UBS Global Consumer Conference

Company Participants

- Scott Maw, CFO

Other Participants

- Dennis Geiger, Analyst, UBS

Presentation

Dennis Geiger {BIO 19694619 <GO>}

Good afternoon. I'm Dennis Geiger, UBS restaurants analyst. I'm pleased to announce. And I'm excited to have on stage with me, Scott Maw, CFO; Tom Shaw, Investor Relations, of the Starbucks company. I'm very excited to have them here.

I also want to congratulate Scott on his award this week, an II award for the best CFO in the restaurant space (applause). So congrats to you; as well as Howard, for the best CEO in the space. Then the IR team, congrats to you for getting the IR award in the space. So kudos and congratulations. And thank you for being here.

Scott Maw {BIO 18637895 <GO>}

Thank you, sure.

Questions And Answers

Q - Dennis Geiger {BIO 19694619 <GO>}

So maybe if we could just kind of jump right into it. I think you're all very familiar with the Company, with the brand. Starbucks is a unique and multifaceted consumer-products company built around core brands, beyond just coffee and tea, that span the retail and consumer-product channels.

So that said, let's just start off high level. As we look out over the next five years, where do you see the biggest opportunities for growth contribution? Maybe we'll start there, Scott.

A - Scott Maw {BIO 18637895 <GO>}

Yes. And maybe I'll start internationally and I'll come back to the US.

What I have to do is start in China. When we look across Asia broadly. But specifically in China, the strength of the Starbucks brand has never been better. And you've seen the numbers. We've had the highest profit growth, the highest revenue growth. And the highest comp growth from our cap segment almost every quarter over the last few years. And China being a big piece of that, although increasingly, specifically from a profit standpoint since we brought back Japan -- Japan contributing meaningfully.

So when we look in China and we look at the customer experience and importantly what's happening in our stores with our partners and how we're bringing coffee to life for our Chinese customers, there's a tremendous amount of momentum.

And I think that has to do with the fact that Starbucks is a well-known brand in China. But I think more importantly, it has to do with how we're executing around the brand proposition for Chinese customers.

So again, not a huge coffee industry in China when we entered nearly 20 years ago. But we've been building that over time. It's primarily an afternoon day part. You've got customers that come in in groups. So ticket is quite a bit higher in the US. And we've been able to roll out concepts, elevated concepted, like Reserve.

When we rolled Cold Brew in the US, we were able to quickly follow with Cold Brew in China. And it added a point of comp in the very First Quarter that we rolled it in China.

So those up-levelled coffee experiences are resonating very well with Chinese consumers. We're opening 500 stores a year in China. It's a big number, a big country. There's a lot of opportunity there.

And when we look at those stores, every year, not just the top-line contribution from the new stores is the highest. But the overall profit continues to break records.

And the existing stores -- in some cities when we roll those out, we'll see comps go down a bit. But they recover very quickly. And overall, despite the fact that we're growing the portfolio in the 25% range, we're still seeing very strong mid; to upper-single-digit comps in China.

So the experience there, the things we're doing in the country around coffee -- in Yunnan Province, we've got a Farmer Support Center there. We've invested in a mill. We're really trying to get local coffee production, a lot of local coffee production up to our standards. And we're making a good headwind there. So China is really going to be the fast-growing market for us. And in many ways, we're just getting started.

Japan is a country that we entered even farther ago than China. It was our first international market outside of North America. Japan has been very profitable for us since the acquisition. When I go back to the business case, we're exceeding on all fronts, even though comps haven't quite done as well as we'd hoped recently. Overall revenue, store growth, profitability -- Japan has been very successful for us.

We had a great most recent quarter, where we innovated around both food and beverage. So we know we have a strong customer proposition in Japan. We have 1,100 stores, a very high-revenue market for us. The unit volumes in Japan, they look more like the US. So those stores are full of customers. And the slight acceleration we've had in units has been really profitable. So we're seeing the same types of unit dynamics in Japan, with a little bit of an opportunity that we're seeing in our recent store openings around drive-through. So Japan's got drive-through opportunities.

Then EMEA -- as you know, in Europe, Middle East. And Africa -- that has been a market that we're largely moving license. So over 80% of the stores are licensed. Practically every new store we open is in a licensed market.

Some of that is the cost pressure. But also in markets like the Middle East, where our partner Alshaya has -- approaching 1,000 stores -- just the local knowledge around real estate and supply chain and employment -- and we've been able to see EMEA system comps in the 3%, 4%, 5% over the last year despite the fact that Continental Europe is in tough shape economically.

And so across the globe, the Starbucks brand has never been stronger. We opened over 2,000 stores last year. Only about 30% of those are in the US. So it's very much an international store-growth story. And the stores are growing profitably. And we feel really good about international.

