



Starbucks Annual Report 2016

Form 10-K (NASDAQ:SBUX)

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UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

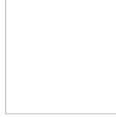
Form 10-K

x ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the Fiscal Year Ended October 2, 2016

or
TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to
Commission File Number: 0-20322

Starbucks Corporation

(Exact Name of Registrant as Specified in its Charter)



Washington
(State of Incorporation)

91-1325671
(IRS Employer ID)

2401 Utah Avenue South, Seattle, Washington 98134
(206) 447-1575

(Address of principal executive offices, zip code, telephone number)

Securities Registered Pursuant to Section 12(b) of the Act:

Table with 2 columns: Title of Each Class, Name of Each Exchange on Which Registered. Row 1: Common Stock, \$0.001 par value per share; Nasdaq Global Select Market

Securities Registered Pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer...
Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act...
Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months...
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T...
Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation of S-K...
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company.

Large accelerated filer x Accelerated filer
Non-accelerated filer (Do not check if a smaller reporting company) Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes No x
The aggregate market value of the voting stock held by non-affiliates of the registrant as of the last business day of the registrant's most recently completed second fiscal quarter, based upon the closing sale price of the registrant's common stock on March 27, 2016 as reported on the NASDAQ Global Select Market was \$83 billion. As of November 11, 2016, there were 1,455.4 million shares of the registrant's Common Stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the definitive Proxy Statement for the registrant's Annual Meeting of Shareholders to be held on March 22, 2017 have been incorporated by reference into Part III of this Annual Report on Form 10-K.

STARBUCKS CORPORATION
Form 10-K
For the Fiscal Year Ended October 2, 2016
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CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Annual Report on Form 10-K includes "forward-looking" statements within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements can be identified by the fact that they do not relate strictly to historical or current facts. They often include words such as "believes," "expects," "anticipates," "estimates," "intends," "plans," "seeks" or words of similar meaning, or future or conditional verbs, such as "will," "should," "could," "may," "aims," "intends," or "projects." A forward-looking statement is neither a prediction nor a guarantee of future events or circumstances, and those future events or circumstances may not occur. You should not place undue reliance on forward-looking statements, which speak only as of the date of this Annual Report on Form 10-K. These forward-looking statements are all based on currently available operating, financial and competitive information and are subject to various risks and uncertainties. Our actual future results and trends may differ materially depending on a variety of factors, including, but not limited to, the risks and uncertainties discussed under "Risk Factors" and "Management's Discussion and Analysis of Financial Condition and Results of Operations". Given these risks and uncertainties, you should not rely on forward-looking statements as a prediction of actual results. Any or all of the forward-looking statements contained in this Annual Report on Form 10-K and any other public statement made by us, including by our management, may turn out to be incorrect. We are including this cautionary note to make applicable and take advantage of the safe harbor provisions of the Private Securities Litigation Reform Act of 1995 for forward-looking statements. We expressly disclaim any obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

PART I

Item 1. Business

General

Starbucks is the premier roaster, marketer and retailer of specialty coffee in the world, operating in 75 countries. Formed in 1985, Starbucks Corporation's common stock trades on the NASDAQ Global Select Market ("NASDAQ") under the symbol "SBUX." We purchase and roast high-quality coffees that we sell, along with handcrafted coffee, tea and other beverages and a variety of fresh food items, including snack offerings, through company-operated stores. We also sell a variety of coffee and tea products and license our trademarks through other channels such as licensed stores, grocery and foodservice accounts. In addition to our flagship Starbucks Coffee brand, we sell goods and services under the following brands: Teavana, Tazo, Seattle's Best Coffee, Evolution Fresh, La Boulange and Ethos.

Our objective is to maintain Starbucks standing as one of the most recognized and respected brands in the world. To achieve this, we are continuing the disciplined expansion of our global store base, adding stores in both existing, developed markets such as the U.S., and in newer, higher growth markets such as China, as well as optimizing the mix of company-operated and licensed stores in each market. In addition, by leveraging the experience gained through our traditional store model, we continue to offer consumers new coffee and other products in a variety of forms, across new categories, diverse channels and alternative store formats. We also believe our Starbucks Global Responsibility strategy, commitments related to ethically sourcing high-quality coffee, contributing positively to the communities we do business in and being an employer of choice are contributors to our objective.

