in -- and it's evolving to the point when your digital wallet is going to be the primary currency of how you're going to pay for things.

But if you look at the assets of Starbucks going forward, the national footprint of our stores, the equity of the brand. And the ability to integrate these digital and mobile assets into the shopping experience and create relevancy. And I think that is the operative word here. The consumer brand that's going to win over the long term is going to be relevant not only inside the four walls of their respective store. But a must-have is to be relevant in the digital space in which the customer is not only living, working. And playing. But in every aspect of their life.

I think we are in a very unique position, unlike most traditional bricks-and-mortar companies. And a very unique position against most digitally-based consumer brands who do not have a physical presence. When you combine those two things, in a seamless fashion for the customer, we have an opportunity, I think, to do things that will leverage both asset classes unto themselves and make them stronger as a

result of what we're going to be able to do, which will ultimately be seamless to the consumer.

Q - Matthew DiFrisco {BIO 3948570 <GO>}

Excellent. Thank you for your time.

A - Troy Alstead {BIO 5724238 <GO>}

Thanks, Matt.

Operator

Your next question comes from David Palmer with RBC Capital Markets.

Q - David Palmer {BIO 6061984 <GO>}

Hi, guys. Congratulations Troy and Scott. Howard, I wonder if this arrangement in some way brings you back to the structure of the days when Orin was working with you. Is that -- do you feel like this is analogous where -- and I'm sorry for saying this. But if Troy is the Orin here and that this (technical difficulty) frees you [ph] perhaps to have more fun on the innovation side, much like the old days? Is that similar to that deal?

A - Howard Schultz {BIO 1432255 <GO>}

I tend not to look back on the old days. So many people at Starbucks say -- I'm so fond of the old days. But they don't remember, I was here during those days and they weren't that good. (inaudible). Let me say this. Of course, my working relationship and respect for Orin is above reproach. But Troy and I have worked for 22 years. That's a very unusual relationship and partnership. We probably can finish each other's sentences with regard to the business. Troy will bring a level of business acumen and discipline to the business through the lens of his experience and his skill base that I believe will make us stronger at a time when we are moving at a very rapid global pace. And his working relationship with John, Cliff. And Kris is so strong and his respect within the organization.

At the same token, I'm not leaving the business on any level. I'm still engaged in the meetings, I'm still engaged in the strategy. These people will report to Troy. And Troy will develop his own team and his own rhythm with that team. Troy and I, we talk every single day, whether we're in the office or not, about the business, the challenges, the opportunities. And that's not going to change.

What will change. And I keep repeating myself, is that we believe we can go after something that is rare. That is a significant unparalleled, under-leveraged digital assets that we have that relate to mobile, mobile payment and other things that we believe we can bring to the market that will make both our digital and our physical business stronger. Troy is a great partner. His relationship with Scott also will bring us closer together. I just think our team is a seamless team. No one is walking around thinking, who's reporting to who? It just doesn't work like that at Starbucks. This is a

very consensus-driven organization in which the culture always trumps what we're doing. And that culture is based on like-minded values and trust.

Q - David Palmer {BIO 6061984 <GO>}

Thank you.

Operator

Your next question comes from John Glass with Morgan Stanley.

Q - John Glass {BIO 2450459 <GO>}

Thanks. Since this [ph] has been acquisitive recently. You've bought a number of brands than have enhanced the Starbucks business. In your new role, do you think acquisitions play a piece in this new digital strategy?

And secondarily, do you think there is opportunity to create new revenue streams for the Company? I'm thinking specifically would you choose to own, or potentially own, or create digital payment platforms that you could then sell to third parties?

A - Howard Schultz {BIO 1432255 <GO>}

As I said in my comments, what this is not about is that there's no short-term target of any acquisition. And there's no company that we're thinking of acquiring. However, I think the payments space itself is a very attractive opportunity for our Company, given the digital assets that we have. And I think moving forward, we'll be speaking more about that as time goes on.

Q - John Glass {BIO 2450459 <GO>}

Thank you.

A - Howard Schultz {BIO 1432255 <GO>}

We'll take one more question? Okay.

Operator

The next question comes from Karen Holthouse with Credit Suisse.

Q - Karen Holthouse {BIO 17433865 <GO>}

Hi. Thanks for taking the question. I guess it's very clear at this point that Starbucks has been open about investments in digital and mobile. And has been very successful with those. It seems like e-commerce, though, is a word that's come up a little bit more frequently recently. And Starbucks has had an online store for a long time. And maybe if you could give us just some color on where you see a greater opportunity there. And maybe how that might tie into better addressing the international opportunity in CPG?

A - Howard Schultz {BIO 1432255 <GO>}

I think our current product line, given the multiple channels of distribution that we have, I mean, there are over 100,000 points of distribution in North America for Starbucks coffee products. As a result of that, an opportunity within e-commerce on our core products is fairly limited. I do think there are creative things that we can do that leverages the physical assets we have that could become (technical difficulty) to be honest with you, I think the e-commerce pure play opportunity, as it is probably understood, is really subordinate to the opportunities that we see with regard to loyalty card, mobile transactions. And ultimately the digital wallet and payments.

Q - Karen Holthouse {BIO 17433865 <GO>}

All right. Thank you.

A - JoAnn DeGrande {BIO 2134543 <GO>}

That's all the time we have for the call today. Thank you, all for joining us on such short notice. And have a good evening.

A - Howard Schultz {BIO 1432255 <GO>}

Thank you very much. Thank you.

A - Troy Alstead {BIO 5724238 <GO>}

Thank you.

Operator

This concludes today's Starbucks Coffee Company conference call.

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