Goldman Sachs Global Retailing Conference

Company Participants

- Karen Holthouse, Analyst
- Scott Maw, CFO

Other Participants

- Unidentified Participant, Analyst, Unknown

Presentation

Karen Holthouse {BIO 17433865 <GO>}

Afternoon, everybody. We're going to go ahead and kick things off. So we are delighted to have Scott Maw, the CFO of Starbucks. And head of IR, JoAnn DeGrande with us this afternoon. This is a company that largely needs no introduction. A 22,000-unit retailer with industry-leading technology integration, one of the strongest brands in the world. And perhaps most impressively, a clear path to growing its $20 billion in sales in the low double digits for the next several years. That's growth that comes not only from continued food, beverage and technology innovation. But outside growth in markets like China and new consumer products verticals.

I'll turn it over to Scott for some prepared remarks. And then we'll move into Q&A from there.

Scott Maw {BIO 18637895 <GO>}

Great. Thanks, Karen. I'll keep my prepared remarks relatively short. I just want to save most of our time for Q&A. But I thought, given the fact that we're wrapping up our fiscal year this month and starting 2016, maybe I'd talk to you just a little bit about kind of the Starbucks growth agenda and how I see that playing out currently in the business. And maybe a little bit about how it will play out in 2016.

And maybe the best place to start on that journey is about a year ago, where in the Fourth Quarter we had 1% transaction comps in the Company, which was a level that we wanted to improve upon, obviously. And I think there was a fair bit of concern and skepticism, understandably, in the investment community about our ability to turn that trend.

What we knew and what we could see inside of the Company was really an unprecedented level of opportunity around innovation, around investments in digital technology, around investments of technology in our store, what we call partner digital technology. So technology that enables our partners to move more efficiently and better serve our customers. We knew we had a holiday lineup that was unlike any other we've ever had. And we knew broadly that as we accelerated those investments, that comps would turn.

And I think a lot of companies in that situation would have probably moved back from investment. But what we did is we leaned in. We talked in the latest earnings call, we put about $140 million of investment into the US P&L. And when you look at the holiday results, we did turn those comps. We had 2 points of transaction comps and strong overall comp growth.

And that was a result of the holiday lineup. We had some of the seasonal offerings. That was a result of some of the marketing investment we had around an ability to win for sweepstakes, My Starbucks for Life. And that was around a whole bunch of things we did on one-to-one marketing and digital and MSR that landed very well.

Then as we rolled in to the calendar year in January, we started those partner and partner digital investments. That included a broad-based change in wage across our US business. But also pretty heavy investment on the benefit side. So a food benefit on shift. Not only give our partners a food opportunity. But also to reinforce what's the fastest growing category within Starbucks is food.

Also we invested pretty heavily in our college achievement plan. So we moved it from two years of coverage and tuition reimbursement to four years. And we've seen enrollment tick up significantly. And new partners are coming to Starbucks and staying at Starbucks longer as a result of that program.

Then we did some other things including, I would highlight on the technology in the stores, we've moved from paper inventory, where we were literally asking our partners to sort of tick and tie on a checklist inventory, to scanner technology. And we're rolling that out in the stores. We've improved the WIFI, which benefits our customers but also increases the bandwidth that our partners can access to do many of the things that we do. And increased the speed of systems like our point of sale system in our stores, generally.

And I think the most important thing about all of those investments is that they're working. And so when you look at comp growth in the last two quarters, particularly the most recent quarter, we hit 8 points of comp growth in the US with 4 points of transaction. It is absolutely completely tied to those investments. It's tied to some of the other things. And I'm sure we'll talk about that in Q&A that we're doing on the product and digital side. But we know those partner investments are paying off. So we'll continue to invest in those.

We'll continue to accelerate investment where we have a winner and we know what's working. We won't hesitate to lean in. And just to give you one example of that, I'll use Mobile Order & Pay as an example of that. So when we announced Mobile

Order & Pay. And we rolled Portland in December, we let you know that we would finish the rollout of all 7,500 or so company-owned stores in the US by the end of the calendar year, 2015. Then we saw how well Portland did. We rolled Seattle and the rest of the Pacific Northwest. That did even better on all of the metrics. And so at that time, we told you we wanted to get the company-owned stores rolled out by holiday.

