



Starbucks Annual Report 2018

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 September 30, 2018

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, as defined in Rule 405 of the Securities Act. Yes x No
Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No x
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 (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No
Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes x No
Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation of S-K (§ 229.405 of this chapter) is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Table with 2 columns: Filer Status, Exchange. Row 1: Large accelerated filer x, Accelerated filer. Row 2: Non-accelerated filer, Smaller reporting company. Row 3: Emerging growth company

If an emerging growth company, indicate by checkmark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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 April 1, 2018 as reported on the NASDAQ Global Select Market was \$77.8 billion. As of November 9, 2018, there were 1,240.6 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 20, 2019 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 September 30, 2018
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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 78 markets. 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 high-quality food items 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, Seattle's Best Coffee, Evolution Fresh, La Boulange, Ethos, Starbucks Reserve and Princi.

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 around the world. 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 Social Impact 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 September 30, 2018 ("fiscal 2018"), Starbucks Corporation (together with its subsidiaries) is referred to as "Starbucks," the "Company," "we," "us" or "our."

Segment Financial Information

Segment information is prepared on the same basis that our management reviews financial information for operational decision-making purposes. On August 26, 2018, our Channel Development segment finalized licensing and distribution agreements with Nestlé S.A. ("Nestlé") to sell and market our consumer packaged goods ("CPG") and foodservice products and received an upfront prepaid royalty payment of approximately \$7 billion. As a result, we realigned our organizational and operating segment structures in support of the newly established Global Coffee Alliance. The scope of the arrangement converts the majority of our previously defined Channel Development segment operations, as well as certain smaller businesses previously reported in the Americas, EMEA and Corporate and Other (previously All Other Segments), to licensed operations with Nestlé, and our reportable segments have been restated as if those smaller businesses were previously within our Channel Development segment.

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 Siren Retail, which consists of Starbucks Reserve™ Roastery & Tasting Rooms, Starbucks Reserve brand stores and products and Princi operations, as well as Evolution Fresh and the Teavana retail business which substantially ceased operations during fiscal 2018. Collectively, the combined group of non-reportable operating segments is reported within Corporate and Other. Revenues from our reportable segments and Corporate and Other as a percentage of total net revenues for fiscal 2018 were as follows: Americas (68%), CAP (18%), EMEA (4%), Channel Development (9%) and Corporate and Other (1%).

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 either in various stages of development or undergoing transformations of their business models. Therefore, they may require a more extensive support organization, relative to their current levels of revenue and operating income, than our Americas operations.

Our Channel Development segment includes roasted whole bean and ground coffees, Seattle's Best Coffee®, Starbucks- and Teavana-branded single-serve products, a variety of ready-to-drink beverages, such as Frappuccino®, Starbucks Doubleshot®, Starbucks Refreshers® beverages and Teavana™/MC iced tea, and other branded products sold worldwide outside of our company-operated and licensed stores. Historically our consumer packaged goods have been sold directly to grocery, warehouse club and specialty retail stores and through institutional foodservice companies. With the establishment of the Global Coffee Alliance with Nestlé, a large portion of our Channel Development business transitioned to a licensed model in the fourth quarter of fiscal 2018. Additionally, the CPG and foodservice businesses previously included in our Americas, EMEA and Corporate and Other (previously All Other Segments) were also transitioned to a licensed model under the Global Coffee Alliance and realigned to the Channel Development segment. Our collaborative relationships with PepsiCo, Inc., Anheuser-Busch InBev, Tingyi Holding Corp., Arla Foods and others for our global ready-to-drink beverage businesses in this segment are excluded from the Global Coffee Alliance.

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 the majority of our revenues through company-operated stores and licensed stores.

Company-operated and Licensed Store Summary as of September 30, 2018

	Americas	As a% of Total Americas Stores	CAP	As a% of Total CAP Stores	EMEA	As a% of Total EMEA Stores	Corporate and Other	As a% of Total Corporate and Other	Total	As a% of Total Stores
Company-operated stores	9,684	55%	5,159	60%	490	15%	8	40%	15,341	52%
Licensed stores	7,770	45%	3,371	40%	2,830	85%	12	60%	13,983	48%
Total	17,454	100%	8,530	100%	3,320	100%	20	100%	29,324	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, profitability and expected ultimate size of the market for Starbucks and our ability to leverage the support infrastructure within a geographic region.

Company-operated Stores

Revenue from company-operated stores accounted for 80% of total net revenues during fiscal 2018. 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 offerings, and by providing each customer with a unique *Starbucks Experience*. The *Starbucks Experience* is built upon superior customer service and a seamless digital experience 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 expected financial returns, the maturity of the market, economic conditions, consumer behavior and local business practices.

