Morgan Stanley Global Consumer & Retail Conference

Company Participants

- Scott Maw, EVP & CFO

Other Participants

- John Glass, Analyst, Morgan Stanley

Presentation

John Glass {BIO 2450459 <GO>}

Good morning, everyone. My name's John Glass, restaurant analyst at Morgan Stanley. Welcome to the second day of our consumer conference.

It feels right to start the morning with coffee and so that's exactly what we're going to do this morning. Starting back in 1971. And then known as Starbucks Coffee, Tea and Spices, today Starbucks has evolved into one of the largest, in my view best blend retailers of our time. In my view. And having had the experience of watching the Company grow for the past 20 years, it has been a consistent element of this story where the Company is continuing to reinvest in its business, in its people. And standing clear to a mission of serving the best coffee and related items in the business.

2015 I think was a transformational year in many ways in the Company's history with the benefits of their reinvestments really showing up; not just in the financial results. But in things like -- evidence of things like the mobile ordering platform where I got this coffee this morning without waiting in line. I think no doubt that has the ability to drive the business to the next level.

It's my pleasure to welcome to the conference today Scott Maw. Scott is the Chief Financial Officer of Starbucks. With that, welcome.

Scott Maw {BIO 18637895 <GO>}

Thanks, John.

So what I'm going to do this morning is spend a few minutes taking a look at the financial performance of Starbucks. But what I really want to spend the bulk of our time this morning is reviewing our strategies for growth, because what I hope to sort of display is that the growth that we've had in the past is something that we intend to continue in the future. It's sustainable and it's really built off the backs of the strategies that we're using today and we'll continue to leverage as we move through time.

Forward-looking statements. Important that you understand that we'll be making forward-looking statements this morning.

And let's just go ahead and take a quick look back on the financial performance of the Company. So over the last few years you can see we've grown revenue at about 13% per year reaching over $19 billion this year. If you adjust for foreign exchange, that number rounds up to $20 billion in 2015. We had a couple of points of headwind from foreign exchange like many companies with international operations. We're filling that a bit. But still sticking to our long-term growth targets despite that.

We had 410 basis points of margin expansion over this period, 50 basis points in the most recent year. And I'll just remind everyone that our acquisition of our remaining interest in Japan had a pretty significant impact on that operating margin expansion and so it would be much higher if you adjusted for that from 2014 to 2015.

Then earnings grew quite strongly over this period, 21% on average on EPS on a non-GAAP basis. $1.58 in the most recent year. That was 19% growth over non-GAAP EPS the year before. And again, 2 full points of foreign exchange impact in that. So pretty much every year we were growing at or above the top end of our range so we feel pretty good about that performance as we look forward.

And I think perhaps most importantly is what's happened with our comps over the last few years. So we've been at mid; to upper-single-digit comps every quarter for the last two years, 2013 and 2014. But you can see where transaction comps had sort of continuously trended down towards the end of last year and we ended last year with 5 points of total comp, 1 point of transaction comp and a pretty healthy ticket in there. There was a fair bit of premiumization and the tax driving that. But obviously 1 point of transaction comp was something we wanted to improve.

And so as we headed into the holiday, we launched a number of initiatives. And importantly, I'm going to talk quite a bit this morning about the investments we've made in our people, our employees are called partners. And investments we're making in the digital business that we really instigated in earnest in January of this calendar year. And those had a significant impact on our comp growth, like we believed that they would. And you can see transaction comps turned nicely during our holiday quarter, which is Q1. And our fiscal, continuing to accelerate each and every quarter as we invested more, rolled out more innovation, did more things around the digital platform, reaching a peak in the most recent quarter of 8% globally with 4 points of transaction comp and 9 points of transaction comp in the US. Reminding you all that this is a great big store system; that we're growing comps at 8%. That's no easy trick. And that's where the investments and all the things we have going from a strategy standpoint come into play and are so vital.