Then in June, the middle of June we rolled out about 4,000 stores across the country, across the Sunbelt and Midwest. And those stores, once again, did better than Seattle which was doing better than Portland. And what I'll tell you today is we're accelerating the Mobile Order & Pay rollout. We'll have all company-owned stores rolled out by the end of this month, including right here in New York. So very soon you'll be able to call up a menu and place an order from a conference, right at the end of my very interesting and exciting comments. And then swing down and pick it up. So that's really important. And we've leaned in on that investment. We spent the money and taken the cost to do that because we know we have a winner and it's running ahead of our expectations.

That also sets us up very well for delivery. And so as we think about leaning in on delivery and getting into our next fiscal year, we can talk about it in Q&A. But two types of delivery, one is a Starbucks partner with delivery. And one is a partnership that we have with Postmates in Seattle.

The other thing that I'll announce is we've also been working just on the iOS platform. We have a lot of Android customers that are not happy that they can't do Mobile Order & Pay on Android. So we'll roll Android as well this month. We had been talking about holiday. But for Android users, you'll be able to do Mobile Order & Pay this month as well.

Then one of the things that we've been working on is the ability to have a customized menu based upon the store that you're ordering from nearest to you. So the way that manifests itself before this month is if you had a Clover store that you wanted to order a Clover drink from, because it wasn't on the main menu, you couldn't get access to that Clover store. So we've been working hard on that. And I think as of now, we actually have those customized menus. So if you want to get a Clover through Mobile Order & Pay, you can finally do that. I'm the big Clover customer. So I'm extremely happy about that.

So I think the good news about all these investments and about the $140 million is they're paying off significantly both on the top line and on the bottom line. And as we think about the Fourth Quarter, I can confirm the non-GAAP EPS guidance that we had of $0.42 to $0.43. That looks solid for the quarter. And as we think about fiscal 2016, the pipeline of innovation, the opportunities to invest, the number of things on digital. And the momentum we have across MSR and Mobile Order & Pay and delivery coming, it's never been greater. So we'll continue to invest in 2016, including on the partner side. And that'll have some impact on where we land within that 15% to 20% EPS growth range.

The only other thing I want to call out is just to make sure you're all clear on the impact on revenue on the Japan acquisition next year. So just quickly. If you look at what we've guided so far this year, what we've talked about so far this year, year to date, if you take the Japan acquisition out and you kind of normalize revenue growth for that, we've grown just over 20% in cap. So fantastic results.

As we look forward and we roll in Japan into that next year -- basically for the full year; we owned it 11 months -- we expect that the cap growth will continue to be ahead of what the Company will grow and the highest growth rate of any of our business units. But somewhat below that 20% growth rate on revenue as we move into next year. So I just want make sure everyone's clear on that, because sometimes it's hard when you do an acquisition to get the modeling right.

Karen Holthouse {BIO 17433865 <GO>}

So we will probably kick it off with a question that fits right in line with that, which is there are a number of moving pieces as we look to next year between -- we have a 53rd week, we have investments that could be untapped. We have the roll in of mobile ordering. Maybe some continued adoption of benefits around education. How should we think about those moving pieces in the context of the 15% to 20%?

Scott Maw {BIO 18637895 <GO>}

Right. And I think the thing to take into account is the 10% topline growth, mid-single digit comp growth. And the 15% to 20% EPS growth holds for next year and the years beyond that.

I think when we get into earnings, the earnings call in a month, we'll be able to give you a lot of texture on what does margin look like by business unit, what does revenue growth look like by business unit. We'll be able to unpack a little bit some of the investments. So I don't want to go too far into that. I'll just kind of reiterate what I said which is, all of that and the success, importantly the fact that it's working in these investments, that'll have some impact on where we land within the range.

And that 15% to 20%, just on the 53rd week concept, the 53rd week will be separate from that. So we'll tell you where we land within the 15% to 20% range. And then we'll put the 53rd week on top.

Karen Holthouse {BIO 17433865 <GO>}

Fantastic. So going back to a topic that's probably been the one I've gotten the most questions on for the last couple of months, which is mobile ordering. The fourth wave of the rollout is well underway. At this stage in the rollout, what have we learned about how customers are using it? Where can it be incremental in terms of daypart and traffic versus check? And beyond that, where there are other opportunities beyond just a comp benefit in terms of the customer experience?

Scott Maw {BIO 18637895 <GO>}

What we're seeing around Mobile Order & Pay is we're seeing incrementality broadly across all of the store types. And we're seeing increased incrementality and increased overall metrics as we roll different waves. So every wave is stronger than the one before.