Company-operated store data for the year-ended September 30, 2018:

	Stores Open as of Oct 1, 2017	Opened	Closed	Transfers	Net	Stores Open as of Sep 30, 2018
Americas⁽¹⁾:						
U.S.	8,222	401	(48)	—	353	8,575
Canada	1,083	65	(39)	—	26	1,109
Brazil	108	4	—	(112)	(108)	—
Total Americas	9,413	470	(87)	(112)	271	9,684
China/Asia Pacific⁽²⁾:						
China	1,540	528	(24)	1,477	1,981	3,521
Japan	1,218	84	(16)	—	68	1,286
Thailand	312	41	(1)	—	40	352
Total China/Asia Pacific	3,070	653	(41)	1,477	2,089	5,159
EMEA:						
U.K.	345	15	(23)	(2)	(10)	335
All Other	157	3	(5)	—	(2)	155
Total EMEA	502	18	(28)	(2)	(12)	490
Corporate and Other:						
Teavana	288	—	(288)	—	(288)	—
Siren Retail	2	6	—	—	6	8
Total Corporate and Other	290	6	(288)	—	(282)	8
Total company-operated	13,275	1,147	(444)	1,363	2,066	15,341

⁽¹⁾ Americas store data includes the transfer of 112 company-operated retail stores in Brazil to licensed stores as a result of the sale of our Brazil retail operations in the second quarter of fiscal 2018.

⁽²⁾ China/Asia Pacific store data includes the transfer of 1,477 licensed stores in East China to company-operated retail stores as a result of the purchase of our East China joint venture in the first quarter of fiscal 2018.

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.

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

Fiscal Year Ended	Sep 30, 2018	Oct 1, 2017	Oct 2, 2016
Beverages	74%	73%	74%
Food	20%	20%	19%
Packaged and single-serve coffees and teas	2%	3%	3%
Other ⁽¹⁾	4%	4%	4%
Total	100%	100%	100%

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

Stored Value Cards and Loyalty Program

The Starbucks Card, our branded stored value card program, is 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™ 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, China, Japan, Latin America, and many of our markets in our CAP and EMEA segments. Stored value cards can also be obtained on-line, via the Starbucks® Mobile App, and through other U.S. and international retailers. Customers may access their card balances by utilizing their stored value card or the Starbucks® Mobile App in participating stores. 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. In nearly all markets, including the U.S. and Canada, customers who register their Starbucks Cards are automatically enrolled in the Starbucks Rewards™ program. Registered members 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 11% of total net revenues in fiscal 2018. 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. In a limited number of 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 September 30, 2018:

	Stores Open as of Oct 1, 2017	Opened	Closed	Transfers	Net	Stores Open as of Sep 30, 2018
Americas⁽¹⁾:						
U.S.	5,708	442	(119)	—	323	6,031
Mexico	632	76	—	—	76	708
Latin America	429	83	(2)	112	193	622
Canada	377	44	(12)	—	32	409
Total Americas	7,146	645	(133)	112	624	7,770
China/Asia Pacific⁽²⁾:						
China	1,396	84	(3)	(1,477)	(1,396)	—
Korea	1,108	138	(15)	—	123	1,231
Taiwan	420	43	(5)	—	38	458
Philippines	324	37	(1)	—	36	360
Indonesia	317	56	(8)	—	48	365
Malaysia	248	23	(3)	—	20	268
All Other	596	101	(8)	—	93	689
Total China/Asia Pacific	4,409	482	(43)	(1,477)	(1,038)	3,371
EMEA:						
U.K.	606	62	(17)	2	47	653
Turkey	387	67	(1)	—	66	453
United Arab Emirates	164	26	(4)	—	22	186
Germany	156	10	(14)	—	(4)	152
Saudi Arabia	124	46	(4)	—	42	166
Kuwait	118	24	—	—	24	142
Spain	113	34	(5)	—	29	142
All Other	804	157	(25)	—	132	936
Total EMEA	2,472	426	(70)	2	358	2,830
Corporate and Other:						
Teavana	37	—	(25)	—	(25)	12
Total Corporate and Other	37	—	(25)	—	(25)	12
Total licensed	14,064	1,553	(271)	(1,363)	(81)	13,983

⁽¹⁾ Americas store data includes the transfer of 112 company-operated retail stores in Brazil to licensed stores as a result of the sale of our Brazil retail operations in the second quarter of fiscal 2018.

⁽²⁾ China/Asia Pacific store data includes the transfer of 1,477 licensed stores in East China to company-operated retail stores as a result of the purchase of our East China joint venture in the first quarter of fiscal 2018.

Other Revenues

Other revenues primarily are recorded in our Channel Development segment and include sales of packaged coffee, tea and ready-to-drink beverages to customers outside of our company-operated and licensed stores. Historically revenues have included domestic and international sales of our packaged coffee, tea and ready-to-drink products to grocery, warehouse club and specialty retail stores and through institutional foodservice companies which serviced businesses. In the fourth quarter of fiscal 2018, we began licensing the rights to sell and market Starbucks-branded products in authorized channels to Nestlé. As a result, other revenues includes product sales to and licensing revenue from Nestlé under this arrangement and the amortization of the upfront prepaid royalty payment. Our collaborative business relationships for global ready-to-drink products and the associated revenues remain unchanged due to the Global Coffee Alliance with Nestlé.