In this Annual Report on Form 10-K ("10-K" or "Report") for the fiscal year ended October 2, 2016 ("fiscal 2016"), Starbucks Corporation (together with its subsidiaries) is referred to as "Starbucks," the "Company," "we," "us" or "our."

Segment Financial Information

We have four reportable operating segments: 1) Americas, which is inclusive of the U.S., Canada, and Latin America; 2) China/Asia Pacific ("CAP"); 3) Europe, Middle East, and Africa ("EMEA") and 4) Channel Development. We also have several non-reportable operating segments, including Teavana, Seattle's Best Coffee and Evolution Fresh, as well as certain developing businesses such as the Starbucks Reserve® Roastery & Tasting Rooms, which are combined and referred to as All Other Segments. Revenues from our reportable segments and All Other Segments as a percentage of total net revenues for fiscal 2016 were as follows: Americas (69%), CAP (14%), EMEA (5%), Channel Development (9%) and All Other Segments (3%).

Our Americas, CAP, and EMEA segments include both company-operated and licensed stores. Our Americas segment is our most mature business and has achieved significant scale. Certain markets within our CAP and EMEA operations are still in the early stages of development and require a more extensive support organization, relative to their current levels of revenue and operating income, than our Americas operations. The Americas, CAP and EMEA segments also include certain foodservice accounts, primarily in Canada, Japan and the U.K.

Our Channel Development segment includes roasted whole bean and ground coffees, premium Tazo® teas, Starbucks- and Tazo-branded single-serve products, a variety of ready-to-drink beverages, such as Frappuccino®, Starbucks Doubleshot® and Starbucks Refreshers® beverages and other branded products sold worldwide through channels such as grocery stores, warehouse clubs, specialty retailers, convenience stores and U.S. foodservice accounts.

Starbucks segment information is included in [Note 16](#), Segment Reporting, to the consolidated financial statements included in Item 8 of Part II of this 10-K.

Revenue Components

We generate nearly all of our revenues through company-operated stores, licensed stores, consumer packaged goods ("CPG") and foodservice operations.

Company-operated and Licensed Store Summary as of October 2, 2016

	Americas	As a% of Total Americas Stores	CAP	As a% of Total CAP Stores	EMEA	As a% of Total EMEA Stores	All Other Segments	As a% of Total All Other Segments Stores	Total	As a% of Total Stores
Company-operated stores	9,019	58%	2,811	44%	523	20%	358	91%	12,711	51%
Licensed stores	6,588	42%	3,632	56%	2,119	80%	35	9%	12,374	49%
Total	15,607	100%	6,443	100%	2,642	100%	393	100%	25,085	100%

The mix of company-operated versus licensed stores in a given market will vary based on several factors, including our ability to access desirable local retail space, the complexity and expected ultimate size of the market for Starbucks and our ability to leverage the support infrastructure in an existing geographic region.

Company-operated Stores

Revenue from company-operated stores accounted for 79% of total net revenues during fiscal 2016. Our retail objective is to be the leading retailer and brand of coffee and tea in each of our target markets by selling the finest quality coffee, tea and related products, as well as complementary food and snack offerings, and by providing each customer with a unique *Starbucks Experience*. The *Starbucks Experience* is built upon superior customer service, as well as clean and well-maintained stores that reflect the personalities of the communities in which they operate, thereby building a high degree of customer loyalty.

Our strategy for expanding our global retail business is to increase our market share in a disciplined manner, by selectively opening additional stores in new and existing markets, as well as increasing sales in existing stores, to support our long-term strategic objective to maintain Starbucks standing as one of the most recognized and respected brands in the world. Store growth in specific existing markets will vary due to many factors, including the maturity of the market, economic conditions, consumer behavior and local business practices.