And I think that's due to the fact that we're getting a little bit better operationally on how to execute this. You'll remember that Mobile Order & Pay is fully integrated into our technology platform, including the fact that the order goes right into the POS through the same production mechanism and out to the same handoff plane. But as we've rolled wave after wave, we've gotten a little bit better about how to handle that customer interaction at the handoff point. So I think that's helping the results.

The other really important thing -- and again, it's intuitive. But it's worth calling out -- is in our busiest stores at peak, if you take the 20% busiest stores that we have, we're seeing significantly more incrementality and significantly more transactions from Mobile Order & Pay. And you would expect that. But sometimes I get the question around our busiest stores, you can't put anymore labor in those stores. And the fact of the matter is we can. So we're taking away some of the pinch point at the POS, we're adding labor as transactions earn that labor behind the bar. And we're moving more customers through and we're driving incrementality.

On the customer point, it's really important. So as you can imagine, we measure customer satisfaction across a number of dimensions all the time. But pre-Mobile Order & Pay, we can measure customer satisfaction in those stores just before it launches, then we can measure it afterwards. And there is a significant uptick due to Mobile Order & Pay. We can see it.

Karen Holthouse {BIO 17433865 <GO>}

Potentially the other part of the comp story, which I've regularly been as, or even more excited about, which is food. It's growing at twice the rate of the underlying business, albeit from a smaller base. But from here, where do you think the biggest opportunities for growth are? Where is really the focus, to the extent that you're willing to share it, some insight into the product innovation pipeline? Then within that, how does evenings tie into the vision of food as a piece of Starbucks business?

Scott Maw {BIO 18637895 <GO>}

I think on a dollar basis. And maybe a weighted comp basis, breakfast still remains the biggest opportunity. But I would say the revenue growth, the percentage of growth opportunity really fits in the near term with lunch.

So we'll continue to drive innovation and breakfast. We had breakfast sandwiches grow 30% last quarter. We've been in breakfast sandwiches forever. But we continue to make new offerings and up-leveled offerings there. And that's landing well.

But if you look at the lunch platform and the afternoon daypart, we see significant opportunity and significant traction to grow there. I think we grew the lunch daypart roughly 20% last quarter. So that's the fastest growing daypart for us broadly. And food's a big piece of that.

And as we build the refreshment platform on the drink side. So as we get transaction on -- traction on tea, we drove a point of comp in tea each quarter for the last three quarters. Tea is a drink that better attaches food. And so I think our up-leveled sandwich offerings, some of the things we've done even with afternoon snacks, better goes with that tea.

And importantly, to your point, what we've built with food is a success on a level of quality that allows us to build an innovation pipeline. So similar to what we've done for decades around coffee, we now have very good, very high-quality food. We've got a team that knows how to deliver that within the four walls of Starbucks.

We've got a ton of opportunity, even within the fresh platform, you and I were talking earlier. So we've seen a nice lift from Bistro Boxes as we've expanded that. Salads, as we've up-leveled that. Even yogurt parfaits. All the things that we're doing around both indulgent and better-for-you food choices in the afternoon.

But we still have opportunity to expand the supply chain across the country. So the coasts are pretty well covered in that fresh platform. But we've got opportunities in the middle of the country, just to bring the products that we know work well to bear there. And we're going after that.

So I do think -- I think very much like food the way we think about beverage. Across all the dayparts, we have a good food platform. We have tremendous momentum. We've got a team that's all it's working on seasonal offerings and limited time offerings to try to drive that.

Then evenings, we're just scratching the surface. So we have a different food program in the evenings that include generally shared plates. So things like bacon-wrapped dates and truffle macaroni. Customers come in generally in small groups. The ticket is larger. Some may have an espresso beverage, some may have beer or wine. And then they share a couple of food items. So that's really just getting started.

Karen Holthouse {BIO 17433865 <GO>}

And perhaps one other quick topic that's been pretty topical of late, which is the volatility in China and macro risks. When you look at your business there, how resilient do you think it is to any sort of macro shocks? And just underlying that, what is the state of the business? How is the business been changing and evolving since Starbucks even a few years ago?

Scott Maw {BIO 18637895 <GO>}

If you look at comps in cap year to date, the last two quarters in particular we've driven double-digit comps in cap. And we've had double-digit transactions within that. So it's really a transaction story.