So that's international in three minutes or less for Starbucks .

Then domestically -- and we may get into some of this -- you've really got to point to the innovation that we've got going across a number of different spots.

Forever, for 20-plus years now, we've been the leader around beverage innovation. And obviously around coffee. And when you look at coffee -- and I'll just use one example, although I could use many -- if you take Cold Brew, which is a product that we launched a couple years ago to augment our iced-coffee business.

It's -- I personally think it's a smoother, better representation -- some people like iced coffee. I look Cold Brew better. It's cold-steeped for 20 hours in the back of the store and then served. Increasingly, we're now serving Cold Brew in a tap. Then we've launched in 600 stores Nitro Cold Brew. And all of that -- and then last summer, we had Vanilla Sweet Cream Cold Brew, which was highly successful.

And so as we've launched Cold Brew, what we've realized is, we have a platform that we can innovate on. Over the holiday, we had Spiced Vanilla Sweet Cream Cold Brew -- all using ingredients that are in the store, to add a little bit to the platform and adding nicely to comps.

So we're continue to innovate around beverage. Iced beverage is growing faster than hot beverage in Starbucks, even in the most recent quarter, which last I checked was winter.

So we know iced beverage is on trend. Iced teas are over 10% of our revenue, over $1 billion in sales, growing faster than the average product. We've seen a point of comp from tea almost every quarter since we launched Teavana a few years ago.

It's on trend. It's healthy, better for you, easier to attach food. So you're going to see a lot of things this summer again around iced tea and innovation there, as well as other cold beverages.

Then food -- five years ago at Starbucks stores in the US, food was 15% of total sales. And we said back then, we think we can meaningfully improve food through our La Boulange acquisition. And now five years later, you roll it forward, it's 20% of sales. We finally broke that level.

And I think there was a lot of people skeptical of whether we could do food, particularly at the lunch day part, at a scale in our traditionally recognized coffee houses. And in fact, we've grown it at 5 points of revenue.

And as we look forward, we think over the next five years, it can double. It can get to 25% of revenue. Again, some people are unsure about that. But I just point to the momentum we have, the opportunities that we have at lunch.

We've innovated recently around sort of a more healthy skew around Sous Vide Egg Bites. And those have been highly successful. So they're sous vide prepared. One is the egg white and roasted red pepper. And there's another there's bacon gruyere cheese. And those are doing extremely well. We've got a gluten-free breakfast sandwich coming. So there's lots of room in food in the morning day part.

Then at lunch, this spring to early summer we'll test in Chicago an up-levelled fresh experience -- so made that day, consumed that day. And we'll see how big that can go.

Then -- almost done with the first question . The last piece of innovation I have --.

Q - Dennis Geiger {BIO 19694619 <GO>}

You're stealing all my questions (multiple speakers).

A - Scott Maw {BIO 18637895 <GO>}

So the last piece of the question -- I have to just talk briefly about the digital flywheel, kind of the big corporate name that we talk about mobile, loyalty. And then payment, which includes our gift card. But increasingly social gifting and things around payment.

And so you guys all know, we've innovated significantly around the app. We now have nearly 13 million members in our Starbucks Rewards program. We just finished the roll-out of real-time suggested selling within the app.

We've seen mobile orders at 8% of transactions, an important metric, which I'm sure we'll get to. We now have 1200 stores, or so, where that is above 20% at peak, which shows how well the adoption is. And the scale of that growth has been almost logarithmic. It was 200 stores in June. Then it went to 600. Now it's nearly 1200.

And so that's a great customer reception. It's putting some pressure on some stores, which we can talk about. But what that mobile app allows us to do is not only make it convenient for our customers. But increase the interaction with them.

So when they're in the app, they're interacting with Starbucks. So we can push what we call a star dash, which is a gamification of our loyalty program. And that's been highly successful. And we've been using big data, one-to-one personalization. And we've seen a real acceleration in spend per member over the last couple of years.

We now have in the app, given how successful it is, we have favorite orders. So you can just pull up an order that you have -- that you use all the time.

I've got an order for my family -- I have three kids and my wife. And it's probably 12 different items. And before favorite orders, I had to punch all that stuff in and all the modifications. And my kids have some crazy modifications that they like. And now I just pull that order up. And I go. Favorite stores -- and so we're seeing real momentum in both the number of new members and spend.

Q - Dennis Geiger {BIO 19694619 <GO>}

And just to follow up on that point -- it's early still, right, as far as your digital flywheel? I don't know what (any of you would) characterize it as. But -- I mean, you are just now starting to ramp on the personalization, the direct market, etc.

A - Scott Maw {BIO 18637895 <GO>}

That's right. It's definitely early innings.

