



Starbucks Annual Report 2020

Form 10-K (NASDAQ:SBUX)

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UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

Form 10-K

☒ ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the Fiscal Year Ended September 27, 2020

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 office, zip code, telephone number)

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

Title of Each Class

Trading Symbol

Name of Each Exchange on Which Registered

Common Stock, \$0.001 par value per share

SBUX

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 ☒ 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 ☒

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 ☒ 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 ☒ No ☐

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.

Large accelerated filer ☒ Accelerated filer ☐ Non-accelerated filer ☐ Smaller reporting company ☐

Emerging growth company ☐

If an emerging growth company, indicate by check mark 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 has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report. ☒

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes ☐ No ☒

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 29, 2020 as reported on the NASDAQ Global Select Market was \$77.4 billion. As of November 6, 2020, there were 1,173.7 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 17, 2021 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 27, 2020
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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 83 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, as well as grocery and foodservice through our Global Coffee Alliance with Nestlé S. A. ("Nestlé"). In addition to our flagship Starbucks Coffee brand, we sell goods and services under the following brands: Teavana, Seattle's Best Coffee, Evolution Fresh, 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 27, 2020 ("fiscal 2020"), Starbucks Corporation (together with its subsidiaries) is referred to as "Starbucks," the "Company," "we," "us" or "our."

Segment Financial Information

We have three reportable operating segments: 1) Americas, which is inclusive of the U.S., Canada and Latin America; 2) International, which is inclusive of China, Japan, Asia Pacific, Europe, Middle East and Africa; and 3) Channel Development. Non-reportable operating segments such as Evolution Fresh and unallocated corporate expenses are reported within Corporate and Other. Revenues from our reportable operating segments as a percentage of total net revenues for fiscal 2020 were as follows: Americas (70%), International (22%) and Channel Development (8%).

Our Americas and International 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 International operations are in various stages of development and may require more extensive support, 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. A large portion of our Channel Development business operates under a licensed model of the Global Coffee Alliance with Nestlé, while our global ready-to-drink businesses operate under collaborative relationships with PepsiCo, Inc., Anheuser-Busch Companies, LLC, Tingyi-Ashi Beverages Holding Co., Ltd., Arla Foods amla and others.

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 27, 2020

	Americas	As a% of Total Americas Stores	International	As a% of Total International Stores	Total	As a% of Total Stores
Company-operated stores	10,109	55 %	6,528	46 %	16,637	51 %
Licensed stores	8,245	45 %	7,778	54 %	16,023	49 %
Total	18,354	100 %	14,306	100 %	32,660	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 81% of total net revenues during fiscal 2020. 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, convenience and a seamless digital experience as well as safe, 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 category 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 27, 2020:

	Stores Open as of Sep 29, 2019	Opened	Closed	Transfers	Net	Stores Open as of Sep 27, 2020
Americas:						
U.S.	8,791	332	(182)	—	150	8,941
Canada	1,175	58	(74)	—	(16)	1,159
Siren Retail	8	2	(1)	—	1	9
Total Americas	9,974	392	(257)	—	135	10,109
International:						
China	4,123	613	(32)	—	581	4,704
Japan	1,379	104	(19)	—	85	1,464
U.K.	288	6	(2)	(4)	—	288
All Other	65	2	—	—	2	67
Siren Retail	5	—	—	—	—	5
Total International	5,860	725	(53)	(4)	668	6,528
Total company-operated	15,834	1,117	(310)	(4)	803	16,637

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 rural and off-highway locations. We are continuing the expansion of our stores, particularly drive-thru formats that provide a higher degree of access and convenience, and alternative store formats, which are designed to provide a more streamlined customer experience in dense metropolitan areas.

Prior to the novel coronavirus outbreak, known as the global pandemic COVID-19, approximately 80% of Starbucks transactions in U.S. company-operated stores were “on-the-go” occasions. This has prompted us to reexamine our U.S. store footprint and evolve our retail presence over time through targeted store renovations, relocations and new stores. We have since introduced a new store format, Starbucks® Pickup, to enhance the “on-the-go” customer experience and improve operating efficiency across Starbucks® stores in certain major metropolitan areas in the Americas. New store formats, such as Starbucks Pickup, are suitable for customers who prefer to order ahead and pay through the Starbucks® Mobile App for pick-up. In our major international markets, we continue to invest in technology and establish partnerships with third parties with relevant expertise to increase digital adoption to provide convenience and elevate the customer experience. In China, the introduction of Starbucks Now™ stores enables a seamless integration of physical and digital customer touchpoints. Orders may be placed in advance through the Starbucks Mobile App or Starbucks Delivers™ and can be conveniently picked up by customers and delivery riders in these express retail format locations. These strategies align closely with rapidly evolving customer preferences, including higher levels of mobile ordering, more contactless pick-up experiences and reduced in-store congestion, all of which naturally allow for greater physical distancing. We believe our continued efforts to transform our store portfolio and elevate technology will enhance the customer experience and position Starbucks for long-term growth.