And importantly, China is actually comping higher than the big numbers we've been putting up in cap. So I think that speaks to the health of the brand in China. We've talked quite a bit about the profitability of the China stores. They're increasing each year. We're seeing those stores come out of the ground at the highest AUVs that we've ever had as we open stores. So the traction we have in China is significant.

And we typically don't give intra-quarter guidance. But I'll just give you a little update on China, given the fact it's on everyone's mind. What I'll say is we're not seeing any material impact on transactions in China from all the uncertainty around the stock market and currency and the consumer. We're not seeing -- and this is year to date through August -- we're not seeing any material impact on profitability or on revenue. So I think the health of the brand is guiding us well through some of this uncertainty. The number of transactions that we're seeing is good.

I probably should just remind everyone that the Fourth Quarter does have some seasonality from the mid-autumn holiday. And we'll see some of that. And ticket that comes and goes and it's transitional. But at least so far, I think Q4 is going to stack up really well once again in China.

Karen Holthouse {BIO 17433865 <GO>}

Fantastic. So one of the things that has been a huge part of the story for the last couple of years is the development of My Starbucks Rewards, which is really an industry-leading rewards program, not just in restaurants. But across a much broader group of consumer companies. And not only just the rewards program. But all of the opportunities it creates around one-to-one marketing and better sort of harnessing that data that you have. And beyond that, partnerships with new people where you're tying them in to sort of selling rewards they can then give to customers. What other opportunities are there? What inning of the game are we at in those things?

Scott Maw {BIO 18637895 <GO>}

I think it's early innings, particularly around the analytics we have on one-to-one marketing and around the partnerships we're driving. My Starbucks Reward has been around for a while and it's been successful for a while. We have 30% of our transactions that are on My Starbucks Rewards related. So I think we have tremendous momentum there. The real opportunity is how do we get to the next stage.

And so if you look at the one-to-one marketing, the improvements that we've driven really under Matt Ryan's leadership since he's come in from Disney over the last couple of years. And harnessing the data, being much quicker and much more segmented and specific in how we market to different groups of customers. Much quicker in integrating the feedback we get from those marketing efforts. Updating and tweaking the analytics, and then making a new offer. All of that is significantly better than it was a couple of years ago.

But I would say we're in the early innings. Maybe second inning there. We still have a lot of opportunity. We've invested in people in that space. We're investing more in technology as we get into 2016 to try to automate those processes. And I would say the improvement that we saw, for example in holiday, a decent amount was due to more --sharper one-to-one marketing capabilities.

Then the partnerships we've been -- you and I were joking earlier -- we've been talking about these digital partnerships and the kinds of discussions we've been having for two years. And we've been having real and meaningful discussions. But there's a lot at stake. And I think both sides want to make sure we get it right. So I think we're really happy to announce the partnerships with Spotify, Lyft, and the New York Times. They're fantastic companies.

We think the agreements will drive significant benefits for both sides. They're buying stars from us. They're going to use those stars to drive a subscription. That'll bring more customers back in to our stores. It gives some of our customers access to content and premium content through Spotify and New York Times that they wouldn't have before.

I would argue that Mobile Order & Pay. And ultimately delivery, is a great extension of My Starbucks Rewards. And will drive increased acquisition and retention as we add more and more benefits. And so My Starbucks Rewards is really moving beyond the earn free drink, which is a fantastic benefit for customers, and adding more and more functionality and capability, and that should drive up membership.

Karen Holthouse {BIO 17433865 <GO>}

Moving a little bit beyond the top line to one of those other lines on the P&L. This year there's a significant investment, which you referenced earlier, in these employee benefits. A combination of wages and then the education benefit. As we look to next year, wages are topic of conversation really across consumer and retail. Do you think that that sort of level of investment needs to continue? Are there assets of that that ramp over time? Or is that sort of a one-time, you've leapt out ahead and now can grow into that for a couple of years?

Scott Maw {BIO 18637895 <GO>}

I think I would say we've always been ahead. And so what we did this year was to ensure that we continue to maintain and extend that differentiation we have, not only in wage. But I think importantly in the overall benefit package. The thing we've done with healthcare, the things we've done with bean stock. And so we loved adding the food benefit. We think that's completely consistent with what we've been about.