My view of the change in the Rewards program -- so last April, we went from a frequency-based program to a spend-based program. And there's all sorts of financial reasons to do that. But we also heard a lot from our customers that -- I spend more at Starbucks. I do more at Starbucks. I should get more at Starbucks.

We also knew there was a fair bit of transaction-splitting activity, where people would stand there with a bagel and a coffee and split the order to get two stars.

So we went at both those opportunities last April. And when we rolled it, we expected two things to happen -- spend per member to go up. And the number of members to go up. Both those things would have been great.

What happened when we made the changes is, it was a lot of change for customers. So we changed how they earn, how they redeem, what the app looks like, how they interact with us in every way digitally. And I think there was just a quarter or two where people were trying to adapt to all that change. And the biggest indicator for me is, we saw Reward redemptions decrease significantly following the change.

So back at headquarters, people were running around saying, hey, we can release all the star accrual and increase our revenue. And I was like, hey, let's take it easy. We actually want these things to be redeemed.

And once customers got accustomed to moving from 12 visits and 12 stars to whatever the visits are, earning 125 stars (and routine) -- once that adjusted, all those redemptions came right back in line.

We got a quarter or two in it. And that spend-per-member growth, which didn't pop after the launch like we thought, has now come all the way back up into the (business case). And by the time we get one year after, it'll be ahead.

New-customer growth was a little bit slower than we expected, as well. But we made up a big chunk of that gap in the most recent quarter. So that's a long way of saying, we're in the very early innings. We just got in-app personalization launched within the last few months. So we're just getting started.

Q - Dennis Geiger {BIO 19694619 <GO>}

That's great. And we'll come back to some of digital piece. In the Americas with same-store sales, as you think about the mid-single-digit target that you've got out there and the competition of that target, how that looks going forward, thinking about beverage and tea and food, is there a right way to think about the contribution -- you outlined everything that's going on -- is there a right way to think about the contribution from a bunch of those pieces?

A - Scott Maw {BIO 18637895 <GO>}

I think so. It's a good question.

Let's just take 5 as a number to tag around, middle of mid-single digit. I believe we can do 1 to 2 points from price. Now, we have to be really careful with price. We take it carefully over time, by product, by geography. And we watch it closely. But we believe that price can continue. And it's been in that range for the last few years.

We can get 1 point or 2 from food. Now, over the last few years, it's been 2 or 3. But I think as we look forward -- first of all, the numbers are getting bigger. So the math matters. But I think as we look forward with the success we've had at both breakfast and lunch, I think 1 to 2 points of comp for food is entirely doable.

I think we can get 1 point of comp from tea on average. Maybe some quarters it won't be 1 point. But my guess is every year it will be, on average over the year.

Then we typically get 1 point of comp each year from innovation. Some quarters, that'll be 2. And some quarters it won't quite round to 1. But that's when we launch something like Flat White or Cold Brew. For that first year following it, we'll consider that innovation. And so we can get that.

Then the core platform continues to grow in most quarters -- setting aside the most recent quarter or two. That's espresso, Frappuccino, brewed coffee. And so over the last few years, that's been 1 point or 2 of comp pretty much every quarter.

So you add that up, it's more than 5 (I guess) on the high end. The reality is, in any given quarter, you don't hit all of them. But on average, we should.

Q - Dennis Geiger {BIO 19694619 <GO>}

Great. So I guess thinking about the last few quarters -- on an absolute basis, phenomenal numbers, a little bit lower than Starbucks is used to seeing. Can you talk a little bit about the key drags that you've seen over the last few quarters and how you see those evolving over the next couple of quarters?

A - Scott Maw {BIO 18637895 <GO>}

Yes. It's a fair question.

If I look at -- let's just take the most recent quarter, which was a 3. We'll pick the low mark. And again, let's just compare it to a 5, which would be our expectation.

So the first thing I want everyone to know is, we're not happy with a 3. We don't try to explain it away. We don't try to say, hey, it's the environment or weather. That's not what we're about. We expect a 5. And we're not delivering that.

But to answer your question, we do have some analytics around why we've seen it slow a bit. And there are three big drivers.

The first is, there is a macro impact from restaurant, away-from-home occasions. And we participate in a big index. And it's a -- it's not a public index (inaudible). There are tens of thousands of restaurants that go into this index.

And what we know is, we can track ticket and traffic -- it's all on a no-name basis. But we know where we are versus the index. And you can go back years. And there's always a gap between Starbucks and the index. What happened last March, or so, is that index went sharply negative. And we went down towards zero.

And so we're -- we've never been immune to that macro index. The correlation isn't 1. But it's pretty high. And so we know that that's a headwind that's out there.

As we look forward, we're not assuming that's getting better. We're assuming it's there. And we've got to comp through it. But that's definitely there. And that's been there since the slow-down in comps starting last spring.

