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Overall Sentiment Summary: Slightly Positive

<u>Revenue Performance:</u>	Positive	<u>Global Comparable Store Sales:</u>	Positive
<u>Business Challenges:</u>	Slightly Negative	<u>Customer Loyalty:</u>	Positive
<u>Product Innovations:</u>	Positive	<u>China Market:</u>	Slightly Positive
<u>Reinvention Plan:</u>	Positive	<u>Business in the Middle East:</u>	Negative

Guidance and Outlook

- Starbucks lowered its full-year outlook for global revenue growth to a range of 7% to 10%, down from a previous range of 10% to 12%. The slower-than-expected recovery in China coupled with the impact of unexpected challenges in the Middle East and the U.S. were cited as primary reasons for the revision. However, the company expressed confidence in the robust plans it has to address these challenges, and anticipates seeing a rebound and stabilization in the second half of the fiscal year.
- Starbucks has maintained its full-year earnings per share (EPS) growth outlook of 15% to 20%, showing confidence in its ability to drive growth from multiple levers. This confidence is informed by the company's strong digital engagement, the success of its ongoing 'Reinvention' initiative, and its strategy around customer acquisition and loyalty.

Key Financials

- For Q1 2024, Starbucks reported record total company revenue of \$9.4 billion, reflecting an 8% year-over-year increase. The revenue growth was driven by a 5% increase in global comparable store sales and a 4% increase in net new company-operated stores.
- Starbucks' operating margin expanded by 130 basis points to 15.8%, primarily attributed to sales leverage and in-store operational efficiencies. The strong margin results underpin Starbucks's ability to deliver balanced earnings growth even amid revenue pressures.
- The company's EPS for the quarter grew 20% to \$0.90. This growth was driven by the continued successful execution of the company's reinvention plan, which is aimed at building a sustainable business model.

International Market Performance

- The international segment, which represents a significant long-term growth opportunity for Starbucks, delivered \$1.8 billion in revenue for Q1 2024. This marks a 12% increase over the prior year and was driven by a 12% increase in net new company-operated stores and a 7% increase in comparable store sales.
- In China, Starbucks's revenue grew by 20% driven by a 15% increase in new store growth and a 10% increase in comparable store sales growth. However, the company experienced a slower-than-expected recovery in the market, largely attributed to more cautious consumer behavior.
- Despite the headwinds, Starbucks remains confident in the long-term growth potential of its international segment. The company highlighted its strategic focus on expanding its premium position in China and maximizing its operational efficiencies to provide a more personalized and premium customer experience.

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North America Performance

- In North America, a strong Q1 performance was reported with revenue amounting to \$7.1 billion, a 9% increase from the prior year. This growth was primarily driven by a 5% increase in comparable store sales and a 4% increase in net new company-operated stores.
- North America's operating margin was 21.4% in Q1, expanding by 280 basis points from the prior year. This substantial margin expansion was primarily driven by in-store operational efficiencies related to the company's ongoing 'Reinvention' efforts.
- Starbucks's mobile order and pay platform hit a record high, making up 30% of all transactions for the quarter. The company plans to continue enhancing the Starbucks app, including adding features for improved customer convenience and personalization.

Strategic Initiatives

- Starbucks highlighted its strategic focus on elevating its brand and differentiating its leadership position in the digital space. New capabilities within the company's proprietary Deep Brew data analytics and AI tool were activated to identify and incentivize specific rewards members cohorts.
- Starbucks also shared plans to launch three new beverage platforms over the next few months, intended to engage with its Gen Z and millennial customers across a range of coffee and core beverages.
- The company continued to invest in its 'Triple Shot Reinvention' initiative, aiming to unlock \$3 billion in efficiencies over the next three years. The initiative aims to elevate the Starbucks brand by continually improving store operations and driving product innovation.

Partner Culture and Investments

- Starbucks underscored the importance of its partners (employees) in its success and stated that reinvigorating its partner culture is a strategic priority. The company is investing in creating better experiences for partners, leading to a more stable work environment and lower turnover rates.
- Starbucks also noted its commitment to advancing dialogue on unionization within the company. Starbucks is committed to finding a constructive path forward with unions in the small subset of U.S. stores where partners have chosen to be represented by a union.

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Sentiment

Overall, the sentiment on the conference call was mostly positive. Starbucks reported strong performance in Q1 with record total company revenue and strong growth in loyalty programs. The company also saw positive traction from new product innovations and was pleased with the successful execution of their reinvention plan. However, they faced some unexpected challenges that impacted the rate of growth, including a slow recovery in China and a significant impact on traffic and sales in the Middle East. Despite these challenges, the company remains confident in their robust plans to address these issues and their potential for long-term growth.

● Positive

Revenue Performance

The company posted record total company revenue of \$9.4 billion in Q1, an 8% increase YoY. Starbucks also reported strong growth in loyalty programs, sequentially increased frequency, and record spending among loyal customers. Despite some unexpected headwinds, the company's performance in the quarter was fundamentally strong.

● Positive

Global Comparable Store Sales

Global comparable store sales grew by 5% YoY, supported by a 5% comp growth in North America and a 10% comp growth in China. The company highlighted the successful execution of their reinvention plan and the durability of the business they are building.

● Slightly Negative

Business Challenges

The company faced some unexpected challenges in the quarter that impacted the rate of growth. While the company feels confident about their robust plans to address these challenges, they acknowledge that it will take some time to normalize.

● Positive

Customer Loyalty

Starbucks set new records with their 90-day active Rewards members growing 13% YoY to a record 34.3 million. The frequency of their most loyal customers increased sequentially and spend per member reached a record in Q1.

● Positive

Product Innovations

The company saw positive traction from new product innovations. They also launched 12 new coffee forward beverages in the quarter, including Intenso, which was highly popular with their customers, including Gen Z.

● Slightly Positive

China Market

Starbucks saw great momentum in China and aims to be the best in the premium market in China. However, they experienced a slower-than-expected recovery in China due to a more cautious consumer and a significantly increased pricing competition.

● Positive

Reinvention Plan

The company's Triple Shot Reinvention efforts delivered 130 basis points of margin expansion in the first quarter of the fiscal year. The company sees a high degree of durability and potential in their reinvention plans.

Starbucks (SBUX)● [AI Expert Transcript Summary](#)● [View Transcript](#)● [January 30, 2024 Earnings Call](#)

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● Negative**Business in the Middle East**

The company saw a significant impact on traffic and sales in the Middle East region due to violence and instability. They are working with their licensees during this time to ensure the safety and well-being of their partners and customers.

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