We love adding the college achievement plan. The fact that enrollment in that is ramping significantly, that will add cost. But we also think benefit, we've not only seen comps up. But turnover is down. So already, as we've made those investments, typically it takes a while for those to sort of work through the system and drive increased employee retention, partner retention. But we're already seeing that in the numbers.

And so as we look to next year, not only what we have -- the continued success and tailwind. And the number of people that are signing up for college achievement plan, the number of people that are using the food benefit -- but we'll probably have some new things that we do on wage and benefit as well. And I think that'll be the case for, maybe forever.

Oh, right. JoAnn just reminded me on something important. There's also some math in that, Karen. So we really started ramping the partner investments in January of last year. So we'll have, in the First Quarter we'll have that lapping impact of everything.

Karen Holthouse {BIO 17433865 <GO>}

Well and then one of the other parts of cost on the P&L is, last September, the Analyst Day, there is pretty ambitious plan for $1 billion in cost savings over the next five years rolled out. Where do we stand in that plan? What's sort of the cadence of progress from here?

Scott Maw {BIO 18637895 <GO>}

We're almost exactly 25% of the way through, which is good because we're one year into the four-year plan. So this year, we have line of sight to over $200 million in cost of goods savings. And the big work streams that we talked about at the Analyst Day is really up-leveling and being much sharper and more specific around sourcing opportunities. We definitely had significant savings as we rolled out the La Boulange food offering. We up-leveled the quality. We simplified the recipe. We moved to a frozen supply chain. And we lowered the cost for our suppliers and we shared in that benefit.

We're seeing significant traction broadly across the supply chain in areas like transportation, manufacturing, warehousing. And all of those are driving significant savings as head into next year. So I think next year will be over $200 million as well.

We also see savings in waste in the store. So we had specific focus on food waste. But also coffee and dairy waste. And we're getting traction in that in Cliff Boro's [ph] Americas business and beyond.

And so we've got line of sight already to, I want to call maybe 80% of that $200 million as we head into next year. Then I think as we enter into 2017, it'll be even more.

Karen Holthouse {BIO 17433865 <GO>}

We're going to go ahead and open it up to the audience for questions now. If you can wait to ask your question until a microphone gets to you, just to make sure people on the webcast can hear, that would be much appreciated. So we'll start here.

Questions And Answers

Q - Unidentified Participant

Hi, thank you. I appreciate your comments about labor costs before and the benefits. I'm trying to sort of absorb this $15 or minimum they're talking about in New York State. Presumably, if that's the starting wage and other people would have to -- that might be getting less than $15 an hour would have to get more. So more than just the impact on your minimum wage employees, I presume. So how do you deal with that, is essentially my question. Does it destroy your -- does it hurt your economics in the store? Are there other offsets? How do you do that?

A - Scott Maw {BIO 18637895 <GO>}

I won't comment specifically on the minimum wages. But what I will say is we've been broadly supportive about increasing pay and benefits for our employees. And I think that's been true for all time with Starbucks. But I think this year we put about $140 million behind that.

And so we're out in front of a lot of those investments. We'll continue to be out in front of that. And for us, we look at it as an investment, because if you look at what's happened with our transaction comps. And you look at what's happened with our turnover, those investments pay back. There's obviously a balancing factor in all of that. But we're broadly supportive of investing more. And you'll see more in 2016.

A - Karen Holthouse {BIO 17433865 <GO>}

Is there anybody else? Having a little bit of trouble seeing into the light.

Q - Unidentified Participant

I'm holding the microphone way back here. So I had a question about just your food initiative and the ovens you have. Have you thought about shifting in some of your higher sandwich stores to more than one oven? I think right now, if I go in and place an order for like four croissants. And someone else places like a croissant, the person behind me croissant, I have to wait until their two croissants are done before they'll toast all four of mine.

By the way, I mean it's kind of a silly question. But my point is, have you reached a point -- true story -- but have you reached a point where you may put in more than one oven into a store? And have you thought about doing that across all stores, if you're really going to truly switch to being not just beverages?

A - Scott Maw {BIO 18637895 <GO>}

So I would say broadly we've accelerated deployment of second ovens across our store base. That doesn't mean that they're in every store. But we've been adding more second ovens. We're opening more stores that have two ovens. Some of them occasionally are dedicated to the drive-thru. So I think the short answer to your question is, yes, we have analytics to understand when to add a second oven. And where we have the space, we do.

Q - Unidentified Participant

Could you give us some color as to food attach rates in your Mobile Order & Pay versus just regular customers walking in? Is it significantly higher or moderately higher or no difference?

