UPDATING THE SBUX MODEL
FISCAL 2ND QUARTER 2023 RESULTS

Starbucks Earnings Release (May 2, 2023)

Management affirmed the full year guidance. As a result, there were only a few forecast changes to make this quarter. The following comments from the F2Q2023 conference call summarize the key items considered in this quarter's model updates:

- **Comment 1:** "…*we continue to expect Channel Development's margin to normalize in the mid-40s range towards the end of the year." Source: Starbucks F2Q2023 Earnings Call*
    - **Change made to the model:** Adjust the Channel Development operating margin down to the mid-40% range by F4Q2023, and kept it at mid-40s after.
- **Comment 2:** "*Regarding the shape of margin, we continue to expect sequential margin improvement in both Q3 and Q4. We expect Q3 margin near the prior-year level with Q4 expanding meaningfully over prior-year as we lap the significant investments in wages and benefits. Note the quarterly margin shape in Q3 and Q4 is not expected to mirror the prior year." Source: Starbucks F2Q2023 Earnings Call*
    - **Change made to the model:** No change required but confirmed the F3Q and F4Q margins aligned with management's expectations.
- **Comment 3:** *"We also expect EPS to step up in the second half of the fiscal year, improving sequentially in Q3 and Q4. We expect year-over-year EPS growth in Q3 to be meaningfully lower than our fiscal guidance range of 15% to 20% with Q4 year-over-year EPS growth slightly above the high end of our guidance range." Source: Starbucks F2Q2023 Earnings Call*
    - **Change made to the model:** No change required but confirmed the EPS matched management's expectations.

All other model forecast changes for 2023 made after the F2Q2023 release:

- Increased North America net new store assumptions slightly to realign with 3% growth guidance.
- Decreased North America company operating average store revenue slightly in F3Q2023 and increased it slightly in F4Q2023 slightly to align with management's growth rate guidance.
- Capital expenditures were adjusted to realign with the 2023 guidance.

The following bullets represent the guidance from the F4Q2022 release, which were affirmed in the F1Q2023 release and reaffirmed in the F2Q2023 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.

All other model forecast changes for years 2024 and beyond made after the F2Q2023 release:

- Slight improvement in operating margin in 2024 and 2025 to realign with management’s long-term guidance.
- Updated the debt balances to reflect the changes in maturities included in the 10-Q Footnote 8.
  - Adjusted the March 2024 note from $639M to $640.6M.
  - Added the $1B February 2026 note.
  - Adjusted the percentage of share repurchases paid for in debt from 65% to 55%.