J.P. Morgan Gaming, Lodging, Restaurant & Leisure Forum

Company Participants

- Patrick J. Grismer, Chief Financial Officer

Other Participants

- John William Ivankoe, Analyst, JP Morgan Chase & Co

Presentation

John William Ivankoe {BIO 1556651 <GO>}

Hi. It's John Ivankoe of JPMorgan. Thank you everyone for joining the Starbucks session here this morning. Joining with Starbucks is Pat Grismer, the company's Chief Financial Officer, who I believe will start us off with some slides.

Patrick J. Grismer {BIO 15965217 <GO>}

Thank you very much, John. I do appreciate the opportunity to participate in today's session. Before we do get start off with our fireside chat, I do want to provide a quick update on our sales recovery in our two lead growth markets, US and China. So I'm going to first share my screen. So if you'll bear with me, that's set up here. (inaudible) you can see the slides. I will be speaking to these slides that will soon be posted to our Investor Relations website. So I'll lead with our standard cautionary language as I will be making some forward-looking statements.

So starting with the US, our sales recovery is sustained with comp sales improving from minus 14% in July to minus 11% in August, on track to achieve positive comps by the end of our fiscal second quarter in 2021, as we previously out-looked. If noted, at the bottom of the slide, some two-year comps to normalize for some variability in prior year lap. The recovery, as you can see, is unfolding fairly steadily. Worth noting that now more than half of our stores in the US have at least limited seating available and we've seen that as we've progressively opened our ordering and sales channels from drive-through to entryway pickup to in-store ordering and seating comps have improved and they're continuing on that path.

Looking ahead, we expect three key initiatives will fuel our future recovery in the US; first, the deployment of handheld (inaudible) of the drive-thru; second, the roll-out of curbside pickup where we have convenient parking; and third, today the launch of Stars for Everyone. We are very pleased with the upward momentum in our US business, but we still have ways to go to fully recover sales in the US. And the overall operating environment remains somewhat uncertain. So prudently, we foresee another six months of recovery as previously outlook. But we're very pleased with our progress thus far and we're very optimistic for the future.

So moving then to our second lead growth market, which is our business in China. You can see that our business there is approaching full sales recovery. We posted flat comps in August, up from minus 10% in July. Those numbers include a 4-percentage-point benefit from a temporary VAT exemption. So it's also shown the numbers without that temporary benefit. We are still on track to achieve positive comps, excluding the VAT benefit, by the end of our fiscal Q1 in 2021, as we previously outlook. Like the US, we've noted here at the bottom of the slide, two-year comps, which show a steadier recovery and turned positive in August. Our future recovery enablers in China include, number one, the accelerated development of our convenience store format Starbucks Now; number two, increased digital customer engagement, which has grown through ongoing improvements to our digital platform, including the recent introduction of Starbucks Rewards multi-tier redemption; and third, ongoing leverage of our digital partnership with Alibaba, which includes delivery.

Now there are some headwinds to our full sales recovery in China. And those are continuing lower levels of traffic at travel and transportation hubs as well as city center locations that are impacted by reduced inbound international travel.

So I'm going to wrap up my opening remarks with some reminders about some upcoming key dates. We are set to report our fourth quarter and full year earnings on October 29, at which point we will also provide guidance for fiscal 2021. That will be a 53-week fiscal year for Starbucks instead of the normal 52 weeks as happens every five or six years. We will highlight the impact of the 53rd week when we do provide guidance.

Looking further ahead, we will host our Biannual Investor Day on December 9, which will obviously be conducted virtually. So I am going to now stop sharing my screen here, which at the end of the slides. And John, at this stage, really happy to take your questions.

John William Ivankoe {BIO 1556651 <GO>}

Yes. Thank you. So the August comp-off down 11 in the US. I assume, I can ask you very specific question. How many stores of any are still closed? And could you tell me, again, the percentage of stores that have limited seating? You said it was -- I think, you said half of the stores have limited seating?

Patrick J. Grismer {BIO 15965217 <GO>}

Yes. So, currently about 3% of our company-owned stores in the US remain closed. Those are concentrated in central business districts in large metropolitan areas. And yes, more than -- about 50% of our stores that are open do have some form of seating.

John William Ivankoe {BIO 1556651 <GO>}

And the stores, I guess, there 50% have seating, 57% of your stores have drive-thrus. So I mean, would it be more likely that a drive-thru store would not have at seating open? Or is that just really -- is that, a market like California, for example, is just kind of suggest, of course, where I'm going to get is thus seating mean higher sales performance?

