

## Sanford C Bernstein Strategic Decisions Conference

### Company Participants

- Howard Schultz, Chairman, President. And CEO

### Other Participants

- Sara Senatore, Analyst, Bernstein

### Presentation

#### **Sara Senatore** {BIO 16508078 <GO>}

I'm Sara Senatore, Bernstein's restaurant analyst. And I do feel very fortunate to be joined up here by Howard Schultz, Starbucks' Chairman and CEO. We have in the audience Starbucks' CFO, Scott Maw; and also JoAnn DeGrande, who heads up Investor Relations.

I will introduce a company that really needs no introduction. But I'll say a few words about Starbucks and about Howard. Then he is going to give us his vision for Starbucks. And I think what I'd like to ask people to do is to fill out some of the question cards while you're listening.

So formed in 1985, Starbucks is the premier roaster, marketer. And retailer of specialty coffee in the world, operating in 65 countries. Starbucks purchases and roasts high-quality coffees that it sells, along with hand-crafted coffee, tea. And other beverages. And a variety of fresh food through nearly 12,000 company-operated stores globally.

Starbucks also sells a variety of coffee and tea products and licenses its trademarks through other channels, such as nearly 10,000 licensed stores, grocery. And food service.

In addition to the flagship Starbucks coffee brand, Starbucks also sells goods and services under the Teavana, Tazo, Seattle's Best, Evolution Fresh, La Boulange, and (Ethos) brands.

Howard is Chairman and CEO. He first walked into a Starbucks in Seattle's Pike Place in 1981. And in 1982, he moved from New York and joined Starbucks, as Director of Operations. He left Starbucks for a short period of time to start his own coffee houses but returned in August of 1987 to purchase Starbucks with the help of local investors.

He's been Chairman since 2000. But he resumed the role of President and CEO in January of 2008. And since his return -- I think we all know -- he's led a transformation of the Company. Howard is also the best-selling author of For Love of Country, Onward. And Pour Your Heart Into It.

So I know that we're all very interested to hear what Howard has to say. And I hope to have a very robust discussion afterwards. So thank you, Howard, for being here.

**Howard Schultz** {BIO 1432255 <GO>}

Thank you. Good afternoon. And thank you very much.

It's always humbling to hear someone describe what you've done and who you are. In my own words, let me share with you where Starbucks is today. And probably most importantly for all of you, where we're going.

As we assemble here today, there are approximately 22,000 Starbucks stores in 67 countries. Last week, over 80 million people passed through Starbucks stores.

We are employing over 300,000 people who proudly wear the green apron. And I think the market cap of the Company today -- I'd asked Scott and JoAnn -- I was here two years ago. And I think the market cap for the Company in the last two years is up about -- over 60%. So we're pretty proud of that.

No matter how you look at the Company in so many different ways, we've tried to build a different type of business -- not better than anyone else. But really different. And that is, trying to balance, in a fragile way, profitability and shareholder value with conscience and benevolence.

As many of you know, we're the first company in America to provide comprehensive health insurance way before the Affordable Care Act to all of our employees; equity in the form of stock options in this past year alone; the first company in America to provide free college tuition, first for juniors and seniors. And then we came back about four months later and opened it up to freshmen and sophomores.

We do all these things because we strongly believe that what we're trying to do is really elevate the equity of the brand. And to do it in a way that demonstrates authenticity and truth. But above all else, we've come to the conclusion over many, many years that our brand is defined quintessentially by the experience in our stores. And our stores come to life by our people.

The last few years have been remarkable years for the Company. I've spent the last day and a half, though, just looking at real estate and meeting with principals in New York. And I can tell you that I honestly believe that our best days are ahead of us, in terms of the growth and development, the social impact we can have, the equity of the brand; and obviously, we strongly believe that we can maintain at least for the next five years a minimum of 10% revenue growth along with 15% to 20% EPS

growth. And at the same time doing everything we can to create the kind of innovation that is customer-facing and really, I think, differentiates us from everybody else.

I think a good example of the innovation and what we've done in the last few years has a lot to do with mobile technology and what we've been able to do along those lines. Let me share that with you and specifically get into what we announced last week with regard to our new relationship with Spotify and why that is a proxy for what's to come.

When I was here two years ago, I began to outline a strategy of recognizing that we were installing 2D printers in our store to be able to interface with smartphones and specifically be able to create a mobile-payment transaction in our stores.

Not only were we one of the first companies to recognize that opportunity. But moreover over the last couple of years, demonstrate the velocity, the relevancy to the fact that that is a changing component of what is driving the velocity and the robustness of our business.

To put that in perspective, almost \$2 billion was loaded either on someone's phone or their Starbucks gift card in the Christmas quarter ending December 31. And then over \$1 billion in the quarter that followed. Nineteen % of all tender at Starbucks is happening through mobile payment.