So let's talk a little bit about those strategies. I think it's really important to remind you we are playing the long game. We're a $20 billion company with an average ticket size of $5. We're growing the top line at 10% and the bottom line at least 15%. And if you're going to do that on our great big network, we're going to have to think strategically and, frankly, aggressively about the types of investments that we make and the types of things that we drive from an innovation standpoint. Our growth is built on innovation. It's built on the experience that our people provide in the stores. And if we don't invest, if we don't lean in there, then we're going to start to see a softness on the top line. And so we're committed across all these strategies.

I'll take you through each and every one. But I think the first one. And perhaps the most important one, is winning with our partners. So again, our employees, we call them partners because the vast majority of them are eligible to participate in a stock compensation program for Starbucks. And what this chart shows is the history of the investments, the history of total pay that we've had at Starbucks. We have always led the industry in terms of total pay through things -- before 2015, like on-shift beverage; our partnership with Arizona State University, which in FY14 was two years of college benefit; competitive pay; stock compensation that we call Bean Stock which I talked about earlier; and then healthcare for part-time workers well ahead of and deeper than what's available in the Affordable Care Act and we've had that for decades at Starbucks. So leading in pay.

As we got into 2015, again, well ahead of and greater than the mandated minimum wage and pay changes and benefit changes that are coming down, we leaned in on how we pay our people. So that included compensation. That included adding a food benefit on shift, which was a great thing for our partners and also a great thing for us because it reinforces what's becoming a growing part of Starbucks' business. Food is growing faster than beverage in our US stores. And so providing a food benefit was a great way for us to introduce our partners to our food across broad day parts. Then we went to four years of college paid in 2015. And for the first time, we really started to invest in what we call Partner Digital. So all the things that we'll talk about around mobile and Mobile Order & Pay, that's been building for a while. But frankly, we've fallen a little bit behind with partner-facing digital. So I would argue our customer-facing digital and mobile apps are frankly industry leading. I don't think there's anyone out there doing it as well as do. But the technology that faces our partners, I think we've fallen a little bit behind.

So in the last year we leaned in on upgrading our POS system, basic things like improved laptops-and printers in the store, handheld apps that allowed us to move from a paper-and-pencil inventory system to a scanner-based inventory systems. And again, a lot of this technology has been out there a while. We've just been a little bit slow to roll it out and so we're significantly accelerating that. And as we move into 2016, even more on partner digital. So more things around apps for scheduling. A little bit more technology around how we determine schedules. An easier way for our partners to understand things that are going on in the store around buying routines around our food and things like that. So all of that will accelerate as we get into 2016. Then obviously we'll talk about the things we're doing on our digital platform from a customer-facing standpoint.

We also expanded college benefits to include spouses and children of our military partners and military spouses. Again, leaning in well ahead of mandated changes on pay and starting to do some things in international markets. So like the US, our total pay structure in the international market tends to lead the industry. But we want to do more in international markets. Markets such as China, the UK we're introducing things like housing benefits that resonate with partners in those markets a little bit more than they do in the US and so that's part of the dollars as we look at 2016.

And so that adds up to just under $150 million of incremental spend in the P&L in 2015. Another $100 million to $125 million in 2016. And I'll just remind you, if we can click back here, that it's working. And so the most important thing in all of this is we've seen the success in the comps as we've seen our turnover actually tick down in and industry where everyone's seeing turnover actually tick up and the labor market improves. The difference between us and the industry average is now 18 full points on turnover. And so as these investments have driven higher returns, lower turnover and higher comps, we feel really confident that leaning in and investing is the right answer.

Okay. Moving on to the next part of our strategy, kind of three things in one here. I'll talk a little bit about how we continue to lead the industry in premiumization of the coffee experience. I'll talk about Teavana and how that's driving growth in our US stores and how it'll drive growth internationally as we move forward. And also we'll talk a little bit about occasions and expanding day parts.