Patrick J. Grismer {BIO 15965217 <GO>}

Yes. In drive-thrus, more often than not, we do have seating available, which is important, because there are customers who would prefer not to wait in a very long drive-thru lines. They can come into the store place their order and collect their order and be on their way or if they like they can sit and say where we have limited seating available.

John William Ivankoe {BIO 1556651 <GO>}

Yeah.

Patrick J. Grismer {BIO 15965217 <GO>}

With respect to the drive-thru locations, they're performing really well. They are already comping positively. The cafes that are concentrated in our central business districts, they're continuing to comp negative. Those that are open that as I mentioned before, the large number of those remain closed. But all of that has reflected in the improving sales comps that I have shared.

John William Ivankoe {BIO 1556651 <GO>}

And how do you define CBD urban office there have been a -- there could be a lot of kind of cross definition here. But what percentage of your stores would you define as CBD, which for obvious reasons take the longest to recover getting full mobility that's subway traffic other things like that?

Patrick J. Grismer {BIO 15965217 <GO>}

Yeah, the best way to think about it, as you mentioned before, about 60% of our company-owned stores in the US are drive-thru, the remaining 40% are cafes. Of that 40%, about a third are in central business districts, not all of those are closed, but a fair percentage are, and those represent the 3% of the total company-owned system that remain closed at the moment. But you know what, I think it's important to highlight is that through the pandemic we've seen customers changed their behavior. So as increasing numbers of our customers are working from home, that's why we have low levels of traffic in central business districts, but we are seeing very significant increases in customer traffic at our suburban drive-thrus. Customers have changed their behaviors. They are eager to reestablish their routines and find some measure of normalcy. They're visiting Starbucks closer to home. They are tending to visit a bit later in the day and they're spending more when they do come. So as customers have modified their behavior, we've adapted to accommodate them.

John William Ivankoe {BIO 1556651 <GO>}

Thank you. So again, this is very quick math. So 60% of your drive-thru stores are positive -- 60% of your stores are drive-thrus, and that cohort is positive, negative, more specifically. That would suggest something like comps are down somewhere like 25%, maybe more for the non-drive-thru stores. I mean, is that kind of what are your expectations? At this point, no recovery. And is it -- I'm using word self-help, but I mean lack of better word. Is there anything that you can do to kind of pull -- basically, pull up that lagging cohort that you feel that is within your control that bodes to basically the government -- government kind of opening, people just getting back to work.

Patrick J. Grismer {BIO 15965217 <GO>}

Here's how we think about it. There will be a cohort that will for some period of time the under pressure until the environment normalizes. We don't know when that will be. We're not waiting for that. And so we are rapidly innovating in order to capture new demand, new occasions that we didn't have before that tied to how customers are currently living their lives, which is why we have moved quickly to open up new channels of distribution at our existing stores, primarily in the suburbs because there is significant latent demand and there is unmet demand. And so as we've seen customers change their behavior patterns, we've moved swiftly in order to capitalize on that, recognizing that for a cohort of our stores at may be some time before we see volumes turn to where they were before. And we're not waiting around for that. And then also, as we mentioned back in June, some stores in central business districts that were already lagging in their performance, in the current environment, just aren't going to deliver a level of performance that will warrant maintaining those operations. And so many of those stores perform part of the roughly 400 stores that we said we would accelerate a closure on in the next 12 to 18 months, and that process has started. So we are rapidly shifting our business in response to shifting customer behavior in the near term. And for the long term and, of course, another important part of that is the rapid innovation around our convenient retail store format, which is the Starbucks Pickup store where we're looking to accelerate the pace of development in the coming year. And that will be focused in these urban centers.

John William Ivankoe {BIO 1556651 <GO>}

Yeah. I mean there is a letter that was sent to landlords just basically get in time. Yeah, Starbucks is obviously big tenant, but you're not getting the walk by traffic that tiny traffic -- what have you that that a lot of stores would have contemplated when you sign these leases. Are you having success in that 40% of non-drive others just assume that's the case? The 40% of non-drive-thrus or maybe that one-third of CBD is a 40% of kind of getting significant rent reductions. I'm sure when a landlord say, when you talk -- when Starbucks leads a street, that the value that street goes down. I mean our landlords kind of recognizing that you are giving you the kind of terms that basically make a marginal decision one in fact that you will stay because they appreciate that you add value to everyone around you?