I don't think there's a company in the world that's doing a million mobile payments a week. And we are approaching 20 million mobile payments a week.

Now, those numbers don't mean anything unless you can really demonstrate that it is having an incremental effect on your business. And I can guarantee you that it is.

And the reason it is, is that we cracked the code on integrating mobile payment, mobile transactions, with a very interesting and relevant rewards program, which is embedded in everyone's phone, which internally we call Stars as Currency.

Those Stars and the rewards of those Stars have created a level of relevancy and stickiness and (incrementality) that we can measure very distinctly, that is driving our business.

And if you just look at last quarter, when we had 7% global comps and 3% traffic, those numbers on our base of stores is almost unparalleled. And that is also taking into consideration that we're cannibalizing in the US about 25% to 30% of our stores in terms of our A locations; and those stores are doing extremely well -- so much so that in the last three consecutive years, those class of new stores are performing better than the year before. And this last year's class of new stores is the best new class we've had in our history.

But getting back to mobile payment and Stars as Currency. We believed that once we got to scale that Stars as Currency would have as much relevancy outside of the ecosystem of Starbucks that it has internally.

And what I specifically mean by that is that we can demonstrate to a prospective partner that if, in fact, you rewarded your respective customers with Stars, that your business would probably go up. And if you were in the subscription business, you would have less churn. And you would get more customers.

So last week, we announced the first of what I believe will be many, unique partnerships in which the ecosystem of Stars as Currency will be external to like-minded companies and brands whose customer base is analogous to us.

The Spotify example is this. Spotify will be buying Stars as Currency at a wholesale level, which will provide Starbucks with a new source of revenue -- not the kind of source of revenue that's going to move the needle. But a new source of revenue.

Those Stars will be rewarded to existing customers. But the big idea is, there will be an incentive for new subscribers to sign up and receive Stars as rewards. The incrementality will come as a result of the fact that the only place in the world, at least up until today, that you can redeem those Stars is at Starbucks.

Over the next 12 to 18 months, I would suspect that we will be announcing a number of partnerships that will be emblematic of what we did with Spotify, that will create this external ecosystem of Stars as Currency and that also will bring added value to those new customers in their representative relationships to that company, as a result of being a My Starbucks Rewards member.

So this is the beginning of leveraging the ubiquity of Starbucks, the relationship we have with millions of customers who are in our rewards program and are using their smartphones. And obviously the iconic nature of the Starbucks brand and the relevancy of Starbucks Stars.

New, domestically, we are still opening up many, many stores. There were many people in this room probably a number of years ago who thought, perhaps, we were reaching saturation. I can tell you that is not the case. Our US business is as strong as it ever has been.

But perhaps the biggest headline for Starbucks in terms of growth and development is what's happening in Asia-Pacific and specifically in Japan and China.

I highlight Japan because we acquired that business back from our JV partner after 15 years. We have over 1,000 stores in Japan. We believe Japan can be a much, much bigger market in terms of number of stores. And also we believe that we will create new channels of distribution which we could not do under the relationship with the existing partner.

And since we bought back the business, we are accelerating the (unit) economics of that business. And just in the last few months, our comps and the numbers are better as a result of our ownership.

But the big idea is what's happening in China. We've been in China now over 15 years. We have over 1600 stores in 80 municipalities. With no exception, every municipality in which we've opened Starbucks stores has worked. The unit economics of Starbucks China, I think, are best of class of any company doing business in China.

And as I said to a group just a little while ago, as strong as our business is in China -- and we will have thousands of stores when all is said and done -- we have not yet cracked the code on the (morning) day part, which is beginning to come. We are changing behavior and educating local Chinese. And the morning day part will certainly evolve into the business in China.

If you look at Asia-Pac as a separate business unit, in terms of the growth and development, we are in the nascent stages of what we believe will come.

The innovation that Starbucks has had as a Company that's been in business for 40 years and public for over 22 I think has been the engine of the Company. The innovation of store design, segmentation, identifying new need states and new day parts as a result of what we've been able to do has given us average unit volumes that we never believed were possible, approaching \$1.5 million now.

When we went public in 1992, the average volume was \$500,000. The market cap was \$250 million. And we thought we hit the lottery. I think today with 22,000 stores and the level of innovation, the iconic nature of the brand all over the world. And what we've been able to do, we believe that we have the license and the capability to do many things that are beyond the four walls of our stores.

What do I mean by that? Well our CPG business is having another very strong year domestically. We are extending that business to multiple channels of distribution outside of the markets that we have not been in before.

As a result of the tea category, which is a \$100-billion global category -- as many of you know, we acquired Teavana. We're now integrating Teavana-branded beverages inside Starbucks. It's the fastest-growing product segment inside Starbucks. We believe Teavana stand-alone stores will be a big idea, not only in the US, where we have about 330 stores, or so. But a much bigger idea in Asia, over time.