Company-operated store data for the year-ended October 2, 2016:

	Stores Open as of Sep 27, 2015	Opened	Closed	Transfers	Net	Stores Open as of Oct 2, 2016
Americas:						
U.S.	7,559	358	(37)	—	321	7,880
Canada	1,009	45	(19)	—	26	1,035
Brazil	103	3	(2)	—	1	104
Total Americas	8,671	406	(58)	—	348	9,019
China/Asia Pacific:						
China	1,026	253	(7)	—	246	1,272
Japan	1,073	85	(18)	—	67	1,140
Thailand	237	38	(2)	—	36	273
Singapore	116	13	(3)	—	10	126
Total China/Asia Pacific	2,452	389	(30)	—	359	2,811
EMEA⁽¹⁾:						
U.K.	428	3	(12)	(53)	(62)	366
France	76	—	(2)	—	(2)	74
Switzerland	56	1	(1)	—	—	56
Austria	18	—	(1)	—	(1)	17
Netherlands	10	—	—	—	—	10
Germany	149	1	(3)	(147)	(149)	—
Total EMEA	737	5	(19)	(200)	(214)	523
All Other Segments:						
Teavana	371	3	(19)	—	(16)	355
Evolution Fresh	3	—	(1)	—	(1)	2
Starbucks Reserve® Roastery & Tasting Rooms	1	—	—	—	—	1
Total All Other Segments	375	3	(20)	—	(17)	358
Total company-operated	12,235	803	(127)	(200)	476	12,711

(1) EMEA store data includes the transfer of 144 Germany company-operated retail stores to licensed stores as a result of the sale to AmRest Holdings SE in the third quarter of fiscal 2016.

Starbucks® company-operated stores are typically located in high-traffic, high-visibility locations. Our ability to vary the size and format of our stores allows us to locate them in or near a variety of settings, including downtown and suburban retail centers, office buildings, university campuses and in select rural and off-highway locations. We are continuing the expansion of our stores, inclusive of Drive Thru formats that provide a higher degree of access and convenience, and alternative store formats, which are focused on an elevated *Starbucks Experience* for our customers.

Starbucks® stores offer a choice of coffee and tea beverages, as well as other premium coffee, tea and related products, including distinctively packaged roasted whole bean and ground coffees, a variety of premium single-serve and ready-to-drink coffee and tea products, juices and bottled water. Starbucks® stores also offer an assortment of fresh food and snack offerings, including selections focusing on high-quality ingredients, nutritional value and great flavor. A focused selection of beverage-making equipment and accessories are also sold in our stores. Each Starbucks® store varies its product mix depending upon the size of the store and its location. To complement the in-store experience, our company-operated Starbucks® stores in the U.S., Canada and certain other international markets also provide customers free access to wireless internet.

Retail sales mix by product type for company-operated stores:

Fiscal Year Ended	Oct 2, 2016	Sep 27, 2015	Sep 28, 2014
Beverages	74%	73%	73%
Food	19%	19%	18%
Packaged and single-serve coffees and teas	3%	3%	4%
Other ⁽¹⁾	4%	5%	5%
Total	100%	100%	100%

⁽¹⁾ "Other" primarily consists of sales of ready-to-drink beverages, serveware and coffee-making equipment, among other items.

Stored Value Cards

The Starbucks Card and our other branded stored value card programs are designed to provide customers with a convenient payment method, support gifting and increase the frequency of store visits by cardholders, in part through the related Starbucks Rewards™ (previously My Starbucks Rewards®) loyalty program where available, as discussed below. Stored value cards are issued to customers when they initially load them with an account balance. They can be obtained in our company-operated and most licensed stores in North America, Japan, China, Brazil, and many of our markets in the EMEA segment, as well as on-line, via the Starbucks® mobile app, and through other retailers, including a number of other international locations. Customers may access their card balances by utilizing their stored value card or the Starbucks® mobile app in participating stores, which also include certain Teavana® and Evolution Fresh® locations. Using the Mobile Order and Pay functionality of the Starbucks® mobile app, customers can also place orders in advance for pick-up at certain participating locations in the U.S. and Canada. Customers who register their card in the U.S., Canada, and certain other countries are automatically enrolled in the Starbucks Rewards™ program and can receive various benefits depending on factors such as the number of reward points ("Stars") earned. Refer to [Note 1](#), Summary of Significant Accounting Policies, included in Item 8 of Part II of this 10-K, for further discussion of our stored value cards and loyalty program.