So the first one is coffee leadership. And I think the place to start here is around all the things we're doing with Starbucks Reserve coffee and how we're innovating on that front. Just as an example, we have 1,500 stores that have Clover that you can see in the upper right-hand corner there, the Clover machine, which is a fantastic way to enjoy a cup of coffee. And that's up 50% from where we were just a year ago. So we continue to see response from our customers, drive transactions, drive profitability by putting more Clover machines in, more Starbucks Reserves in more stores.

And by the way, we see lots of opportunity in that internationally. So the numbers I quoted there were just the US market. But when we look at China and Japan and the UK, we also see significant traction around rolling out the Reserve brand. In China more and more of our stores have Reserve. More and more of our stores have a pour-over bar where you can interact more with the barista and understand and learn more about the coffee. And just as a reminder to everyone, we still are the premier brand in sourcing, roasting and delivering the finest coffees in the world.

And probably the pinnacle of that experience is our Starbucks Roastery in Seattle. So this is a store I think many of you have been to. It's several times larger than our normal store. It has roasting capability on site. So it's a mini roasting plant. We're able to take small batch, very unique coffees and roast them in that roastery and ship them around the world to sell under the Reserve brand. There's several different ways to enjoy coffee. You can do a pour-over, Clover, there's siphon machines. Lots of different ways to learn about coffee. Then as we move forward we'll take elements of that roastery experience and take it into up to 500 Starbucks Reserve stores. So these will be larger-format stores that have elements of that roastery in it, have a lot of ways to interact with the barista, get to understand coffee. Will be all focused around that star -- our brand, Starbucks Reserve and we'll continue to deliver significantly up-leveled coffee experience to our customers.

Then just to touch briefly on agronomy. So over 99.5% of our coffee is ethically sourced. We have seven farmer support centers in different geographies around the world in coffee-origin companies. Those support centers have dedicated Starbucks agronomies that ensure that not only we get a sustainable supply of coffee. But that we take what we learn about fertilization and about irrigation and what we learn about different species of plants that are more sturdy to drought and coffee rests and all those things. We share that with the industry. So it's a little bit about Starbucks and sustainability of our supply and gives us access to unique coffees. But it's a lot about building a sustainable coffee industry and we're definitely dedicated to that.

Let's talk about Teavana. So Teavana, what we're doing with Teavana and tea is similar to what we did with coffee in our stores with the Starbucks brand. So we're focused on elevating the tea category in our Starbucks stores and we've had a lot of early success. We launched Teavana in Starbucks stores I think roughly 18 months ago. It's driving significant revenue growth. So we saw tea sales up 12% in our North American stores with Teavana. It's contributing to comp growth. So three out of the last four quarters we've had a full point of comp from tea. That hadn't been the case for previous years. Even though tea's been a big part of our beverage sales, we hadn't been growing it significantly until we introduced Teavana.

And we're increasing attach. So we'll talk in a minute. But that afternoon day part, having the innovation, the authority, the capability we have around sourcing and recipes and marketing for Teavana teas allows us to offer hot teas and iced teas in the afternoon. And obviously, iced teas is a beverage that you would attach food to more readily. So if you come in for an iced tea you might attach a sandwich to it. Or if you come in for a sandwich at lunch for Starbucks you might more readily attach iced tea. And that's what's helping with both food attach and overall sales growth in the afternoon.

So Teavana, building brand and lots of opportunity as we look forward in the US stores. Then as we get into the later part of 2016, we'll start rolling the Teavana brand out internationally with the goal over the next couple of years to have Teavana in all of our Starbucks stores worldwide.

Next is talking about day parts. I think many of you know this story. But just to give you some numbers. Over the last five years we've seen significant transaction growth -- this isn't ticket, this is just transaction growth, cumulatively over the last five years up 22% in the morning day part. And so I think a lot of people thought Starbucks at peak couldn't add anymore or didn't have anymore capacity. But through a lot of hard work by Cliff Burrows who runs our Americas business and his team we've improved routines at morning. We've improved throughput. We've improved attach. And with Mobile Order & Pay we're about ready to take that to another level.