The relationship that we're building with customers as a result of Mobile Order & Pay, which is a new idea -- we have now have 650 stores in which customers are ordering ahead and getting their Starbucks coffee -- that will be nationwide before the end of the calendar year. That's proving to be incremental, as well.

But the information and the data that we're getting from that and what's happening with just mobile transactions -- and then we're bringing delivery, first to the Empire State Building in New York City and areas of Seattle -- these are all areas that we believe will drive incrementality into the business.

When I say our best days are ahead of us. And you think that might just be a line. And here's the CEO standing up talking about that -- I've been in this business more than half my life. I've never been more passionate, more enthused about what we're doing and what I think is possible.

I also realize more than ever that we have a responsibility as a Company to not only provide you with the shareholder value that you deserve but also to do everything we can as a Company to bring our people along with us on this journey, to do everything we can to support the communities in which we're doing business. And to have significant social impact and to demonstrate, unfortunately, that Washington is not providing leadership that we all deserve and that businesses and business leaders need to do more for their people and the communities we serve.

So on one hand, we are very, very proud of what we've been able to do over the last couple of years in terms of providing shareholder value -- and we think that our best days are ahead of us. But we also believe on a personal level that we have a lot to do to bring our people along with us on this journey and to do everything we can for the communities we serve.

And that goes back to the original business plan of Starbucks to achieve the fragile balance between profitability and benevolence. Thank you.

## Questions And Answers

### **Q - Sara Senatore** {BIO 16508078 <GO>}

Thank you, Howard. So much ground to cover. But let me start with Mobile Order & Pay because I think that's the thing that I get the most questions about because it's certainly the initiative that New Yorkers are most eager to see, because -- well, the demand is so high for Starbucks. Should we think of it in terms of the magnitude of incrementality similar to My Starbucks Rewards? How transformative is it. And where are you seeing the benefits? Is it traffic, is it ticket, is it new customer adoption? Just talk about it broadly.

### **A - Howard Schultz** {BIO 1432255 <GO>}

So we basically have been in two markets, Portland and Seattle. The interesting thing about Portland and Seattle -- Seattle is performing at a higher level than Portland. And Portland was meeting our expectations.

But the interesting thing about both those markets is, unlike New York or Chicago or LA, those markets do not have the density in which Mobile Order & Pay would really be a primary vehicle of satisfying the needs of our customers.

So our own research strongly suggests that Mobile Order & Pay is going to be much more relevant and much more incremental than it even has been in markets that we're now in.

We have our own internal metric of what Mobile Order & Pay will do. We are exceeding it. And it clearly will be an incremental driver of traffic, of throughput and speed of service. And fun for the customers.

If you haven't seen the app -- one of the beauties of the app is, when you do order through your phone, it prompts you and asks you whether or not you're driving or walking. And if you're driving, it'll tell you exactly how many minutes you have to get to the store you just ordered by. And if you're walking, it'll do the same.

It has been fun for our people. We've had no operational glitches whatsoever. It's actually been easier than we thought. But we've been planning this for a year.

And I should also say that -- I noticed that there are other companies within the retail food-and-beverage space that are jumping on Mobile Order & Pay and things that we have been doing.

Without criticizing, I would just say that -- in many cases, they are bolting that on to a system that is not integrated into the foundational IT of the company.

The beauty of Mobile Order & Pay is it sits on the IT stack foundationally of what we're doing with mobile payment and rewards. And so will delivery.

So all of this is seamless for the customer. And we are already working on the next evolution of innovation that will come after we roll out Mobile Order & Pay nationally.

**Q - Sara Senatore** {BIO 16508078 <GO>}

So when you talk about the integrated -- because it does feel like Starbucks has certainly been ahead of the curve in restaurants, in particular, on this kind of technological innovation -- ultimately one of the things that we saw with My Starbucks Rewards is people -- you can use the card or you can use the app. And people like using the app -- when we think about now -- everybody who has the app, is this going to be seamlessly integrated, it's just going to be -- you know, we don't have to download something new, we don't have to use it differently --?

**A - Howard Schultz** {BIO 1432255 <GO>}

No. It's a seamless transaction with the customer. But I think the rhetorical question with regard to the app and things like Spotify is, what else we're going to be able to do to integrate Mobile Order & Pay, My Starbucks Rewards. And Stars as Currency into a number of ways in which we're going to incent and reward our customers. And also create unique partnerships that will benefit as a result of our customer base and the relevancy of who the Starbucks customer is.

**Q - Sara Senatore** {BIO 16508078 <GO>}

Would you consider partnering -- I mean, you mentioned, right now the only place that accepts Stars as Currency is Starbucks. Is that something that you entertain the idea of making it a broader currency and expanding it to other retailers, partners?

