UPDATING THE SBUX MODEL
FISCAL 1ST QUARTER 2023 RESULTS

Starbucks Earnings Release (February 2, 2023)

Management affirmed the guidance released last quarter. As a result, there were only a few forecast changes to make this quarter. The following comments from the F1Q2023 conference call summarize the key items considered in this quarter's model updates:

- **Comment 1:** "*While we're seeing early positive signs of momentum rebuilding, headwinds related to COVID still exist in the market and are expected to impact the full Q2. As a result, we anticipate the negative impact on the operating income in Q2 to be comparable to or greater than Q1." Source: Starbucks F1Q2023 Earnings Call*
- **Comment 2:** "*Although we previously projected China recovery as early as Q3 of this fiscal year, we do not have clear line of sight into the timing of recovery and believe China's contribution as a percentage of our fiscal 2023 consolidated operating income to be lower than our original guidance assumed. Now even with that backdrop and taking into account the uncertainty of China's recovery timing, our fiscal 2023 guidance remains unchanged. As a few point of clarification on guidance, in China, we now expect negative comps to continue through the second quarter, followed by improvement in the balance of the year." Source: Starbucks F1Q2023 Earnings Call*
- **Comment 3:** *"Lastly, our guidance reflects the latest projection of foreign currency translation with approximate two and three percentage point unfavorable impacts on fiscal 2023 revenue and earnings growth, respectively. This reflects an improvement of approximately one percentage point on both revenue and earnings growth relative to our previous expectations." Source: Starbucks F1Q2023 Earnings Call*
- **Comment 4:** *"Additionally, in terms of quarterly shape, operating margin is expected to decline sequentially in Q2, near prior year level driven primarily by the COVID-related headwinds in China. We still expect margins to expand in the back half of the year, improving sequentially in Q3 and Q4 as sales leverage, pricing, productivity gains from reinvention as well as recovery in China begin to contribute to positive margin expansion as the year progresses. We continue to expect the quarterly EPS shape to roughly mirror the shape of operating margin with a sequential decline in Q2 and a meaningful step up in the second half of the fiscal year." Source: Starbucks F1Q2023 Earnings Call*
    - **Change made to the model for Comments 1, 2, 3, and 4:** To summarize the points made on the call, the China forecast has changed to be below the previous expectation, other International locations are now above the original forecast, and the expected impact of foreign exchange is less negative compared to management's previous estimate. The net impact is no significant change in the prior guidance for 2023, however, the operating margin improvement will be back-end loaded (primarily in 2Q and 3Q). The operating expense forecast for the International Segment has been adjusted to reflect the timing of the margin improvement as follows:
        - **Intl product and distribution costs and store opex F2Q2023:** Increased by 3%
        - **Intl general and administrative expense and other opex F2Q2023:** Increased by 0.5%
            - These two changes bring the consolidated operating margin for F2Q2023 to 12.5%, which is near the F2Q2022 margin of 12.4%.
        - **Intl product and distribution costs and store opex F3Q2023:** Decreased by 2.5%
        - **Intl product and distribution costs and store opex F4Q2023:** Decreased by 4%

        - These two changes result in an operating margin improvement in the last two quarters of 2023, and result in EPS growth which is in-line with the guided range.

- **Comment 5:** *"China store growth remains unchanged." Source: Starbucks F1Q2023 Earnings Call*
    - **Change made to the model for Comments 5:** China's store growth is included in the International Segment. We use the China store guidance (10% to 12%) to help inform our decision of what the forecast for the total International Segment (including China) net new store growth should be and anchor our final forecast to the total store growth guidance (which is approximately 7%). Prior to the F1Q2023 results we were modeling International store growth at 10.7% and global growth of 7%. To re-align the forecast to these estimates, the International net new store estimates per quarter were adjusted from 255 and 236 (company-operated and licensed respectively) to 273 and 257.

- **Comment 6:** *"Our repurchase program resumed in Q1 of this fiscal year and will accelerate as reinvention gains ground." Source: Starbucks F1Q2023 Earnings Call*
    - **Change made to the model for Comments 6:** Added $100M of share repurchases per quarter for the next five quarters, and increased the amount of share repurchases funded with debt from 50% to 65%. The remaining repurchase assumptions remain consistent with the prior forecast. The total return to shareholders should be revisited again at the next investor day meeting.

- **Comment 7:** *"We continue to believe that channel development will be a mid-40s margin business, which is really strong, and that's what helps us in terms of being able to reaffirm our guidance on a full-year basis" Source: Starbucks F1Q2023 Earnings Call*
    - **Changes made to the model for Comment 7:** No changes required as the margin is already modeled to approximately 45% on an annual basis, however, this is something which should be monitored in the future.

All other model forecast changes made after the F1Q2023 release:

- Capital expenditures were adjusted to re-align with the 2023 guidance.
- U.S. net new store estimates per quarter were adjusted from 61 and 68 (company-operated and licensed respectively) to 67 and 75. This was done to re-align the North America store growth to the guidance of "approximately 3%" for the U.S. (which we use as a proxy for North America).
- The Corporate & Other Segment forecast for operating expenses (other than depreciation) were adjusted to represent an average of the last four quarters.

The following bullets represent the guidance from the F4Q2022 release, which were affirmed in the F1Q2023 release:

- Global Comparable Store Sales Growth Near the high end of 7% - 9%
    - U.S. Comparable Store Sales Growth 7% - 9%
    - China Comparable Store Sales Growth Outsized
- Global Store Growth ~7%
- U.S. Store Growth ~3%
- China Store Growth ~13%
- Global Revenue 10% - 12%
- Global Operating Margin Solid margin expansion
- Capital Expenditures ~$2.5B
- Interest Expense $540M - $560M
- GAAP and non-GAAP Tax Rates Mid-20s
- GAAP EPS: High end of 15% to 20% range
- Non-GAAP EPS: Low end of 15% -20% range

As a reminder, the key guidance points from the Investor Day conference included the following:

- Global store growth of 7% annually approaching 45,000 stores by the end of 2025 (from fiscal 2023 to 2025). Growth in fiscal year 2024 and 2025 is expected to be higher than 2023.
    - U.S. store growth 3% to 4% annually (from fiscal 2023 to 2025).
    - China store growth of 13% annually.
- Global revenue growth of 10% to 12% annually (from fiscal 2023 to 2025).
- "Solid" margin expansion in fiscal 2023 with "progressively more expansion" in fiscal 2024 and 2025.
- Non-GAAP EPS growth of 15% to 20% annually through fiscal 2025.
- Share buyback program is expected to be reinstated in fiscal 2024 and provide 1% impact to EPS (net of incremental interest).
- Dividends and buybacks expected to return $20B to shareholders from fiscal 2023 through 2025.
- Dividend payout ratio of approximately 50% (which equates to an estimated yield of about 2%).
- Capital expenditures of $2.5B to $3.0B annually (fiscal 2024 and 2025).
- Debt levels likely to increase but maintain long-term leverage target of three times lease adjusted EBITDA.