A - Scott Maw {BIO 18637895 <GO>}

What I'll broadly talk about is ticket, which obviously reflects attach. And Mobile Order & Pay ticket is about equal to the average MSR ticket across our entire store base. So what we're seeing early days here is transaction incrementality and ticket about even with the average transaction across Starbucks.

What we believe is as we develop the capability -- and I don't know if you've used Mobile Order & Pay yet -- but you basically build an order. And as you're building that order, there are windows where you see pictures of product and other things. And we're currently planning on rolling out later in 2016 the ability to basically have suggested selling as you're building that order to suggest food items.

So if it's in the early afternoon and you're ordering an iced tea, we might picture a panini. Eventually we'll be able to understand your purchase and attach behavior. And if in the morning you always attach a reduced fat turkey bacon sandwich to a brewed coffee. And you're building an order with a brewed coffee and you haven't attached yet, we might be able to slide in a picture of that tasty reduced fat turkey bacon sandwich.

So that's kind of what we're building. And we're confident that that will drive some lift in ticket. And the reason we believe that is as we rolled out drive-thru, I think there was a lot of concern broadly that we wouldn't have the attach that we have in the stores because you don't have the case right there in front of you. And what we've seen in drive-thru, particularly as we've improved and broadened the imagery at the order point, we've seen attach pick up. So I think we'll see that in mobile order as well.

Q - Unidentified Participant

Quick question. I have little visibility on your food proposition. As a client, I have to tell you, I love Starbucks. I hate eating at Starbucks being 100% frank with you.

Can you give us some visibility? Say who is best in class for you in that? How big is the gap that you see? How big are the opportunities since player X makes X million per store in terms of food sales. And at same time we're still lagging behind. Is there a benchmark that you can aim for? Is there anyone that you believe that's doing an excellent job that you should be going that direction? Can you give us some visibility on the size of the opportunity there?

A - Scott Maw {BIO 18637895 <GO>}

So just make sure I understood the question. It's around food sales in our stores and how we can make it bigger and better?

Q - Unidentified Participant

Exactly. Just give an example. I got in mind that, I know that say someone like McDonald's makes $2 million in a store of food sales. Someone like Burger King does whatever, $1 million. And Wendy's does $1.4 million. So that sort of benchmark I have in my mind. So I know the size of the gap that's in Burger King and McDonald's. So can you give us some visibility of who's your benchmark and how far away you may see yourself from that food-wise?

A - Scott Maw {BIO 18637895 <GO>}

I think the first thing I would say is you're never going to see food be 50% or 60% of our sales in Starbucks. You know what our base, we're a high-quality coffee company. Increasingly, we're a beverage company that offers juice and tea and a broad selection of beverages across the entire daypart. And so beverage will always be the majority of what we do. And we're fine with that. We have good profitability in beverage, it drives traffic. And it gives us the opportunity for attach.

With that said, we've tried -- we've been trying to up-level our food offering for a number of years. And I think with the La Boulange acquisition, we've done that. So I think our food's gone from maybe okay to quite good. That's the customer feedback that we get. La Boulange was a big part of that. And we continue to expand and build off that.

As far as the sales opportunity, we've grown food as a percentage of total revenue in the US business from kind of the mid-teens range to about 20% over the last three or four years. So we have traction. Our customers are telling us with their wallet that they like our food.

I think over the next five years, we think we can grow that another 5 points, which will roughly double the revenue from food over that time period. So we know, getting from 20% to 25%, we have to do a lot of things right. I think that was Karen's question. We have to capture dayparts correctly. But if you look at the last couple of years, we've been driving 2 points of food comp pretty much every quarter. We're getting a broad-based food offering across the entire daypart. And we're quite happy with what we're seeing.

Q - Unidentified Participant

Hi. Could you please talk about your tea segment? What progress you're making with Teavana? Whether you've shifted from Tazo's tea to Teavana in what amount of Starbucks stores? And just the overall plans for growth in that segment?

A - Scott Maw {BIO 18637895 <GO>}

So Teavana in our Starbucks stores?

Q - Unidentified Participant

Yes.

A - Scott Maw {BIO 18637895 <GO>}

What I mentioned I think in my opening comments, or if I didn't, I'll mention now, we've had about 1 point of comp growth from tea over the past few quarters. And tea's been a meaningful part of our business for years. It's been in that 8% or 9% of total revenue range. But frankly, given the adjacency of tea to coffee, while 8% or 9%, it's about $1 billion business, or was about a $1 billion business in our US stores. I think 8% or 9%, we'd all agree we can do better than that.