The second thing is, the math of the comparisons got really hard as we started to comp against some very, very big numbers in fiscal 2015. And so we did 7s, 8s. And 9s for a while. If you go to the two-year comps and look at the two-year stack, they've been pretty consistent.

Now, we don't talk a lot about two-year comps publicly. We talk about it a lot and we use it a lot in our modeling within the Company, as you can imagine, because our expectation is, hey, if last year was a 10, we're still going to do at least a 5. That's the way we think about it.

But the reality is, the math looking forward, those comparisons get a little bit easier. We still have to execute. We're not just going to sort of drift our way over those comps and have good numbers.

But when we look at -- I talked about this, the innovation around the digital flywheel that's coming this summer and the innovation around all the products -- that's going to help us leverage some lower numbers from the prior year.

Then the last thing that we talked about just a little bit -- and you and I were talking about this earlier -- if I could rewind the clock on the earnings call, I think that would change things a bit.

So what we talked about on the earnings call is, we have a relatively small percentage, about 1200 of our stores, that had some challenges, particularly in December, around Mobile Order & Pay. And the reality is on those stores, if you take a step back is, those stores, even before we launched Mobile Order & Pay, they were some of our busiest stores.

And it's not capacity constraint, because we look at stores that look like those stores and they've continued to be some of our highest-comping stores. So we can continue to drive comps within those busy stores. But for a number of reasons there's capacity opportunities in those stores.

So we launched Mobile Order & Pay. I'm looking at the same 1200 stores we just talked about. What we saw when we launched Mobile Order & Pay in those stores is, they had some of the best transaction growth in the 18 months or so post Mobile Order & Pay. And even now, where they've seen those transactions flatten and decline a bit, they're still up significantly because of Mobile Order & Pay and some things we've done around labor.

But what we saw, particularly as we got into the end of the quarter is, those stores started to have some comp challenges above average. And specifically what we were trying to address was the question we were getting, which was -- in Investor Day, which was early December of last year, we sort of reaffirmed that we were going to have a 4 for the quarter. Then we missed it by a bit. And we had a 3.

And so what we were trying to do is say, hey, look, Mobile Order & Pay is still positive. But we just saw a little bit at our busiest time in holiday, we just saw a little bit of pressure. And that's what happened.

What I think happened with the story, or with investors -- and we heard this after -- is, we were saying that Mobile Order & Pay was a problem for comps. It's additive to comps. It's just in that flow and in that month we saw some pressure.

Now, the opportunity, though, is significant out of the back of that. So we continue to add stores. So we now have 1200 stores more than 20% at peak -- that number continues to go up. So we're going to continue to have challenges if we don't fix the throughput issues.

And so that's the labor improvements that we've done. Those -- we're already seeing early positive results, not quantitative but qualitative feedback from our stores. We've got a number of things that we can do on the technology side, a number of things that we can do on the equipment side. And Adam Brotman, who is our Chief Digital Officer. And who built Mobile Order & Pay, has moved to Operations. And he's helping us fix it.

And so when I look at that -- yes, it's going to help with Mobile Order & Pay. But some of these things I get excited about because they're just going to help with throughput broadly. And in most of our stores, we have opportunity with throughput at peak.

Q - Dennis Geiger {BIO 19694619 <GO>}

Yes. And talk about that. Obviously, significant sales and traffic growth over the years with the additional of various operational complexities added over the years that have driven strong sales results. How have you avoided throughput issues in the past? Is this part of the DNA of Starbucks to work through these issues? Then going forward, it seems like this can be one of the bigger opportunities that Starbucks has, not just on the Mobile Order & Pay throughput challenge. But throughput in general really feels like it could be one of the bigger drivers for comps going forward.

A - Scott Maw {BIO 18637895 <GO>}

Yes. It's a fantastic question.

We're always working on throughput. That's the reality. I was telling someone earlier, if you take a store that's coming up for a ten-year lease renewal and it's going to have a refurbishment -- that store has significantly more traffic and transactions than it did at its last ten-year renewal. With a couple points of comp a year, you can get (the kind of) numbers.

So already, even before what Mobile Order & Pay is doing to increase the opportunity, we were already looking at those stores and adding ovens, adding Mastrena machines, improving the workflow. If we could improve the space and seating, we would do all that. That was already in the (bank). That store is doing more transactions as it is.

With Mobile Order & Pay, we're looking at other things. So a lot of this is in test. And we'll use parts of it in some of our stores. And some of it we use in all of our stores.

But one of the things we might use in some of our stores is, we've actually opened some stores with split production. So you walk in, you go to the left-hand side, there's a Mobile Order & Pay unit with a Mastrena machine and people doing the hand-off (plane). And that's where your order is. You go to the right-hand side. And there's a POS.