Patrick J. Grismer {BIO 15965217 <GO>}

Well, John, you're absolutely right. We've recognized the strength in the power of our brand and a prominent position that we have in retail. And so we are seeing success in those conversations with landlords. But it's not necessarily in the way that you might expect, or that you've alluded to, i.e., we're not seeing short-term rent abatement. What we are seeing is more favorable terms for existing locations and importantly for new locations because remember we're still growing. Even though we're accelerating closure of stores, we have a very robust new store development program focused on our drive-thru assets largely in the suburbs, and we're able to bring to bear the current environment to secure favorable rent terms or lease terms for those new locations, as well as for, again, existing. So to give you some examples of the types of concessions we're seeing, we are securing additional parking spots. That's a very significant because in fact we see curbside pickup as an important enabler, as I mentioned, before of our longer-term recovery. Already we're in about 800 stores with curbside pickup. We will more than double that number in the next couple of months. We're also securing early termination rights in our new leases, which is important, because circumstances as we've learned can change, and we need to have the flexibility to exit as the situation warrants. And then finally, we are also writing into our current leases, and new leases, provisions for rent relief in the event of new disruptions comparable to what we've experienced in the last several months. We can have that in our leases before. So I think we've been able to capitalize on the current environment in a way that is very helpful to our current operations and to our future operations, but not necessarily in the form of rent abatement per se.

John William Ivankoe {BIO 1556651 <GO>}

Okay. Yes. Thank you. I wanted to recap -- flipping back and worth my note -- this conversation is great, by the way. I didn't -- I mean, I don't know were you going to be able to get such specific detail. Let's see -- sorry about this. The three initiatives in the US, handheld point sale curbside -- and sorry for everyone. So let's focus first on the handheld point sale. Is that something that standing in the drive-thru? Is that -- there is an additional percentage of work kind of explain what that is and how much of -- I mean, of the theoretical throughput enhancer that could have been the force being whether it is that all whether type of (inaudible) or is like -- just kind of like the practical solution across your store base?

Patrick J. Grismer {BIO 15965217 <GO>}

So all great questions, John. We are currently in the process of refining our model for handheld POS. So we're currently piloting and refining our model through the testing that we're doing, so that we can rapidly deploy this. Absolutely, we expect this to be a game changer for us in drive-thru. Bearing in mind that when Starbucks was first launched as a concept, that was not designed for drive-thru. We added drive-thrus consumers who are looking for more convenience. But the fact is that given the profile of our menu with beverages, they're hand-crafted to customers, individual specifications, down to how many pumps of syrup they want? How much ice they want? What kind of milk they want? Is a pivoting to plant-based milk, and we're able to provide that to them. But given the complexity we build, the wait times in the drive-thru line can be long. The other thing we've seen is that with how customers have changed their behavior in this pandemic, as I mentioned before, we're seeing tremendous demand at our drive-thrus in the suburbs, because people are working from home, they're taking a break in the morning, maybe in the afternoon, again, they're bringing the family with them. We have a significant increase in the average order size. And with that, very high-ticket growth. And you saw that in our third quarter results. We're continuing to see that. We do expect that that will moderate over time, but that does put pressure on the drive-thru experience. And so we see handheld POS as an opportunity to collect orders sooner in the line, so that we can start the production of those handcrafted beverages and be prepared to fulfill those orders more quickly than we are today. And we know from our experience because we do measure this that when we improved drive-thru time, we reduce bulking, we reduce line rejection. So we're better able to capture the demand that is out of the last thing we want to have happened is someone drive up to Starbucks see a long line and continue on their way. That's another reason why curbside pickup is so important, because it provides customers another option. I don't want to give them the drive-thru as place my order via my mobile phone, I can conveniently pull into a parking spot that is designated for paid off [ph], and partners will bring my order out to me. That is working beautifully. That's taking pressure off the drive-thru, and it's accommodating more of that customer demand.

John William Ivankoe {BIO 1556651 <GO>}

Yeah. And ironically, I mean, we think we have drive-thrus is probably where you could most likely have curbside. So it's like --

Patrick J. Grismer {BIO 15965217 <GO>}

That's correct.