**A - Howard Schultz** {BIO 1432255 <GO>}

I think it's a very interesting question. I think we have been very fastidious over the years in protecting and preserving the equity of the Starbucks brand.

I think it's a natural question as to whether or not we would open that up. And if we did -- and I'm not saying we would -- it would not happen for quite some time.

**Q - Sara Senatore** {BIO 16508078 <GO>}

Okay. So this is -- the next (18) months, we should expect to see more things like Spotify?

**A - Howard Schultz** {BIO 1432255 <GO>}

Yes. There will be a number of partnerships that we will announce that will, I think, demonstrate the unique opportunity we have to benefit from the partnerships that are emblematic, like Spotify.

**Q - Sara Senatore** {BIO 16508078 <GO>}

Let me shift gears just a little bit. You mentioned you've been able to seamlessly integrate Mobile Order & Pay. And I think that's one thing that's been very impressive at Starbucks. As the sales layers have expanded, as the technological development has arisen, the throughput seems to keep getting better. Is there at any point a risk -- and maybe in this context, let's talk about the food and the expanded day parts -- is there any operational risk, or how do you ensure that this stays such a -  
-?

**A - Howard Schultz** {BIO 1432255 <GO>}

Well it's a good problem to have, to have stores so busy. But it's not good customer service to see lines out the door and then see some people leaving.

So what are we trying to do? I think Mobile Order & Pay is a remedy. But it's not the total answer. The overall answer is that we have been able to develop a number of different types of stores, different sizes, shapes, that meet the customers where they work, where they live. And where they play, that in a sense has cannibalized our stores physically. But has not cannibalized our stores in terms of business.

So a great example of that is, we were visiting -- Scott, what's the exact address? (inaudible) -- 14 Wall Street. So we were all marveling at a new store we just opened -  
- internally it's called an express store. That's not the external name -- of could we



basically self-cannibalize stores within Wall Street that are so busy. And what would happen?

So we opened up this store that's less than 500 square feet 30 yards away from a core Starbucks store. And we modeled that we would take maybe 10% to 15% away from that store. But it was worth it to provide the service to our customers.

Now, the store has been opened, like, three weeks. I saw it for the first time this morning. I looked at the numbers. And I can't believe the volume and the transactions in that store in a space that small. I had to see it myself. But the big headline is, we've had zero cannibalization from the store 30 yards away.

So the answer, I think, is that we have been able to demonstrate in cities all across the world that the market is much bigger than we once thought, that the demand for Starbucks coffee is greater than what one store can fulfill. And that different customers have different need states -- and the need state in the morning on Wall Street is speed of service and throughput. And we are fulfilling that need.

On the other side of the equation -- many of you were in Seattle for our investor day. And you saw the future of the Company, in terms of retail. And that is the Roastery.

For those of you who have not seen it, it's approximately 15,000 square feet. That's 10 times larger than an existing Starbucks store. We are roasting coffee in the store. And we basically said, we want to create the Willy Wonka of coffee. And we want to take our customers literally on a magical carpet ride.

But what we're doing in the Roastery is building a new super-premium brand called Starbucks Reserve -- not unlike the wine industry, the fashion industry, the automobile industry, we think we can create this super-premium experience.

It's a coffee-forward experience. It's more expensive. But the drama, the theater, the romance, everything that happens in that space is at a much, much higher level. Literally, it's like a Disney ride.

That store opened with great fanfare. It's been open over six months. The volume of the store, the customers -- it is on fire. And as a result of building the Roastery, we've identified global cities around the world, including New York, that we will bring the Roastery to. But we're also going to create a new business unit within Starbucks called Starbucks Reserve Stores.

These stores will be about 3,000 square feet. We've identified about 500 units that we can open. This is at a higher level. And we're also going to integrate Starbucks Reserve beverages and coffee by the pound inside existing Starbucks stores as we make those premium artisan coffees available.

So on one hand, you've got a 500-square-foot express store in Wall Street; on the other hand, the other extreme is this 15,000 square-foot Roastery that is a retail-merchant's dream in terms of the experience and the theater that's going on. And we think that this is an opportunity to use our scale and our ubiquity for good and demonstrate the innovation.

It also -- the Roastery is an innovation engine for other beverages, other products, other store designs that we think will help the mothership, because it's a giant halo on the brand. The next Roastery will open in calendar 2016. And we'll announce that city in the months ahead.

**Q - Sara Senatore** {BIO 16508078 <GO>}

I think that's a good segue to a question, which is -- actually addressing the internal process -- you know, Starbucks is a constant innovator. Can you describe how the idea of Stars was created, discussed, finalized? Give us a little bit of -- did it spring fully formed from your head like Athena, or was it something that was more of a collective or over time? I guess, just give us a little window into how Starbucks remains so relevant.