And those are some of the things that we'll test that -- I think the Mobile Order & Pay challenge has lit a bit of a fire around some of that capacity improvement. But it's always been there.

We look at our staffing levels in our stores every day, every quarter, every week. We're always looking at -- are there places where we could add staff and get the payback? Are we sub-optimized? How do we get the right staff and the right partners on the bar so that we can get our customers served?

Q - Dennis Geiger {BIO 19694619 <GO>}

Great. Sticking with the digital flywheel for a minute. Mobile Order & Pay, essentially roughly 8% or so right now. How has that adoption been relative to your expectations? Seemingly, it's a robust number to have gone to 8% already. How has that trended relative to your expectations?

A - Scott Maw {BIO 18637895 <GO>}

When I go back and look at the business case, it's almost double what we expected from a penetration standpoint. And the acceleration -- again, just refresh some numbers here -- we launched fully nationally on Mobile Order & Pay at the end of September 2015. It took nine months for us to get 200 stores that had 20% or more of transactions at peak. The next quarter, September, we were at 600. The next quarter, December, we're at almost 1200.

So we've got a winner. And so it's running ahead, not only in the numbers of customers. But the types of transactions. So again, we were talking earlier -- the business case when we put that together -- we assumed a slightly lower average ticket, just because you're not in the store and seeing what we're doing with food and other opportunities. We came in with a ticket that's basically right on top of our average Starbucks Reward ticket, which was better than we expected.

And now we've launched suggested selling. So as you're building your order (from earlier) as you're building your order -- for me, when I put my (Clover) into the basket, if I'm not pulling up a favorite order, the first three items that slide in are sous vide eggs -- that's my favorite; then reduced-fat turkey bacon, because that's my backup; and then Double-Smoked Bacon Sandwich, because that's my indulgence.

And so we'll continue to get smarter about that. We can do things potentially in the afternoon when the weather is hot around iced teas and attachments and things that are a bit lighter. And we're literally just cracking that open from an opportunity with big data.

Q - Dennis Geiger {BIO 19694619 <GO>}

That's great. As it relates to everything you're doing with digital -- I think we've gotten some questions on this -- effectually just punch card, let's just say. What was the logic behind that? If you could just speak to that and give us anything you've got on digital. Why not run the promotions, why not run loyalty strictly through (the app)?

A - Scott Maw {BIO 18637895 <GO>}

Yes. It's kind of an analog thing in a digital company. It's a fair question.

The thing I would say is -- we have over time -- I've been here six years and I see it every year -- we've had a number of promotions that are for everyone, not just Starbucks Rewards customers. But everyone. And just remember that -- just over 30% of our revenue comes from Starbucks Rewards customers, which means two thirds comes from other.

And so what we do, is we do Frappuccino Happy Hour. We do a share event in the holiday. We've done Treat Receipts. We've done Sweet Receipts, where you can come in the afternoon and get a food item. And we've down this thing we call the Power Lunch for the last year, where you can put together a number of items for $8 and get a lunch.

And so this is not new for us. The thing that we want to make sure is, as the Starbucks Rewards program accelerates and as we continue to open up the opportunity of Starbucks Rewards to more people and get more spend, we've just got to make sure we remember -- hey, two thirds of our customers are not in the Rewards program.

First priority, get them in the Rewards program. But as we're doing that, we've got to make sure they have access to deals, they have access to opportunities to get benefit from Starbucks.

We do it carefully. You're not going to see that running for very long periods of time or over and over again. But that's some of what we've done in the past.

Q - Dennis Geiger {BIO 19694619 <GO>}

That makes good sense. Can you talk a little bit about competition -- we get questions -- you see all this craft coffee popping up all over the place. And even traditional QSRs getting more aggressive on coffee. How does that factor into your growth strategy? How does that factor into any challenges you may have seen over the last quarter or two? Any kind of thoughts on the competition?

A - Scott Maw {BIO 18637895 <GO>}

We said this in the past. And it holds true -- we're still not seeing any one competitor, or even a smaller number or group of competitors, being an influence on our business, at any time. When they run specials, when they focus on coffee, it's just not a meaningful impact. And that holds.

But what we have acknowledged -- and I think we've acknowledged it with what we've done with Starbucks Reserve -- is the collective group of independent coffee shops out there. They are doing a lot of what Starbucks has been so good at for so long. You know, it's that third-place environment, the comfortable place to be. It's an up-level coffee experience.

And so what we know is, when we get our service right, no one can touch us. We continue to take share. And we have all the way through current. So they're not taking share from us. But what we know is, if we don't have our service bubbles right and customers aren't engaged in the right way, they now have options.

And so that's another part of the reason we have some urgency around the throughput opportunities. And reasons we have urgency around the Reserve brand.