John William Ivankoe {BIO 1556651 <GO>}

And this is the thing is -- and so it really does that -- and so it is going to go 1,600 stores curbside, we're going to 1,600 stores relatively soon. And do you have --

Patrick J. Grismer {BIO 15965217 <GO>}

It will go to about 2,000, John. Excuse me.

John William Ivankoe {BIO 1556651 <GO>}

Okay.

Patrick J. Grismer {BIO 15965217 <GO>}

Go to 2,000 stores in the coming months here. So we're looking at the team. I have to give the team a lot of credit. They're moving very rapidly, adapting to customer behaviors, rapidly innovating and deploying our tremendous discipline and urgency.

John William Ivankoe {BIO 1556651 <GO>}

Okay. And we -- and that's -- 2,000 is a huge accomplishment in such a short amount of time. How many could have it in your opinion? Have you guys going through this site-by-site on that?

Patrick J. Grismer {BIO 15965217 <GO>}

I mean, it's early to say. So in the near term, we can see our way to 2,000. A lot of it has to do with the real estate and where are you actually situated and the viability of having convenient parking spaces.

John William Ivankoe {BIO 1556651 <GO>}

Yeah. Definitely. Okay. I mean -- I think handheld, I mean, again, this is in my opinion, I wondered have you started like how AAA, for example, you does handheld. I mean they can -- they don't have just one person doing it. There is somebody that is like acknowledging you quarter, but you actually pay and it's -- and you can kind of do a lot of those things and then they kind of -- and I don't know how much your capacity --geographic capacity went up with (inaudible) P&L, but you can see it how much faster it is. I don't know if that's -- kind of you benchmark or is it fairly talked about everyone on the call.

Patrick J. Grismer {BIO 15965217 <GO>}

Yeah, John, our team has gone to school on everybody in the category to learn best practices and rapidly apply them, of course, we have a very complex technology stack that includes our loyalty program and today we're launching Stars for Everyone. So we have to be very careful, thoughtful, and deliberate about how we introduce even more complexity. That stacks to ensure that we execute with excellence both for our partners as well as our customers.

John William Ivankoe {BIO 1556651 <GO>}

Do you think Star -- Stars for Everyone an enhancing where do you think that's a potential game changer?

Patrick J. Grismer {BIO 15965217 <GO>}

It is a game changer. That's how I think about it, because as we have researched ways of capitalizing on the enormous success of our Starbucks Rewards program, time and again what is surfaced in our consumer research is that the number one point of friction what prevents customers who love Starbucks from joining the program is the requirement to pre-pay on a stored value for. So with Stars for

Everyone, we are removing that barrier. And now all come customers who use their mobile phone to place orders who register as a member of Starbucks Rewards and register a credit card or a debit card can pay with that credit card or debit card not a store value card and earn stars. Now as you would expect, the stars earning rate is lower. So the current program with the stored value card is 2 stars per dollar, with Stars for Everyone, it's one star per dollar, but it's lower than the levels and it provides customers with a way of accessing value that we know is quite important. And we do expect, as we've observed with Starbucks Rewards, previously, that when customers make the move. And we're able to build that relationship with them and bring to bear our personalized marketing, their frequency increases and their average spend increases. And frankly what I think it's going to happen in the case of Stars for Everyone is that once customers become accustomed to how it facilitates their overall experience, many will choose to migrate and move to the existing. They can earn 2x.

John William Ivankoe {BIO 1556651 <GO>}

Yes. Exactly. When there is like what -- yes, yeah, definitely. And so that -- it's still is credit-debit base, it's not the cash is not an option? Or did I misunderstand that?

Patrick J. Grismer {BIO 15965217 <GO>}

I don't know. I believe cash still is an option. So you can -- the way that app has been designed, at the time you place the order, you can select your tender, which would include a registered debit or credit card or you can indicate cash and scan at the register is how I understand it works.

John William Ivankoe {BIO 1556651 <GO>}

Yeah. Okay. Yes. And again, maybe in that -- some percentage of our customers see it every day you pay with cash. I mean, have you released -- do you say what that number is, the percentage of your peers, actually there are some currency?

Patrick J. Grismer {BIO 15965217 <GO>}

I don't know that we've released that before, John.

John William Ivankoe {BIO 1556651 <GO>}

Okay. Yeah, I know. But it's not a small number. I mean, I think, in efforts and by definition -- by definition you couldn't have a car before because that's where at least have it on the phone. Okay.