So the morning continues to grow quite nicely, up 22% over the last five years. But that midday part, while a bit smaller than the morning day part, up 30%. So lunch and afternoon is something that were increasingly relevant to our customers. And food is a part of that. But so are things like cold brew, iced beverages and iced tea. Then in the evening, early days for an evening program. We have plans there. We've seen nice growth but we think that's day part where we have lots of capacity and we have started to roll out the evening's program in hundreds of stores and that will continue as we move through time.

But what -- I want to say a little bit around lunch. What we've done with lunch and with breakfast is we've up-leveled our food offering significantly. So a few years ago food was probably 17% or so of total revenue in the US business. It's now up to 20%. So growing about a point a year. And the goal over the next five years is for food to get to 25% of total sales in Starbucks. It would be a lot easier if beverage would stand still. But beverage is growing a lot as well. But we're increasing food relevance in all day parts. So breakfast sandwiches in the morning. Something -- we've had breakfast sandwiches for a long time with La Boulange and some of the innovation we've done there. We've seen breakfast sandwiches' sales double over the last three years.

At the lunch day part things like Bistro Boxes. I think much better fresh sandwiches, much better warmed sandwiches. Many of our stores now have the large chill case as opposed to the smaller case that's underneath the pastry case and that large chill case makes it easier for customers to see the food. We can offer more fresh food and grab-and-go becomes more convenient and all of that is contributing to that 30% day part growth.

I still think lunch has a lot of opportunity. I still think there are things we can do with limited time offerings with food, continuing to up level and offer a broader range of both more indulgent things as well as better-for-you options. We've had some good traction recently in sort of a snack-based program in the afternoon where you see more grab-and-go options in Starbucks, where you can grab something either at the POS or somewhere else in the store and take it with you. So lots of things to come still at lunch.

The next strategy is around store growth. And just a reminder: roughly a little less than 10 years ago we opened 2,500 stores with 70% of those stores being in the US. As we look forward to 2016 we'll open 1,800 stores and 70% of those stores will be outside of the US. About half of them in China/Asia-Pacific. We've gotten much better at international store openings. We'll talk a little bit about domestic openings which, frankly, we've sharpened the pencil and gotten much better at that as well. But there's still significant opportunity for store growth in countries such as China and Japan. And I want to talk a little bit about China and Japan just because a lot of our store growth is there. And China and Japan represent two of our largest markets, obviously; Japan being our second largest by revenue now that we own the whole thing.

In China in 2015 -- sorry, in CAP in 2015 we had 9 points of comp growth. China was higher than that and all of the comp growth in China is traffic. So we're driving significant traffic growth in China. The new stores that we opened in 2015 are every bit as profitable of any store class that we opened. We're growing our store portfolio in China at about a 30% a year clip. That's what it's averaged the last couple years. That's roughly what we're targeting as we move forward into 2016.

And the consumer response in China for Starbucks remains strong. So we're seeing a building day part in the morning. It's mostly an afternoon day part. We're seeing significant traffic. Tier one and tier two cities. As we open more stores within those markets those stores continue to perform really well. We see no evidence of cannibalization. In tier three and tier four cities, as we enter those cities and add stores to those cities, they're still opening up with lines around the block and very strong AUVs and overall profitability. And the profitability at the store level in both China and Japan is right up there, or even slightly better than what we see in the US. So lots of opportunity in China.

As we talked about on the most recent conference call, we're not seeing a significant impact from the economic slowdown in China. Now, we're watching it and we understand that that's out there certainly in the market. But we're not seeing it in our traffic and we're not seeing it in our customers. Our traffic in the Fourth Quarter of this year was pretty comparable to the traffic of the Fourth Quarter that we had last year. So there's some seasonality in the Fourth Quarter for us. But pretty consistent two-year traffic comps in Asia-Pacific and in China. So a great result right now in China.