So part of the challenge is, I think, with Starbucks -- there's 25,000 stores across the globe. And so ubiquity comes into the consumer mindset. It would be easy for people to forget that we still source, roast. And deliver the highest-quality coffee you can get anywhere in the world. Your local coffee shop, international coffee shop -- it's as good as you can get. But for customers, they might not associate that with Starbucks because we're everywhere.

And so we have to remind them of that. And that's the opportunity with the Reserve brand. And so you're going to continue to see us do Reserve bars, where you walk into a Starbucks store and have a bar dedicated to pour-over and Clover and just that up-level coffee experience. Might bring certain recipes and elements in from our Roastery in Seattle with the 15,000 square-foot Willy Wonka of coffee .

Then in Reserve stores, they'll be entire -- but in that same store, you'd be able to have kind of a normal Starbucks experience. But in Reserve stores, they'll have -- it'll all be Reserve. They'll be dedicated food, including Princi, which is the Italian bakery that we own a portion of -- Princi fresh-roasted pastries and pizza on site, a lot of design influences from the Roasteries. So copper and wood and all the things that make the Roasteries so beautiful. Then significantly different menu options on the beverage side, as well. Then, of course, we've got Roasteries coming in Milan, which is exciting, kind of returning to our roots; New York; Seattle; Tokyo; and Shanghai. And those are -- I think Shanghai is roughly double the size of the Seattle Roastery. I've seen designs on it. It's gorgeous.

Q - Dennis Geiger {BIO 19694619 <GO>}

That's excellent. Shifting to loyalty, just touching on loyalty a little bit more -- arguably the best-in-class loyalty program within the industry, roughly 13 million active members, I think, or so. You probably have about 75 million Starbucks customers, generally speaking. How big is that opportunity to enhance that program? Obviously, you can do a tremendous amount of things with that customer once they're in the ecosystem. How big is the opportunity? How do you get customers onto that program at an accelerated space going forward?

A - Scott Maw {BIO 18637895 <GO>}

It's a great question. And I'm going to start (to what) I think the lowest-hanging fruit is and then move back to where the opportunity is bigger but the work is harder.

So one of the things that we have is, we have a fair number of members that sign up but never transact. And those members have gone through all of the things they need to do to create a digital relationship with us. And we've got to find a way to get them to transact.

So we've done some tests where we look at some incentives for those to transact, because typically once someone uses the program a couple of times, we get them more active. And so that's the first thing that we're looking at -- marketing to them. We're looking at if there are ways we can converse with them digitally in-store. And again using gamification and offers to really light those up. That's the first opportunity.

The second opportunity is, we have a fair number, like all rewards programs probably, a fair number of customers that lapse and go inactive. So we've set what we think is a pretty rigorous window -- 90-day active. And when they fall outside of that, they go into the inactive bucket.

We have been really fishing hard in that pool of customers to try to figure out why aren't they engaged anymore. Did they move? Is there a way for them to reengage in their local Starbucks? Then specifically, again, using a digital marketing campaign to try to incent them with offers and games and stuff to come back in to the active pool.

Then the last one is people that don't have a Starbucks Rewards account but have a digital relationship with us. So they have an SBC card or they have a digital card. They're paying with their mobile device. But that isn't registered.

And again, those are -- we've done some things at the POS, although you've got to be careful with that at peak -- and again, a lot of things in-app or email or digital to try to get those.

Then the last bucket of those customers that we have no digital relationship with -- and what we've done with a lot of our advertising, both in store and out of store is, we've tried to reinforce parts of the Rewards program.

So you might see an advertisement for a product within the store, a beverage within the store. And we might say. And order ahead with the Starbucks app or. And download the Starbucks app and sign up for Spotify, etc. And I think that's having increasing success. But the fact of the matter is, the opportunity is big.

And part of the challenge is awareness for us. So we think we have the best rewards program out there, as far as not the numbers but the value the customers get for something that is a frequent transaction for so many of them -- daily Starbucks visit, weekly Starbucks visit. But only about 50% awareness of the rewards program. So again, in-store reinforcement of that through advertising is an opportunity.

Q - Dennis Geiger {BIO 19694619 <GO>}

That's great. On labor, significant investment made in labor over the last couple of years, in particular. How important is securing and maintaining and keeping that talent within the store, particularly for Starbucks, given everything that's going on, given what you mentioned about throughput and the volume that goes through the box, how important is the labor piece? Then the followup to that is, how do we think about that investment in labor, in your partners, going forward?

A - Scott Maw {BIO 18637895 <GO>}

Yes. First of all, labor is a very financial term. But our partners are the best in the business. And we have the best people in anyone in this space. And that's why our numbers are so good, period, end of story.