So I think with Teavana what we bought, much like I was talking about with La Boulange. And we feel about Starbucks with coffee, we believe we have a platform and a brand where we can drive significant tea growth across the daypart. So that's hot tea, that's iced tea in the afternoon. And we've seen that in recent quarters. And particularly in some of the limited time offerings we have. So right now we have a mango black tea lemonade that's out there that's doing extremely well. And again, it gives us the ability, the team has the ability to introduce great recipes. And we've executed that very well in the stores.

Q - Unidentified Participant

Has there been much of a shift from 2014 to 2015 within tea?

A - Scott Maw {BIO 18637895 <GO>}

Yes.

Q - Unidentified Participant

In terms of product offerings?

A - Scott Maw {BIO 18637895 <GO>}

Maybe not so much in terms of the product offering, although we do have more. And I would argue better, seasonal offerings. But what I would say is the traction that we're getting with the Teavana brand is significant. So in 2014, we did not drive a significant amount of comps in tea. It wasn't a full point. But so far in 2015, it's contributing a full point to comp. And it's got tremendous momentum as we head through the summer here.

And again, I'll go back. There's kind of a common theme here. Starbucks gives us the capabilities, the recipe design. And the innovation and coffee. And we continue to build on that. Then we brought Evolution Fresh and we've done that around juice. And we've seen a significant uptick in profitability for juice in our stores. Given the high quality we have with Evolution Fresh, we're doing some things around yogurt parfaits in that space.

Then we moved to La Boulange. And we do it with food. And we build out that platform and we innovate. And Teavana's doing the exact same thing with tea.

Q - Unidentified Participant

I think you have alcohol in roughly 75 locations now. Just curious if you could discuss what your evening activation plan might look like over the next three years. And the food offering in conjunction with the alcohol offering. Thanks.

A - Scott Maw {BIO 18637895 <GO>}

Sorry, the acoustics aren't great up here. So sorry. Yes. We have increased our evenings program. What we started with really over the last couple years is about 30 stores where we've been testing and trying to understand what we need to do with evenings, both from an offering standpoint, as well as an ambient standpoint. And what's the right level of investment. We learned a lot over that time period. And based upon the success that we had in those stores, we'll be ramping evenings.

So we'll add, as we move into 2016, hundreds of evenings locations. We're actively working on licensing and all the things that we have to do there. But we believe there's a real daypart opportunity for us.

And it's not just about beer and wine. It's really about a broader ticket opportunity where people generally come in in small groups. Someone might order a decaf espresso. Someone might order tea. Someone might order beer or wine. And they might share a couple of small plates of food, as I said earlier. So it's early days. But I think we're quite encouraged by what we can drive there.

A - Karen Holthouse {BIO 17433865 <GO>}

I'll go ahead and -- looks like there's not anything in the audience right now. So I'll hop in with one. And I think this really ties together a lot of the questions which we've gotten this afternoon, which is you look at this mid-single digit comp guidance over the next four years. How do we think of that as a build? What are the different pieces that get you sort of comfortably to mid-single digit guidance? And is there a little bit of a cushion or a margin of error built into that?

A - Scott Maw {BIO 18637895 <GO>}

If you look over the last two or three years, I think as we look forward in the near term, the mid-single digit comp build up is similar to what we've delivered. Now we have to have different things that drive that every year, because we've got to build on where we ended. So food will probably be in that 2 points of comp growth. And if we want food to get to that 25% of total revenue, we need 2 points of comp. So I would look for that.

We've generally had a point, sometimes two. But around a point for beverage innovation. So this includes seasonal offerings like pumpkin spice latte. This includes things that we do around holiday. Things that we do around the refreshment platform. And we typically look for a point of comp in that.

Then we'll look for perhaps another point of comp in tea. We'll have to see how that all plays out. But that could build as a platform for us.

Then the rest of the mid-single digit comp that comes from what we kind of call the core platform. So that includes espresso, with things like Flat White. That includes Frappuccino, which we continue to comp every year. And so that's been 1, 2, or 3 points, depending on the quarter, pretty much every quarter. So I think that's how it builds going forward.