Patrick J. Grismer {BIO 15965217 <GO>}

John, what I would say is that the overriding insight underpinning continued enhancements to our Starbucks Rewards Loyalty Program, whether in the US or in China, it's flexibility, because remember last year, we introduced multi-tier redemption here in the US, we launched that in the start of the summer in China and that provides customers so much more flexibility in terms of how they can earn and use their rewards. And that has contributed to increase spend with our rewards numbers. The other thing I want to highlight, because I know this question came up, but I think you may have asked the question on our last earnings call is in relation to our 90-day active rewards members. And just see, over the course of the pandemic, that number come down. It had been, I think at $18.7 million at the beginning of the pandemic. And then at the end of our third quarter, it dropped down to I think 16, just over 16.

John William Ivankoe {BIO 1556651 <GO>}

Yeah, we have the tables in that room.

Patrick J. Grismer {BIO 15965217 <GO>}

Yeah. So at the end of August, it was back about $18 million. So very quickly, as we reopen for business as we've opened new channels of distribution, we've been able to rebuild our 90-day active Starbucks Rewards member base and we expect that upward momentum to continue now with a new catalyst Stars for Everyone.

John William Ivankoe {BIO 1556651 <GO>}

Yeah. Interesting. And in terms of communicating these changes -- a couple of things. I mean, Starbucks use some traditional media, I mean, your marketing spend over the course of 25 years has gone up and you obviously had a lot of benefits from that going up Starbucks. They used to have even a deal until there is now obviously it is. What is kind of your attitude towards traditional and digital media or our in-taking, this is basically an opportunity to kind of rethink all of your marketing spend and then every dollar we earned if you will?

Patrick J. Grismer {BIO 15965217 <GO>}

Well, I think our marketing team does an extraordinary job of ensuring that our money has spent as efficiently as possible. And of course, it is the strength of our Starbucks Rewards loyalty program that provides us with the opportunity to be, I would say, more efficient than a lot of others within our category. That and our brand stature -- our brand naturally attracts a lot of attention, a lot of promotions of various channels. When we have new news around new product launches or new program launches like Stars for Everyone, that attracts a lot of media attention. And that's why when you look at the construct of our P&L, our marketing spend is about 1% whereas others in the category are in the mid-single digits. And we see the opportunity to continue to realize efficiencies, not only for our loyalty program-oriented marketing, which includes the personalized marketing that we do as we build these relationships with our customers, but also through social media and traditional media. We've an opportunity to continue to revisit our programs to ensure that those marketing dollars are spent as efficiently as possible. But we are not backing away, in other words, we're not looking to spend less, we're looking to -- can you just spend what we feel is a healthy amount of marketing and to make sure that that is spent in the most effective and efficient way possible.

John William Ivankoe {BIO 1556651 <GO>}

Thank you for that. Before just in that 30 seconds we have before the call, you kind of pointed out that you're wearing a Pumpkin Spice Lattes sweater. I kind of those Lattes by Starbucks Florida comp, Miami comp. How important or these products? Pumpkin Spice something that -- is it the gift that that's continuing to give -- just the time to launch new products? How important still obviously the Impossible sandwich that you have. The opening of Starbucks is very much of Moody's product driven brand many brands that significantly cut back their menu offerings. I am not -- I think you've only added. So just talk about the importance of new products in the place within that in an environment that still is very changed and when difficult to operate?

Patrick J. Grismer {BIO 15965217 <GO>}

Yeah, well, I think, for Starbucks, new product innovation continues to be very important to how we create excitement for both new and existing customers to drive visitation. But at the same time, there is no substitute for the return of a fan favorite. So yes, I am wearing my Pumpkin colored sweater today in honor of the fall. The fact that this is Pumpkin Spice season and how excited I am about our re-launch at the end of August of our Pumpkin Spice Lattes. And my own personal favorite the pumpkin cream cold brew. I think it just goes to show you that in the current environment, customers are looking for a taste of something familiar -- something that helps them feel that they return to a sense of normalcy. And that's what Starbucks as a brand represents for many customers and that's what of a product like Pumpkin Spice represents for so many of our customers as well. And so we could not be more delighted with how we're able to leverage these significant assets that are unique to Starbucks in ways that help to continue our recovery and underpin our optimism around full recovery of the business.

John William Ivankoe {BIO 1556651 <GO>}

That's okay.