**A - Howard Schultz** {BIO 1432255 <GO>}

Well let me say at the outset -- I said on a conference call, probably two years ago, that we were all witnessing a seismic change in consumer behavior. And those of us that are in the bricks-and-mortar retail business are going to face challenges the likes of which we've never seen, primary as a result of E-commerce and mobile shopping -- less people in malls, less people in the street. And as a result of that, we have to drive traffic.

Now, way before we talked about that publically, we were anticipating and beginning to see it. And we have to drive innovation at all levels of the Company -- product innovation, store innovation, new concept innovation, all kinds of things.

And I would say that the innovation of Starbucks is not one person. It's not one group. The entrepreneurial DNA of the Company, despite -- we've been in business over 40 years -- is embedded and imprinted in who we are and what we do.

Stars as Currency came to life as a result of the fact that we wanted to create a loyalty program that had real relevancy to our customers. We used mileage-plus and those things as a commodity-based thing. And we said, we don't want to be -- we don't want to create something that is commodity-skewed; we want to create something that has real value. So if you get a Star as a gift, or you get Stars, it has a greater value than the face value.

And I think these things just came up as a small group of people leaning in on what we have to do to recognize that every one of us. And everyone in this room -- if we embrace the status quo as an operating-business principle, we're heading on a death march.

And we have to recognize that as good as we've been and as strong as our business is, it is very fragile. And it's not an entitlement. We have to earn it and earn it every day. And one of the ways in which we're going to overcome these challenges that are coming as a result of consumer changes is innovative ways in which we can exceed the expectations of our customers.

It's not one thing. It's not one group of people. It's everyone at Starbucks. And not everything works. I think -- you know, we have failures. We fail fast and move on.

I was asked in a meeting earlier today about Flat White, where did Flat White come from and what a great success -- and I raised my hand and said I got to be honest with you. I was not that thrilled with what Flat White was going to be. I didn't think it was a big idea.

I was wrong. Flat White has been a runaway success for the Company, primarily because of the pride and the artisan nature of our partners being able to create and customize the milk and the steaming of the milk and what they're doing with that beverage. I underestimated what it would do. And I think there's a unique opportunity to leverage Flat White in other ways for the Company.

But it's not one person. It's not always me. There's lots of people at Starbucks with big ideas. And we are trying to encourage, as large as we are, a very strong entrepreneurial aggressiveness to really doing things that people don't see.

I think one of the things we have to do as business people is, we have to see around corners and be as curious as hell. And then having the courage and conviction to make big bets.

**Q - Sara Senatore** {BIO 16508078 <GO>}

I'm glad we're talking about culture, because there are a couple questions here about risk of succession. You've been such a, I think, very visible part of the transformation. Can we talk about that? Do you feel like you've now entrenched something that will allow Starbucks to remain great when and if you decide to leave?

**A - Howard Schultz** {BIO 1432255 <GO>}

I think the quarterback always gets too much credit. And perhaps maybe too much blame. But there's such great talent inside the Company.

I am deeply committed to the Company. I'm not leaving it any time soon. I'm here for many, many years. And I've said publically before that if I had to describe Starbucks in terms of my own relationship with the Company, it's second to my family; and if my wife was here, sometimes she'd say, no not exactly.

But it's about love and commitment and the passion we have for what we're doing and trying to build a great, enduring company. And we think we're just getting started.

**Q - Sara Senatore** {BIO 16508078 <GO>}

And as we talk about the Company and management and the culture -- you just brought on Kevin Johnson as the COO. Can you just talk a little bit about what he brings to the table, how you think about the role relative to what you do for the Company. And just some insights?

**A - Howard Schultz** {BIO 1432255 <GO>}

Sure. I've known Kevin Johnson for over ten years, when he was running Microsoft's largest business. I personally recruited him to be a board member of Starbucks seven years ago.

As a board member, he had tremendous insight and perspective about IT and technology and was deeply involved as a board member, helping and guiding our internal IT team and digital team on how to create the seamless interchange about mobile payment and what ultimately became our rewards program.

As President and COO of the Company, we are very fortunate to have him. He was the COO of Juniper. And as I said, ran a very, very large business at Microsoft.

What he's bringing to the Company is something important. And that is, whatever business we are in, everyone in this room has to recognize that technology is driving how our customers and consumers respond to what we're doing. He's bringing a level of insight and perspective to IT and technology that we've never had before. And I think in the coming months and years ahead, you will see tremendous impact from him.

Above all else, I think we are a values-based Company and culture. He understands the guiding principles and values of our business, as a people person and as a great leader.

His office is connected to mine. And what I mean by that is, we have two offices with a hallway that connects our offices. We're talking many, many times a day. We're co-authoring the strategy of the future of the Company with a number of other senior leaders.

He's traveled around the world already and immersing himself in the business and meeting leaders and is bringing great maturity and strategic thinking to the Company, along with another very senior person named Matt Ryan, who is the Head of Strategy at Starbucks, who we recruited two years ago from Disney.