With that said, I understand the spirit of your question. What I would say is, we needed to make sure that we had the right level of investment. As we came through 2014 and went into the 2015 and we did what you're talking about, we increased specifically both wages and then importantly, benefits that mattered to our partners.

So we added a food benefit -- which seems so obvious. But it's a fair bit of money to add that on shift. But given the focus on food and given what we were asking our partners to do and how hard they work and the service they provide to our customers, it was a natural extension.

We added the College Achievement Plan, where we've had thousands of people sign up; and younger people that work in our stores. And there are a lot of them, are really excited and encouraged by the opportunities that are provided there through Arizona State. I've hired a couple of their grads in my financial department. It's fantastic.

And so those are the types of things that resonate with our partners. But what's most important is, we need to make sure that the wage and benefit investments are front edge, because we have significantly lower turnover (that we're on our front foot sorry) -- we're significantly lower turnover than the industry. It's been that way forever. When we get the investment wrong, that turnover number starts to move. And that's not good for us, because then the Starbucks experience is at risk.

So I'm pretty excited about what we've seen. The reality of the math is -- you know, we've had 15% to 20% guidance out there for a while. What I've tried to tell people is, we're still within that range as we look over the longer term.

I think over the next two or three years, given all the things that are going on in wage, both mandated and some things that we want and things we need to do, we're probably in the lower half of that range.

Now, last year, I said the same thing. We ended up at 17% non-GAAP EPS, 18% on a (suggested) basis. That felt pretty good. But I'm just trying to give you some sense, given that level of investment, the right thing to do -- it's probably going to be harder to get to the upper end of that range.

Q - Dennis Geiger {BIO 19694619 <GO>}

Then just -- while you've mentioned the long-term EPS target -- what's the philosophy there on long-term guidance? Obviously, you reiterated the 15% to 20% longer-term. Can you just talk a little bit about the confidence there? A lot of the questions we get are, look, at this market cap, it's never been done before in consumer to do 15% to 20% over the long term. Just what kind of gives you the confidence in doing that over the next five years. And the key factors that get you comfortable?

A - Scott Maw {BIO 18637895 <GO>}

It's a question I'm getting almost every investor meeting. And I understand why.

What we do every year is, we go through our strategic planning process with the Board. And in that is our five-year plan. And that's what supports our long-term guidance. It's not rocket science. That's what supports what we talk to you about at Investor Day.

Then when we did that roughly a year ago, a little bit less, we felt really good about the building blocks. And it's a pretty rigorous process. We're doing bottoms-up building. We look at things that are going to come in and all the initiatives in food and digital. And we ask ourselves, can we make the level of investment that we need to make in our people and in technology to make sure we can accelerate the Company and deliver the financial targets that we have?

And the answer last year was yes. We'll go through that again this year. As I sit today, I think the answer will be yes. But if any at point in time we think either the top line is going to start to soften or we need to go further with investments, we'll come and talk to you guys.

Obviously, what we don't want to do is start to cut investments that put our long-term growth profile at risk. But what's going on in the middle of the P&L right now around COGS and opportunities and G&A -- that really helps fund a lot of those investments.

And the last thing that I'll say is -- as you can imagine, the very last thing that we'll do in this thought process is lower our guidance. We will, if for some reason we think it's the right thing to do. But just internally we hold ourselves to a really high standard. And that's the very last decision to make.

Q - Dennis Geiger {BIO 19694619 <GO>}

Right. Shifting from the long-term guidance (inaudible) to the more near-term guidance. Solid acceleration in your one-year trend going into the back half of the year. I think you talked about some of what's coming over the summer, etc. Just a little more on the key drivers getting you to that same-store sales number in the Americas, to reaccelerate into the back half, just a little more on how comfortable you are there and what drives that.

A - Scott Maw {BIO 18637895 <GO>}

I feel really -- when I look at what's happening around the digital flywheel and things like suggested selling and favorites that we just rolled out -- customers are just starting to respond to those in some of our markets. Basically, that's -- on suggested selling, it's zero in our comp base so far. So that's all upside as we move forward, because we just rolled it out.

The intelligence around one-to-one marketing and the test and control and the learn and the speed of big data -- I said we're in the early innings of the digital flywheel. On one-to-one personalization, we're in the first inning. And it's fantastic and it's driving significant revenue. And we've been taking our revenue targets up on that part of the business because it's so strong. But we're just getting started.

And so as we get to the back half of the year, that part of the forecast is, to me, bright green. It looks really good. Then we get into the summer months, which for us is a real sweet spot around iced. We have a number of exciting things coming around tea. Again, Cold Brew we'll continue to innovate on. You'll see a lot more Nitro Cold Brew (stores) that we roll out.