Patrick J. Grismer {BIO 15965217 <GO>}

I do want to come back quickly to the numbers because I have them now here in front of me. At the end of 2Q versus Q4, our Starbucks Rewards at the end of our fiscal Q2, we were at $19.4 million, 90-day actives in the US, at the end of Q3 that has dropped to $16.3 million. And at the end of August, we were at $18.7 million. So, not quite to the $19.4 million pre-pandemic, but you can see how quickly our Starbucks Rewards customers have come back and we're seeing healthy numbers of 90-day actives. And like I said, today's launch of the Stars for Everyone is going to take that to a new level and we could not be more excited about that.

John William Ivankoe {BIO 1556651 <GO>}

In the markets that had been reopened the longest in Georgia, in North Florida what have you, Tennessee, for example, are these markets performing significantly ahead of kind of the markets that like Michigan, that's still been relatively. So, I mean, what kind of new market, yeah, obviously, understand the CBDs, that we can kind of form outside of that. But is the market that's have been the longest performing the best, I mean, these are the markets that have been open the longest, the consumers had a lot more choice and new people are asking "more normally and aren't necessarily in the dry fuel line with 20 other cars". This is kind of a lot of things. So it's been -- that would be kind of an interesting dynamic to understand.

Patrick J. Grismer {BIO 15965217 <GO>}

Yeah, John. So here's how I would talk about it. We have the ability to dial-up and dial back our operations. Based on prevailing conditions in every one of the markets where we operate. And we have seen through this pandemic in cases like California, Texas and Florida where there were flare-ups in the beginning of middle of the summer where measures were taken that reduced traffic, we dialed back our operating protocols. But then as conditions improved, we dialed back up. And what I mean by dialing up and dialing back is what I mentioned by way of these progressive orders of sales. So from drive-thru to entryway pickup to curbside, to in-store ordering, sit and stay. And as we make our way across that spectrum, regardless of the market, we see sales improve because we're able to accommodate more customers for the type of experience they're looking to have. So it's more a function of what those prevailing conditions are. They can go up and down. And importantly, we have a new level of resilience that allows us to dial-up and dial back our operations as needed. And that choppiness and performance across the markets is embedded in the numbers that I shared in terms of how we progress from July to August and as I mentioned the positive momentum continues.

John William Ivankoe {BIO 1556651 <GO>}

Yeah. Very interesting. You obviously, a labor is the biggest cost that -- at the store level, you're mentioning, dialing-up and dialing-down for dialing-down baseline on various factors that you mentioned. It -- has the labor model changed in any way at Starbucks? Obviously, you've been very focused on when you're drive-thru only either you could even comment to a store. Obviously, that's a very different labor model that you will be able to come into the store where and it's a different labor model then having a cafe model where people are sitting down. So how do you anticipate labor model potentially permanently changing? It should be, see, for example, labor hours been lower on a given level of sales based on some learnings that you had from COVID. How significant could that be to your business?

Patrick J. Grismer {BIO 15965217 <GO>}

Not significant on the labor side. And that's not to say that we are continuing to find ways to be more efficient. We're continuing to automate tasks where we can. We're continuing to apply best practices to improve the efficiency of our operation. As I mentioned before, we're looking to unlock capacity of the drive-thru. But through the pandemic, we've had to add labor in areas like cleaning, and with the roll-out of curbside pickup or handheld POS. That adds more labor to the store. But it's been done very smartly in a way that ensures we get a return on that investment. But given the complexity of our menu that goes with offering on handcrafted beverages that are customized to the specifications of each and every customer, we don't have the ability, like I think some others in our category, who are looking at opportunities to simplify and rationalize their menu because they can -- we offer personalization, which drives a lot many complexity that is a source of competitive advantage, because we're the only one who can do it at scale backed by loyalty program that keeps people coming back once they found their favorites. So we're not going to walk away from that. We do expect that we will get back to our pre-COVID efficiency over also -- we will find some efficiency opportunities. Those would be offset with new investments around opening up some of these channels, as I mentioned, but also our commitment to our partnership the long term and continuing to invest in their development in the near growth and we are planning for investments like that in fiscal 2021.

John William Ivankoe {BIO 1556651 <GO>}

Do you need to get back to previous '80s even higher 80s to get back to previous store level profitability?

Patrick J. Grismer {BIO 15965217 <GO>}

Yes, we do.

John William Ivankoe {BIO 1556651 <GO>}

Okay.