In Japan. So we bought back the rest of the market that we didn't own. Significant opportunity within our company-owned stores in Japan. We've averaged about 4 points of comp growth over the last few years in Japan. And since we've taken ownership, that's actually accelerated a bit. So we've seen, particularly over the summer, a really strong limited-time offering with several different specialty Frappuccino drinks and we're seeing continued success and traction in Japan. We'll lean in a little bit at the pace of store openings.

And importantly, there's significant opportunity outside of our company-owned stores in Japan now that we own the market entirely. So licensed stores. We have very few licensed stores in Japan compared to what you would see in the US, UK and Canada. That's a big opportunity. We have opportunity in food service. So think about at work, hotels, places like that. And significant opportunity in CPG and we're just getting started to unlock those opportunities in Japan which, again, is our second-largest market in terms of revenue right now.

Then in the US. And so again, I think a few years ago people would have thought we were saturated in the US and that you couldn't open another Starbucks without having to expand into the walls of the Starbucks it was sitting beside. But what we've learned is there's significant real estate opportunity in places that five years ago we wouldn't have thought about opening a store. And there's significant real estate opportunities within existing markets in traditional Starbucks location targets as well.

So using things like drive-thru onlys has allowed us to get on or close to interstate off ramps. It's allowed us to get into industrial areas where there's no foot traffic but there's enough vehicle traffic to drive significant profitability. We've shrunk the format. Down on Wall Street we have what we call our express store format. It's about a third of the size of a normal Starbucks store and it's already doing about the same level of revenue as an average Starbucks store and it's literally across the street from a large Starbucks store with no cannibalization. So we're capturing incremental occasions, incremental transactions and really seeing no net cannibalization.

Drive-thru stores. I think most of you know stores that have both a cafe, eat-in and a drive-thru, the vast majority of the stores that we opened in the US over the last few years. We'll continue those stores. They tend to drive higher profitability and higher revenue. Then we're flexible in formats with things like mobile trucks. We have stores on trains. We have stores that you can ski up to. Everywhere that we think there's opportunity we are flexible in how we approach that market.

Importantly, our stores all have locally-relevant design. Our designers are really great at integrating a locally-relevant design. Whether you're in China or in Omaha, we're able to sort of adapt our store format to pick up what's locally relevant in the geography and I think we're getting increasingly good at that and driving some great design concepts.

Then larger-format stores. So we'll have a few roasteries. We'll have more than one in Seattle. We talked about the Reserve stores. Those will be a larger store format. Again, a little bit of a different occasion, the higher premium coffee experience for customers that want to come and stay longer.

Okay. Let's talk about channel development and CPG. CPG grew at 14% in the most recent quarter. Had a little bit of FX in there, 2 point of FX. So really closer to 16%. So really a great year for channel development in the quarter. 80% of US coffee occasions don't occur in coffee shops and so our goal as CPG is to take Starbucks product, Starbucks brand and the excellent quality of Starbucks coffee and allow our customers to enjoy that wherever they work, live and play. And so we have 500 signature aisles in various grocery stores. And signature aisle is really an up-leveled space within the store. If you were to look at it, you would see signage that actually reflects and looks a little bit like the signage you would see in a Starbucks store. There's some of the wood -- you can see a little bit in the picture here some of the wood accents are similar to what you would see in a Starbucks store. But as you walk up to these signature aisles you can see VIA, K-Cup, packaged coffee. And we see a significant increase in sales as we've rolled out signature aisle. So our grocery customers love it and we like it as well.

21 million Stars now awarded down the aisle. So these are people buying packaged coffee and entering in Star codes to get their star credit. And just so you know, Stars is related to our My Starbucks Reward Program in case you didn't know. It takes about 12 Stars to get a free drink. So if you do the math, we're pretty close to 2 million free drinks earned on packaged coffee down the aisle. And we don't yet have

Star ability on K-Cup packages. So that's something that we're continuing to work on. But as we roll that out that's an additional opportunity.