What's underneath that, which I think is driving the acceleration we've seen recently as the investments we're making around MSR, how much sharper we are with marketing there. The things we're doing on partner investments, some things we've done on labor and staffing in the store, which has helped at peak. And all of that underlies and helps deliver those category base comps.

A - Karen Holthouse {BIO 17433865 <GO>}

Again, if there's a question in the audience. So I'll continue. When we're thinking about topline growth, pretty much all the questions today really centered on what's the opportunity to grow comparable store sales and ignores the opportunity to grow units. There's one express store that's been open in New York. What have you learned in terms of potential of that unit to address some unique real estate locations in the US or internationally? And what has it told you about just unmet demand in terms of peak capacity demand versus what you can do in the existing store footprint?

A - Scott Maw {BIO 18637895 <GO>}

It's one store in its early days. But the level of transactions that we're seeing in a store that's got about 500 square feet. So it's about the third of the size that we have for our average store in Starbucks. We're seeing transactions that are comparable with stores that are much larger. And comparable to kind of the average of the portfolio. There's a store just across the street from that store at 14 Wall. And there's been no cannibalization on that store. So we are picking up incremental traffic.

We reduced the menu a little bit to streamline things for the store. And as we look forward, we think we'll have a lot of opportunities to open what we call express stores in urban markets, not only in the US and large cities. But perhaps internationally.

And I think the nature of your question is important because occasionally I get asked, are you at saturation from your unit growth in the US? And I think the flexibility that we've had in store formats gives us a lot of confidence to continue to grow at that 4%, 5%, or 6% portfolio growth rate we've been growing at over the last few years.

And that includes drive-thrus, which we've been accelerating over the last few years and are doing extraordinary drive-thru-only stores, express stores. We'll start to open Reserve, Starbucks Reserve stores which will have generally a larger footprint, more brewed coffee offerings where you might be able to order a Clover, a pour-over, or a

Chemex and enjoy brewed coffee in several different ways. It'll be more interactive. And so that gives us more confidence to go into a different type of geography. And so all of those things, again, they're working. And it gives us a strong belief that there's lots of opportunity and traffic for us to capture.

A - Karen Holthouse {BIO 17433865 <GO>}

Well then going back to my -- or mobile ordering for another time, as we're looking at this and thinking through 2016, 2017, what's the rollout look like? Not just in terms of the units. But in terms of capabilities? And how do we think of that adding to comps as a one-time lift or something? Does this build over time? Does it turn into My Starbucks Rewards all over again where it's a tailwind to over a multiyear period?

Q - Unidentified Participant

When you're talking about Mobile Order & Pay.

A - Scott Maw {BIO 18637895 <GO>}

Yes. I think what we'll see and what we're seeing in the early days is we'll see a build of the adoption curve. And frankly, I kind of like that because it builds comp over a period that I think will be multiple years.

So it happens when we launch Mobile Order & Pay is we're working to build awareness. And the first group that we'll build awareness with is My Starbucks Reward members, particularly those that use the mobile app. But there will be a natural adoption curve as people become more aware, as they try it, like it. And try it more frequently.

The good news is that adoption curve is running above what we had in the business plan. And it's higher in each market as we've rolled the waves. And I think as we roll New York over the next few weeks, it'll be higher once again, just given the density of stores in those markets.

So I think it's a way to achieve mid-single digit comps for what we think will be a number of years.

A - Karen Holthouse {BIO 17433865 <GO>}

I have just a few minutes left. So as a final wrap-up question, it's hard to imagine that there is really a part of the story that people aren't excited about right now. But if there was a piece of it that you think is maybe misunderstood or people are missing the opportunity, what would it be?

A - Scott Maw {BIO 18637895 <GO>}

I think we always have to remind people that mid-single digit comps and double-digit revenue growth for a company that has $20 billion in revenue. And tries to grow at 10% a year on the top line and 15% to 20% a year on the bottom line at a $5 transaction, we need a number of things going on. And we'll always have a number of investments so that we can rebuild that mid-single digit comp. I think we get a question a lot about why can't we deliver well over 20%. And why should we be thinking about high-single digits? And it's just -- it takes an enormous amount of focus and execution to grow a $20 billion company across all of our geographies.

A - Karen Holthouse {BIO 17433865 <GO>}

Well I guess with that, we can wrap up the webcast presentation here and move on to the breakout, although that's actually going to stay just in this room. So it's a pretty large fireside chat as a breakout.