Patrick J. Grismer {BIO 15965217 <GO>}

So that's why John, what we said on the Q3 call was that -- and I'll just focus on the US business for a minute, but of course we have a whole global business.

John William Ivankoe {BIO 1556651 <GO>}

And we are flying, we have so much to cover. I know.

Patrick J. Grismer {BIO 15965217 <GO>}

So speaking of the US business, we said that we will recover sales anyway return positive by the end of our fiscal second quarter and that margin recovery would lag by a couple of quarters. That's the reasons I mentioned which is that we're investing in new areas and new channels to open up sales and we're making new investments in partners, environmental sustainability, technology, all those things that are important to our brand that differentiate us from the competition, we have never been shy about diluting margin in order to unlock long-term growth and that continues to be how we think about the business.

John William Ivankoe {BIO 1556651 <GO>}

Yes. Understood. So let's shift to China, I don't know how you guys were so close even back in January, February to kind of like predict recoverability and China comps. I know there is a little bit a lot for this, absolutely genius and through -- you're getting so close to flat by the end of the fiscal year. So that's a very hard target to come as place to as you did. So obviously congratulations there.

Patrick J. Grismer {BIO 15965217 <GO>}

I'll offer just a bit of insight on that. At the time we put together that projection, it was based on what we experienced with SARS nearly 20 years ago. So we did have experience in market with a decent number of stores that gave us some visibility to how the market might evolve and eventually recover in response to a major disruption like a pandemic.

John William Ivankoe {BIO 1556651 <GO>}

And in your own experience, your China experience with probably could differ that. I mean, you just said you want you can probably add a view --I think few understanding of the customer and how they can kind of get back and transfer (inaudible). So anyway that amazingly well guided. So what's the opportunity from here? So excluding that China is down 4% in August, the trend is -- I mean, if I broke that down correctly. I mean -- this is -- the trend is obviously improving significantly. When did these numbers kind of the -- you give come definitively positive as -- I want to talk about the state of competition. I mean, obviously, cost is kind of in the market, locking, I don't know if you want to talk about directly is like this was like to the biggest threat to you than obviously was it where it was supposed to be. So there is obviously some things have there. How is the competitive environment changed in China? And that does this actually open or expand or why you were -- your market opportunity relative to what you would have thought even 12 months ago based on what you had achieved?

Patrick J. Grismer {BIO 15965217 <GO>}

So let's first talk about the Starbucks business in China, and then we'll talk about competition. We could not be more pleased with how our business has recovered in China from a comp sales perspective, but then also importantly in terms of how quickly the team was able to reinvigorate our new store development program. After new store development on-hold for a period of six weeks or so, they very rapidly ramped back up, and so we do expect to open more than 500 units this fiscal year which is quite a monumental achievement. And as I mentioned before, the team is not only opening units with steep, but they're doing it with innovation, with new formats, including Starbucks Now and other innovative designs that continue to capture the interest of Chinese customers. And we're using that as a vehicle to not only drive traffic with existing customers, but to welcome new customers to the brand because as we open new stores, we're not doing it just in existing cities, but we're entering new cities. And so, we're using our development program as a platform to broaden the reach of the Starbucks brand in the world's fastest growing consumer market. So we could not be more pleased with how well positioned we are and how well the team is executing locally in terms of recovering comp sales and driving new unit development.

John William Ivankoe {BIO 1556651 <GO>}

And could you give us an update, I mean, I know, 80% of transactions are actually consumed on premise in China. We now double the top up for. Could you manage what percent of the stores are at full capacity whether it's just the number of seats or where the number of operating hours and if that 80% is still holding through?

Patrick J. Grismer {BIO 15965217 <GO>}

Well, John, I think the important thing, and I know you're aware of this because you've studied the market for years. China is a dynamic market. It is by no means a static market. And so as COVID has impact of the market, customers have changed, they changed their behaviors. They have sought out experiences that are contactless. They were already very digitally savvy. They're leaning increasingly into the digital platforms and we are evolving our offerings to meet their demand. So contactless is number one. Number two is convenience, which speaks to, again, the slight pivot in our development program, continuing to open core stores with a beautiful seeing areas to satisfy that type of occasions, but being there in a different format to satisfy a different occasion, sometimes for the same customer, but oftentimes, a new customer. And so I think it is more about the fact that the market is dynamic. It is changing in response to COVID, and we are changing as a business in response to those new customer behaviors and preferences. Digital being, I would say the most important thing.