That combination with Scott Maw as our CFO and other people at Starbucks -- you know, we are -- I think we recognized earlier, maybe three or four years ago, that we had a higher ahead-of-the-growth curve, that we had to invest ahead of the growth curve. And these things are paying off for us now, especially on the senior-talent side.

These are people who have managed and been in businesses much larger than Starbucks and understand that growth is not a strategy but an outcome, that growth and success can cover up mistakes and we have to do everything we can to be anticipatory of that and drive innovation and drive the kind of growth that balances a good strategic discipline.

**Q - Sara Senatore** {BIO 16508078 <GO>}

Let's -- if I may, there's a question here that would I like to go back to, the Mobile Order & Pay. This one is asking, could it have the same impact as drive-throughs have had in the suburban markets. And I guess I'll add, are there other cities globally where you see this as a real opportunity?

**A - Howard Schultz** {BIO 1432255 <GO>}

Let me go to the latter. And then I'll come back.

I think one of the real sea changes in the Company that is taking place is that, despite the fact that we have been a global business, we pretty much manage the business through a US lens.

With the growing nature of Asia-Pac at 5,000 stores and Europe turning around and our business in Latin America and the opportunities we now have in India with our partner with Tata, it quickly became obvious to us that we had to recalibrate the lens in which we were thinking about and managing the business. And specifically, start managing the business through a global lens.

So in practical terms, what I mean by that is, a new initiative, like Mobile Order & Pay, or Stars as Currency, or even a new product, for that matter -- we are assembling a group of people around the table to ask the question, how can we thread this new initiative globally, as opposed to three years down the line start thinking about that because it's a success?

That's going to give us great leverage, that's going to give us great local relevancy. And that's a real sea change into the Company. So Mobile Order & Pay and mobile transactions is now moving around the world in a way that could not have happened a number of years ago.

In terms of comparing Mobile Order & Pay incrementally to drive-through, it's not a fair comparison. Drive-throughs at Starbucks in many cases grew revenue by 50% incrementally when you put a drive-through window or built a drive-through store, as opposed to a classic retail Starbucks store.

But I do believe that Mobile Order & Pay will be a significant driver of customer satisfaction and incrementality. And we are so early on in terms of the features and benefits of what we will integrate into Mobile Order & Pay going forward.

Mobile Order & Pay in many ways is just a blocking and tackling of the opportunity. We want to bring some bells and whistles to it and real value. And also obviously layer on Stars as Currency and unique partnerships.

In going back to the partnerships -- just if I wasn't clear, the benefit to the partnerships is that by partnering with Starbucks, Starbucks customers will get a value proposition as a result of their relationship with the other company, as a result of being a My Starbucks Rewards member.

And so what we're really doing is creating separation in the marketplace not only between us and other coffee retailers; but what we're doing is creating an opportunity to drive incremental traffic and relationships with other companies that make being a Starbucks customer and Rewards member much more valuable and much more relevant going forward.

**Q - Sara Senatore** {BIO 16508078 <GO>}

If I may, let me weave together two themes that I think we've talked about, which is the seismic change and how consumers consume and shop. And the growth in China. Because I was just there. And if anything, it looks like that transformation is happening faster in China than the US. The percentages of retail transactions online are higher there than they are here. So how does that inform your growth strategy there, or the extent to which you have physical locations versus the roll-out of Mobile Order & Pay and that modality?

**A - Howard Schultz** {BIO 1432255 <GO>}

Well first off, remember we've been in China more than a decade. And we've had the opportunity to watch other companies enter and leave China and not do very well.

The first thing we had to do to succeed in China is ensure the fact that the leadership in China were Chinese nationals. And so Belinda Wong, who runs the China business, understands consumer behavior, understands the real estate, understands the China landscape, understands government relations. And we've had many, many years of being able to evolve Starbucks.

However, the beauty of what we're doing in China in terms of our success is, you go to China and you walk into a Starbucks store. And it looks and feels like just like a Starbucks store here in America, except for local relevancy on food.

We are educating and changing behavior and teaching the Chinese about coffee and espresso and all the beverages that we are engaged in. And they're coming in ways that we did not plan on.

As an example, our physical stores in China really is a third place. There are things happening in a Starbucks China store that have surprised us over the years, because there's no meeting places, they're living in places that are small, they have a long

commute. So the relevancy of a third place and the sense of community and the iconic nature of Starbucks in China has changed the way people perceive the brand.

Twenty years ago when we went to Japan in 1996, people told me, no Japanese person will ever carry a cup of Starbucks in the street because they would lose face. You cannot walk through any city in Asia where Starbucks is located and not see the ubiquity of Starbucks cups. And as a result of that -- and the reason for that is because of the status of the brand.