Licensed Stores

Revenues from our licensed stores accounted for 10% of total net revenues in fiscal 2016. Licensed stores generally have a lower gross margin and a higher operating margin than company-operated stores. Under the licensed model, Starbucks receives a reduced share of the total store revenues, but this is more than offset by the reduction in our share of costs as these are primarily incurred by the licensee.

In our licensed store operations, we leverage the expertise of our local partners and share our operating and store development experience. Licensees provide improved, and at times the only, access to desirable retail space. Most licensees are prominent retailers with in-depth market knowledge and access. As part of these arrangements, we sell coffee, tea, food and related products to licensees for resale to customers and receive royalties and license fees from the licensees. We also sell certain equipment, such as coffee brewers and espresso machines, to our licensees for use in their operations. Employees working in licensed retail locations are required to follow our detailed store operating procedures and attend training classes similar to those given to employees in company-operated stores. For Teavana® and Starbucks® stores within certain international markets, we also use traditional franchising and include these stores in the results of operations from our other licensed stores.

Licensed store data for the year-ended October 2, 2016:

	Stores Open as of Sep 27, 2015	Opened	Closed	Transfers	Net	Stores Open as of Oct 2, 2016
Americas:						
U.S.	4,962	430	(100)	—	330	5,292
Mexico	506	58	(1)	—	57	563
Canada	349	23	(8)	—	15	364
Other	315	55	(1)	—	54	369
Total Americas	6,132	566	(110)	—	456	6,588
China/Asia Pacific:						
China	785	330	(5)	—	325	1,110
South Korea	831	129	(8)	—	121	952
Taiwan	356	45	(9)	—	36	392
Philippines	264	29	—	—	29	293
Indonesia	214	48	(2)	—	46	260
Malaysia	199	28	(1)	—	27	226
Other	361	51	(13)	—	38	399
Total China/Asia Pacific	3,010	660	(38)	—	622	3,632
EMEA⁽¹⁾:						
U.K.	414	71	(6)	53	118	532
Turkey	260	63	(9)	—	54	314
United Arab Emirates	131	18	(1)	—	17	148
Germany	10	6	(2)	147	151	161
Russia	104	6	(3)	—	3	107
Spain	89	8	(1)	—	7	96
Kuwait	77	19	(1)	—	18	95
Saudi Arabia	71	24	(3)	—	21	92
Other	469	118	(13)	—	105	574
Total EMEA	1,625	333	(39)	200	494	2,119
All Other Segments:						
Teavana	35	—	(1)	—	(1)	34
Seattle's Best Coffee	6	—	(5)	—	(5)	1
Total All Other Segments	41	—	(6)	—	(6)	35
Total licensed	10,808	1,559	(193)	200	1,566	12,374

(1) EMEA store data includes the transfer of 144 Germany company-operated retail stores to licensed stores as a result of the sale to AmRest Holdings SE in the third quarter of fiscal 2016.

Consumer Packaged Goods

Revenues from sales of consumer packaged goods comprised 8% of total net revenues in fiscal 2016. Our consumer packaged goods business includes both domestic and international sales of packaged coffee and tea as well as a variety of ready-to-drink beverages and single-serve coffee and tea products to grocery, warehouse clubs and specialty retail stores. It also includes revenues from product sales to and licensing revenues from manufacturers that produce and market Starbucks-, Seattle's Best Coffee- and Tazo-branded products through licensing agreements.