We're the share leader in the most recent quarter in both roasting ground, premium roasting ground and in K-Cups. That was the first time we've had that happen, which is great. And we have a significant international opportunity. So we've signed deals in the last nine months or so with Tingyi in China, which is a massive manufacturing and distribution company, to help bring Starbucks products like bottled Frappuccino to that market and increase our points of distribution. And in Latin America we extended our partnership with PepsiCo, which has our North American bottling and distribution operation for bottled Frappuccino and DoubleShot and things like that and now gives us access to the huge Latin American market. So as we get into 2016 we'll start to create the right kind of locally-relevant recipes working with those partners and then distribute out into points of distribution using their network.

And last but not least on the strategy side is our unique and powerful digital ecosystem. And I think what's important is to understand how things all link together and how integrated our proposal is here and how difficult it is for anyone to match. And also how beneficial it is -- most importantly how beneficial it is to our customers.

And so the first -- the lynchpin, the foundation of it is really our store network and our customer network. So we have 23,000 stores around the world. We do 80 million transactions every week. And so that gives us a lot of sort of network effect with our customers to entice them to do more transactions with us. It's convenience. It's the service that's provided by all of our fantastic partners in the stores, the Starbucks experience. It's frequency and being relevant to those customers in our store network.

Off the back of that we have a massive card program. We had $5 million in card loads during 2015. One in seven adults in America got a Starbucks card. I always tell people I get Starbucks cards from people. Like everyone gets a Starbucks card. 35% of transactions are on some form of the card, whether that's mobile or a physical card. And what that allows us to do is build off that customer base and that card interaction and drive loyalty. So we have 10 million active loyalty members in the US. That's up 28% in the Fourth Quarter from the same quarter a year ago. And it's very high value and -- a high value to our customers and efficient cost to us.

So the average reward redemption of the Stars that people earn is a little less than $5. So for a relatively low transaction amount there's a huge desire for customers to get that free coffee and it's because of the frequency and the quality of the service and product that we provide. And what I would say is, if I was to walk out and hand out 100 $5 Starbucks cards I bet 90% of those cards would be redeemed either by your or someone you know. If I was to walk out and hand out $5 cards for an airline, a hotel, premium restaurant, I don't think we'd see a 90% redemption rate. And so the relevance and the frequency and the convenience of the Starbucks card is what really drives power to the program. So we convert the gift cards into loyalty card customers. Those customers spend several times more than non-loyalty customers at Starbucks and drive more dollar profitability.

Then our mobile app, one of the most downloaded apps out there. 21% of our transactions in the US are done -- payment transactions are done on the mobile device. I guarantee you in the US there's no one else even close as far as the number of mobile payments. It's got convenient features like store locator, menu. And obviously the app and the stability of that app and the way that it's integrated into our store network allows for Mobile Order & Pay. So Mobile Order & Pay completely integrated into the technology stack so that it has locally relevant menus based upon what store you're ordering from. It goes right into the POS in the store so that the partners have the exact same experience from those mobile orders. There's no separate place in the store to order. If something needs to be researched on a mobile order, the partners go right into the POS just as they would do a transaction that was done in the stores. They're able to adjust the transaction. They don't have to go out to the cloud and access some -- a separate server. It's all fully integrated. A label printer is done. It goes out through the exact same production line as an in-store order and off to the same hand-off plane. So everything's sort of seamlessly integrated from a customer and product standpoint.

That bridges to delivery. So in Seattle over the next month or two you'll be able to order, pay and then have spot -- not Spotify. But Postmates, sorry, Postmates deliver it to you wherever you are, your office or home. And that's a test for us and we'll see how that goes but, again, all integrated into the app. Then by the end of the year we'll roll out some functionality through our partnership with Spotify. So we've signed deals with Spotify, New York Times and Lyft where they will buy Stars from us and provide Stars to their membership to incent either membership, or ridership in the case of Lyft. Those Stars come back into the stores -- and obviously we get paid for those Stars at a full retail value. They come back into the stores with our customers so there's a chance for incrementality there.