Now, we have to earn that. And we have to keep making a deposit in that reservoir. And we do that by doing everything we can. So let me give you one example -- I know this is long-winded. Because of the one-child policy that has existed in China for many years, the relationship that the parents and grandparents have to the child is very, very unique is very special.

About seven or six years ago, we were having trouble not only hiring people to work in the stores. But maintaining their tenure. And the reason was that the parents were starting to think that perhaps this is not the career that you went to college for. Over 80% of everyone who works at Starbucks in China is a college graduate.

And so we started thinking, what can we do as a Company to tell our story and to make sure that the families understand who we are, the values of Starbucks? So in terms of innovation -- innovation is not only customer-facing; innovation is employee-facing, or as we call it, partner-facing.

So over the last four years, we have done something in China that I don't think has been done before. And that is, I go to China every year to hold annual meetings of parents and grandparents. You've got to see it to believe it. You're laughing. But it's no joke.

So we can't -- the room -- this room that we're in right now is too small for the meetings we have in Shanghai and Beijing. And we will have one in (shindu) in September. It is a giant ballroom with thousands of Starbucks partners, parents, grandparents, who are coming to be part of the culture and values of the Company.

Now, we do that because we're trying to recognize that we need to describe who we are and pay deep respect to the heritage of the family unit and to tell our story and make sure the parents and grandparents know what we're trying to do to grow the Company and take care of your people -- take care of your children.

And this has been something that the government has singled out as something positive and that Starbucks is doing things in a very different way than most companies that are just there to ring the register.

That's not just what we're there to do. We want to make a difference everywhere we do business. And we want to be as locally relevant as possible. And that is a great

example of one of the reasons why the success of Starbucks China has been so strong and I think is going to endure.

**Q - Sara Senatore** {BIO 16508078 <GO>}

In China, among other countries, one of the biggest -- I think one big difference is delivery is exploding. Could you talk about that opportunity globally. And also how do you have quality control? Because coffee is simply more perishable than some of these other products that are being delivered.

**A - Howard Schultz** {BIO 1432255 <GO>}

So delivery has been something that people have asked for from us for many, many years. And we didn't think we could get it right ourselves. We didn't know how to do it. How do you keep it hot? But the demand for delivery has become ferocious. And as a result of that, we started trying to find how we could do it.

And someone discovered at Starbucks that Postmates was already delivering Starbucks coffee in many cities around the country where we're located. But we were not participating in it.

So we got involved with Postmates and did a number of tests with them. And we figured out a way through our own technology and theirs that we could co-author a new foundational way to deliver Starbucks coffee in real-time. And we also figured out that elasticity of charging for it is something people will pay for.

So we'll launch Starbucks with Postmates in the Northwest. Then secondarily in the Empire State Building, we're building a remote mini-commissary in the Empire State Building where we will deliver Starbucks coffee ourselves and on a parallel basis will test both Postmates and our own delivery.

I suspect that you will see us do delivery in many cities around the world as this evolves. And we're working on ways in which we can keep it warm. We're designing vessels in which the coffee be maintained in a unique way. And I can tell you that we wouldn't do this unless we could assure ourselves that the quality and the integrity of the product would be assured for the customer.

**Q - Sara Senatore** {BIO 16508078 <GO>}

I can tell you, trading desks across New York are eagerly awaiting delivery, for sure. Since we don't have too much time, I do want to talk about channel development, K-Cups, single-serve. And in particular is the K-Cup market (still) a growth market? Is it - and what other layers, maybe geographical, do you have to maintain what has been a healthy pace of growth in that business?

**A - Howard Schultz** {BIO 1432255 <GO>}

Well it's no secret that we've had this wonderful partnership with Green Mountain and Keurig in the US. I don't know the exact statistics. But I think we have the lion's



market share of K-Cups in America. We've shipped way over a billion K-Cups since we've started.

That business continues to grow. And we view it, despite some of the things that have been said about Keurig and Green Mountain, we still view it very positively as a growth vehicle for Starbucks in terms of Starbucks-branded K-Cups in the US.

Clearly, Nestle and (espresso) have done a wonderful job in capturing the lion's share of that business in Western Europe. But the big prize for single-serve is going to be Asia.

And here's the proposition. Why would somebody in any country buy a single-serve machine if there's no brand affinity to the coffee? And as far as I can tell, the only global brand of coffee that exists at the premium level is Starbucks. The only super-premium brand of coffee that exists in China is Starbucks.

And I can check off the box in all these countries. The more stores we open, the more market share, the more quality experiences we have, the greater opportunity we have to build a single-serve business in that part of the world.

The question will be, who are we going to build it with? And we haven't answered that question publically. But we view the single-serve opportunity in Asia as a big prize that will come -- and we think we're in the driver's seat because of the equity of the brand and the affinity that people have to Starbucks.

**Q - Sara Senatore** {BIO 16508078 <GO>}

And is it the case, could Asia be as big a market for channel development as the US is?