John William Ivankoe {BIO 1556651 <GO>}

Yes. So maybe 80% of transactions were no longer consumer products. I don't think you didn't give me a number, but I would assume that number is lower than it was that. What percentage of your stores are kind of at full capacity now? Is that number approaching 100 in China? I think it was 70, if I remember correctly?

Patrick J. Grismer {BIO 15965217 <GO>}

What I would say, John, is that we are far from full capacity because remember the business in China is different from the US. It isn't concentrated in the morning day part as it has been in the US. It's more (Multiple Speakers).

John William Ivankoe {BIO 1556651 <GO>}

Yeah, I missed to ask a question. But it maybe seating and hours. I mean seating and hours been return. I think it was at 70% of your stores before we were at previous seating and previous hours. So not utilization, but that may -- I didn't ask the question correctly?

Patrick J. Grismer {BIO 15965217 <GO>}

I'm sorry. I think we have about one stores that are -- 1% of our stores that are currently those that are opened are substantially meaning more than 80% back to normal seating. So we are operating at that full capacity.

John William Ivankoe {BIO 1556651 <GO>}

And it is remarkable. I mean, it's just -- it's like being in a parallel universe to see in China that could be 80% stores have full seating, and you have -- in the US, to talk about 15 even the sort of have capacity we're not like they were before. So what can we learn from China and the US and when -- I mean, I don't know, we get -- it sounds like you've a very specific understanding about this virus. When can that be the US in your opinion? And you know, it can be US consumer follow basically your pattern. And what is in much were dense country. And it can be ironically enough that maybe does that there's a lot of confusing things about China has recovered so much and we're still have kind of not the (inaudible) but you know we still have the need to improvements as so many other countries have?

Patrick J. Grismer {BIO 15965217 <GO>}

Yeah, I think it's fair to say that we won't see customers return entirely to their routines and so there is a vaccine. We're not waiting for that. And so what we've recognized is that we have needed to rapidly adapt our operating protocols to make our partners feel safe and secure to come into work and to make our customers feel safe and secure to come see us. And they are coming back. So I think what we're seeing is that people are feeling more comfortable because appropriate cautions have been taken to ensure the safety and cleanliness of the experience that we offer. And it just demonstrates how customers are yearning for that taste of normalcy that comes with the Pumpkin Spice (inaudible) right? And we need to be there in support of the communities because we're an important -- we see ourselves as being an important part of that healing process.

John William Ivankoe {BIO 1556651 <GO>}

And perhaps -- as unfortunately we're somehow calling out on 40 minutes. Can we talk about the organization how Starbucks is actually a strong organization, how we can take advantage of your market share. I mean where the share of investments have been in technology and infrastructure and people just like -- what you cut what you've maintained. And how does -- speaking in terms of the organization and some of the changes that you made on cylo. I think some of the changes that Kevin underrated by the market in terms of how significant that they were. It's kind of how you perceive Starbucks in '21 and '22 versus you may give the organization that you joined?

Patrick J. Grismer {BIO 15965217 <GO>}

Yeah, well, there's no doubt that some of the strategic initiatives you mentioned have been instrumental to the, I would say, the turnaround of the business prior to the onset of COVID. But those same changes organizationally have been instrumental to the strength of our recovery. And so what I would highlight is that so we're in this transformation over the last two years, again, leading up to COVID. We've become a much more focused company, a much more disciplined company, a company with a higher level of organizational agility that has enabled us to innovate more rapidly. And now with the improvements we've made to our operations to COVID, we are a more resilient company. And so all of those things were very deliberate over the last couple of years on top of the specific business initiatives to drive different results was sort of a transformation of the company. It is now given us new capability. And I think a new mindset that is demonstrated through how rapidly and smartly we've been able to recover our business and underpins the optimism we have about the future.

John William Ivankoe {BIO 1556651 <GO>}

Excellent. Thank you so much. It's great to see you. Look forward to seeing you soon. I wish we could meet December 9 in person. But I guess that's not possible. I'll make sure I had five copies during that meeting, but okay talk to you soon. And thank you for that detailed update. And we'll talk in a couple of weeks. Thank you.

Patrick J. Grismer {BIO 15965217 <GO>}

Thanks so much John. Take care. Bye-bye.

John William Ivankoe {BIO 1556651 <GO>}

Take care. Thank you.