There are other benefits in the case of Spotify. We'll work with Spotify to curate a playlist, a unique playlist for every store that our partners can vote on the playlist. They can modify the playlist within certain sort of limits and over time really create a unique radio station in each and every Starbucks. Customers can like songs. They can influence what's played in the stores. They can access information about what's playing overhead. And all of that, again, integrated into our app.

So lots of opportunities. And I would say those three deals are just the beginning. We're truly just getting started here. We have some exciting things that we'll announce as we get further into fiscal 2016 around this program and we have lots of ongoing discussions to do additional partnerships here.

Okay. A couple more points on financials. Operating cash flow growing nearly 30% a year over the last few years. Importantly, we've seen significant leveraging on our cost of goods sold line. So we set out a year ago a challenge to take $1 billion or get a $1 billion of leveraging in cost of goods sold. We hadn't expanded our gross margin for several years. In the most recent year we saw somewhere between 75 and 100 basis points of gross margin expansion. We'll see a similar amount as we head into 2016. As far as the $1 billion goes, we've got a little over $200 million of that savings in 2015. We'll have a similar amount in 2016. And as we exit 2016 and look into 2017, I think there's a chance for that to accelerate. So we're right on track for the $1 billion. We're driving gross margin expansion and leveraging cost of goods sold for the first time in quite a while.

And we've increased cash returned to shareholders. So this is obviously a good net result of everything that I've talked about. Up 50% in 2015. The dividend was up 22% in 2015. It's up 25% with what we've announced in 2016 and a pretty reasonable shareholder return there of nearly 400% over the last four years.

Okay, quickly on coffee. So this is a new coffee slide to try to help you guys understand coffee a bit. We get lots of questions. And I'll just walk you through the three lines here. The light green line that you see is the C price that's traded in the futures market. The white line is the price during the month, the average P&L price that we had in our P&L. So it's not necessarily the price that we purchased coffee at. It's the average price in the P&L for that month which is impacted by the inventory we have, because we have a moving average cost based upon what we have in inventory. And the black line, which is dotted although it doesn't really look like it on the chart. But the black line is the average P&L rate for the year.

So if you look at this cycle, as we headed into fiscal 2015 and actually in early calendar year -- sorry, 2014, there was a big spike in coffee prices. The good news is you can see in early 2014 coffee prices where low. We were quite long in inventory heading into that spike. So as prices rose up above $2 we dropped out of the market. We basically didn't buy any coffee at that price. If you look at that dip that happens in late fiscal 2014, that kind of saddle, we bought quite a bit of coffee in there because it came within the range that we thought was reasonable. Then when it went back up we dropped out. And the reason we did that is we have a lot of information that we get from our farmer support centers and beyond of what's going on in origin and we didn't see any fundamentals in origin that supported this coffee price spike.

Now, the coffee prices can become disconnected, C price can become disconnected from what's going on in origin. But generally that has a short lifespan and, lo and behold, it came back down as we got into 2015. So we were patient in 2014. When prices came within our strike zone we bought. We like prices that give a fair price to producers and farmers and that help our P&L and that's what we have here. We had really stable rates in our P&L, up a little bit in 2015, down a little bit in 2016. We really don't want prices to bounce around because we're not going to move prices like that to consumers in our stores. So this is a really good result. Pretty low coffee costs in the P&L, fair prices to farmers and good stability.

The last thing I'll say is I don't know if we'll be able to pull this off every year. I think we knew what -- we had a plan and the markets fell within that plan. But again, speculation can disconnect the market and we might not always be able to have this result.

Okay. Just a last slide quickly on our targets. So mid-single-digit comp growth. We'll be a little bit higher than that this year we think given the momentum we have. Double-digit revenue growth. EPS growth on a non-GAAP basis 15% to 20%. And a ROIC of at least 25% and our goal is to grow that by 50 to 100 basis points every year.

I'm out of time and thank you so much.