**A - Howard Schultz** {BIO 1432255 <GO>}

I think Asia over the long run will be a bigger -- are you talking about single-serve specifically?

**Q - Sara Senatore** {BIO 16508078 <GO>}

Single-serve specifically. But even more broadly, roasting (ground), you know --?

**A - Howard Schultz** {BIO 1432255 <GO>}

I think single-serve will be a very, very large market. I don't know how to compare it to the markets in Western Europe and the US. But clearly the rising middle class, the affinity they have to Starbucks, the success we've had in every market in Asia, from Japan, to Malaysia, to Korea, to Singapore, to China, to Hong Kong, to Taiwan -- every market we have done extremely well. And all this bodes well for our ability when, not if, we get into that business.

**Q - Sara Senatore** {BIO 16508078 <GO>}

Right. So let me -- we have just a minute left. I'll ask you the kind of question that I always find very intriguing to hear the answer. Five years from now, can you give us a sense of what Starbucks will look like, whether it's geographical mix of the footprint, or what your day parts look like in your existing stores, volumes -- any kind of sense of the evolution a few years out. And I guess I'll tack on another question, which is, is the next CEO of Starbucks working at the Company today?

**A - Howard Schultz** {BIO 1432255 <GO>}

Okay. Let's go back to 1992. I don't know how many of you -- probably not many because I'm older than most people in this room -- how many of you would have thought in 1992, when we went public -- we had 125 stores, we had one quarter of profitability. People could not pronounce the Italian words on the menu. People said, what is a Grande? What is a Venti? What is that?

How many people would have thought that from 1992 to today we would achieve this kind of recognition and respect in terms of the equity of the brand and the global nature of Starbucks footprint? I suspect that -- probably not many of you.

So how did we get here? We got here literally by creating a very, very unique experience. I mentioned earlier that -- we're in a unique business because this beverage is inside you. It's not a piece of software. It's not a garment. It's inside you. It's very personal.

We also demonstrated and kind of created personalization. There's 80,000 different ways that our people can make a beverage at Starbucks, 80,000. And so people began customizing beverages and creating a language at Starbucks.

And you could say that in a way, we've altered the culture of food and beverage. And for that matter, maybe the country as it relates to what Starbucks has represented. All of this has given us the license to play and participate in different ways in which our customers live their life.

What we have to do as a Company is continue to make an investment in the core foundation of the Company, which is our retail stores and our people. And the customer experience. We do believe that there are significant adjacencies that we could participate in, as long as it adds value to the core experience, as long as it makes our people proud.

When I say I think we're in the early days of the growth and development of the business, there's obviously going to be thousands more Starbucks stores around the world. We have a tea business that is in its infant stages. We have a vehicle in terms of technology and mobile payment that we think will alter the state of retail and change the way that people interact with Starbucks and other companies. And we do believe that we have the creativity and the innovation and the entrepreneurial spirit to do other things.

But I think we should make no mistake -- we get up every single day to do one thing. And that is invest in, preserve. And enhance the equity of the Starbucks brand. And recognize day in and day out our fiduciary responsibility to meet and hopefully exceed the expectations you have of us as principals of the business.

We are deeply, deeply excited about the future and the opportunities we have. But this is very hard to do. At our scale, to move the needle, we need billion-dollar ideas to move the needle.

We were doing an exercise earlier. And I think I got this number right -- so, 1% increase in traffic is 10 million new customers a year -- that is right, Scott? (inaudible) So we added 3% traffic last quarter. We added 30 million new customers year over year to Starbucks.

Here's another factoid. In the US alone, we have less than 12% share of the overall coffee market. We have less than 1% share of the global coffee market. That's how big the opportunity is for Starbucks within our core business, not to mention the other things we're dreaming about.

The last question -- I would hope that the next CEO is at Starbucks. But I am not going anywhere .

**Q - Sara Senatore** {BIO 16508078 <GO>}

We're all relieved to hear that. Thank you, very, very much.

**A - Howard Schultz** {BIO 1432255 <GO>}

Thank you.

*This transcript may not be 100 percent accurate and may contain misspellings and other inaccuracies. This transcript is provided "as is", without express or implied warranties of any kind. Bloomberg retains all rights to this transcript and provides it solely for your personal, non-commercial use. Bloomberg, its suppliers and third-party agents shall have no liability for errors in this transcript or for lost profits, losses, or direct, indirect, incidental, consequential, special or punitive damages in connection with the furnishing, performance or use of such transcript. Neither the information nor any opinion expressed in this transcript constitutes a solicitation of the purchase or sale of securities or commodities. Any opinion expressed in the transcript does not necessarily reflect the views of Bloomberg LP. © COPYRIGHT 2024, BLOOMBERG LP. All rights reserved. Any reproduction, redistribution or retransmission is expressly prohibited.*