Foodservice

Revenues from foodservice accounts comprised 3% of total net revenues in fiscal 2016. We sell Starbucks® and Seattle's Best Coffee® roasted whole bean and ground coffees, a selection of premium Tazo® teas, Starbucks VIA® Ready Brew, and other coffee and tea-related products to institutional foodservice companies that service business and industry, education, healthcare, office coffee distributors, hotels, restaurants, airlines and other retailers. We also sell our Seattle's Best Coffee® through arrangements with national accounts. The majority of the sales in this channel come through national broadline distribution networks with SYSCO Corporation, U.S. Foodservice and other distributors.

Product Supply

Starbucks is committed to selling the finest whole bean coffees and coffee beverages. To ensure compliance with our rigorous coffee standards, we control coffee purchasing, roasting and packaging and the global distribution of coffee used in our operations. We purchase green coffee beans from multiple coffee-producing regions around the world and custom roast them to our exacting standards for our many blends and single origin coffees.

The price of coffee is subject to significant volatility. Although most coffee trades in the commodity market, high-altitude *arabica* coffee of the quality sought by Starbucks tends to trade on a negotiated basis at a premium above the "C" coffee commodity price. Both the premium and the commodity price depend upon the supply and demand at the time of purchase. Supply and price can be affected by multiple factors in the producing countries, including weather, natural disasters, crop disease, general increase in farm inputs and costs of production, inventory levels and political and economic conditions. Price is also impacted by trading activities in the *arabica* coffee futures market, including hedge funds and commodity index funds. In addition, green coffee prices have been affected in the past, and may be affected in the future, by the actions of certain organizations and associations that have historically attempted to influence prices of green coffee through agreements establishing export quotas or by restricting coffee supplies.

We buy coffee using fixed-price and price-to-be-fixed purchase commitments, depending on market conditions, to secure an adequate supply of quality green coffee. Price-to-be-fixed contracts are purchase commitments whereby the quality, quantity, delivery period, and other negotiated terms are agreed upon, but the date, and therefore the price, at which the base "C" coffee commodity price component will be fixed has not yet been established. For most contracts, either Starbucks or the seller has the option to "fix" the base "C" coffee commodity price prior to the delivery date. For other contracts, Starbucks and the seller may agree upon pricing parameters determined by the base "C" coffee commodity price. Until prices are fixed, we estimate the total cost of these purchase commitments. Total green coffee purchase commitments as of October 2, 2016 were \$1.1 billion, comprised of \$466 million under fixed-price contracts and an estimated \$641 million under price-to-be-fixed contracts. As of October 2, 2016, approximately \$7 million of our price-to-be-fixed contracts were effectively fixed through the use of futures contracts. All price-to-be-fixed contracts as of October 2, 2016 were at the Company's option to fix the base "C" coffee commodity price component. Total purchase commitments, together with existing inventory, are expected to provide an adequate supply of green coffee through fiscal 2017.

We depend upon our relationships with coffee producers, outside trading companies and exporters for our supply of green coffee. We believe, based on relationships established with our suppliers, the risk of non-delivery on such purchase commitments is remote.

To help ensure the future supply of high-quality green coffee and to reinforce our leadership role in the coffee industry, Starbucks operates eight farmer support centers. The farmer support centers are staffed with agronomists and sustainability experts who work with coffee farming communities to promote best practices in coffee production designed to improve both coffee quality and yields.

In addition to coffee, we also purchase significant amounts of dairy products, particularly fluid milk, to support the needs of our company-operated stores. We believe, based on relationships established with our dairy suppliers, that the risk of non-delivery of sufficient fluid milk to support our stores is remote.

Products other than whole bean coffees and coffee beverages sold in Starbucks® stores include tea and a number of ready-to-drink beverages that are purchased from several specialty suppliers, usually under long-term supply contracts. Food products, such as La Boulange™ pastries, breakfast sandwiches and lunch items, are purchased from national, regional and local sources. Our food program continues to develop, and we expect the amount of food products purchased to impact our operations. We also purchase a broad range of paper and plastic products, such as cups and cutlery, from several companies to support the needs of our retail stores as well as our manufacturing and distribution operations. We believe, based on relationships established with these suppliers and manufacturers, that the risk of non-delivery of sufficient amounts of these items is remote.