And so that compared with the fact that we're not going to have the launch of the Rewards program (to over) and that was a big focus area -- our execution around Frappuccino Happy Hour wasn't great. It'll be great this year. We'll get it right for our partners. I think we feel pretty good about on average over the year mid-single-digit comps and the acceleration we're forecasting.

Q - Dennis Geiger {BIO 19694619 <GO>}

Great. I want to touch on G&A for a minute. First, I guess, separating out G&A between core and non-core, how you're thinking about that. I think a lot of investors are curious about the non-core piece. So thinking about that. Then just broadly, the entire G&A longer term -- how do you think about G&A going forward within that context?

A - Scott Maw {BIO 18637895 <GO>}

Right. What we want to do is, we want to grow total G&A below the rate of revenue, which doesn't sound that aspirational. So let me answer your question the way you asked it, because it's important.

When you split that into two pieces -- core G&A, which is, call it 80% of the total, it's going to grow at half to rate of revenue. And we were pretty close to that in 2015, the last time we buckled down on G&A. We weren't close to that last year. We just lost our focus and didn't deliver.

But what Kevin and I have done from the start this year, in the start in our planning back in the summer is, we've had that target. And as comps haven't come in as we expected, we have been tightening that down. He's been a fantastic partner in that. And we're getting traction in ways that I haven't before in my three or four years here. And so I feel really good about the core.

The second part is innovation G&A. And that is not a huge category of things we're (pouring cost) into. It's pretty much all two things -- the digital flywheel, which we have to continue to invest, given the returns I've seen -- the ROI on our digital flywheel, it's the highest thing that we have. It's just super-high return.

The second piece is around (siren) retail -- so that's Reserve, Roastery. And Princi. And that will be a fair bit of growth over the next year or two. But it's because we're building the team.

We put Cliff Burrows, who had run the Americas business, in that role. He's building out his team. And we're starting to open these beautiful stores. At some point, the growth rate will (slow but) we'll continue to invest. And it won't be quite as much. And so I think this year we have a chance to grow G&A in total less than revenue. And I feel really good about core at half.

Q - Dennis Geiger {BIO 19694619 <GO>}

That's great. We're almost out of time. And I didn't even get to ask you about everything you're doing on a global basis in CPG. So apologies for that. I just wanted to quickly touch on another point that we get questions on. In light of the recent management changes at the Company, can you talk a little bit about the level and the depth of the talent at the C suite, the confidence that you have that the Company will continue to be highly innovative, a best-in-class operator? Just real quick, if you could, just on your confidence.

A - Scott Maw {BIO 18637895 <GO>}

I think we're in great shape in finance, I'll start there . The first thing I want to do is, I want to talk about Kevin and Howard. And I'll move quickly because I know we're short on time.

Kevin has been with Starbucks for over six years on the Board. He's been the CEO for over two years. And the reality is, the hand-off that can happen between two CEOs -- there's a couple ways it can fall down.

One of the big ways is culture. We do not have that issue with Kevin. First of all, he's a fantastic person that knows the Company very deeply. But he's been immersed in the Starbucks culture for six years. And so that aspect -- and we all see it. The people that interact with Kevin, there is zero concern about his ability to understand how we do things in Starbucks. It's wonderful.

Then if you take the combination of Howard and Kevin, the vision, the opportunity here is, you take all that entrepreneurial spirit, all that innovation, all that founder-led passion that Howard brings across the whole business. And you keep that engaged, primarily in Reserve. But beyond that.

Then you take Kevin, who's run these great big international operations, run a global company in Juniper, had a big portion of Microsoft. And you take all the things that he does operationally and from an innovation standpoint, huge technology focus. He's been so important to our flywheel success. You put those two guys together. And it could be super powerful. That's the vision.

Beyond that, you've got John Culver, who's been a long-time Starbucks partner. He's run the entire international business at one point. He was the architect behind all of the success that we're experiencing now in Asia-Pac and China. And now he's running global retail, picking up the US business. And we're really excited about what John brings from deep leadership experience.

Then taking Cliff and how well he knows the brand and operations and taking some of Howard's vision and bringing it to life with our partners and our customers in the store -- there's no one better qualified than Cliff Burrows to do that.

Then you've got people like Matt Ryan, who's completely changed our game analytically and from a customer standpoint and the things he's been able to do to operational-ize the flywheel. You've got Adam -- I could go on.

We just got -- we brought Kris Engskov, who ran our EMEA business -- and you know, three or four years ago, EMEA was losing money. Kris turned it around. He's now running our US business, really in conjunction with Adam on the store-operations side. But we're pretty excited about that tandem.

Q - Dennis Geiger {BIO 19694619 <GO>}

That's great. Well with that, we're out of time. But Scott, thank you so much. Tom and team, thank you very much for sharing this great story with us. We appreciate it very much.

A - Scott Maw {BIO 18637895 <GO>}

Thanks for the time.