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

Fiscal Year Ended	Sep 27, 2020	Sep 29, 2019	Sep 30, 2018
Beverages	75 %	74 %	74 %
Food	20 %	20 %	20 %
Packaged and single-serve coffees and teas	1 %	1 %	2 %
Other ⁽¹⁾	4 %	5 %	4 %
Total	100 %	100 %	100 %

(1) "Other" primarily consists of sales of serveware and ready-to-drink beverages, 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 and many of our markets in our International segment. Stored value cards can also be obtained online, 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 several markets. 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. Beginning in the fourth quarter of fiscal 2020, in addition to using their Starbucks Cards, Starbucks® Rewards members can earn Stars by paying with cash, credit or debit cards, or selected mobile wallets at company-operated stores in the U.S. and Canada. 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 2020. Licensed stores generally have a lower gross margin and a higher operating margin than company-operated stores. Under the licensed model, Starbucks receives a margin on branded products and supplies sold to the licensed store operator along with a royalty on retail sales. Licensees are responsible for operating costs and capital investments which more than offset the lower revenues we receive under the licensed store model.

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 27, 2020:

	Stores Open as of Sep 29, 2019	Opened	Closed	Transfers	Net	Stores Open as of Sep 27, 2020
Americas:						
U.S.	6,250	210	(73)	—	137	6,387
Mexico	748	15	(11)	—	4	752
Latin America	663	32	(33)	—	(1)	662
Canada	432	24	(12)	—	12	444
Total Americas	8,093	281	(129)	—	152	8,245
International:						
Korea	1,334	159	(25)	—	134	1,468
U.K.	707	55	(29)	4	30	737
Turkey	494	42	(6)	—	36	530
Taiwan	480	32	(11)	—	21	501
Indonesia	421	37	—	—	37	458
Philippines	397	10	(11)	—	(1)	396
Thailand	392	20	(7)	—	13	405
All Other	3,104	265	(86)	—	179	3,283
Total International	7,329	620	(175)	4	449	7,778
Total licensed	15,422	901	(304)	4	601	16,023

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, as well as royalties received from Nestlé under the Global Coffee Alliance and other collaborative partnerships.

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 substantially all 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. We also utilize forward contracts, futures contracts and collars to hedge “C” price exposure under our price-to-be-fixed green coffee contracts and our long-term forecasted coffee demand where underlying fixed price and price-to-be-fixed contracts are not yet available. Total purchase commitments, together with existing inventory, are expected to provide an adequate supply of green coffee through fiscal 2022.

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 nine farmer support centers, including our China Farmer Support Center located in the Yunnan Province of

this high-growth market. All 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 and agronomy support to address climate and other impacts.

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 pastries, breakfast sandwiches and lunch items, are purchased from national, regional and local sources. 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.

Competition

Our primary competitors for coffee beverage sales are specialty coffee shops. We believe that our customers choose among specialty coffee retailers primarily on the basis of product quality, service and convenience, as well as price. We continue to experience direct competition from large competitors in the quick-service restaurant sector and the ready-to-drink coffee beverage market, in addition to both well-established and start-up companies in many international markets. We also compete with restaurants and other specialty retailers for prime retail locations and qualified personnel to operate both new and existing stores.

Our coffee and tea products sold through our Channel Development segment compete directly against specialty coffees and teas sold through grocery stores, warehouse clubs, specialty retailers, convenience stores and foodservice accounts and compete indirectly against all other coffees and teas on the market.

Trademarks, Copyrights, Patents and Domain Names

Starbucks owns and has applied to register numerous trademarks and service marks in the U.S. and in other countries throughout the world. Some of our trademarks, including Starbucks, the Starbucks logo, Starbucks Reserve, Seattle's Best Coffee, Teavana and Frappuccino are of material importance. The duration of trademark registrations varies from country to country. However, trademarks are generally valid and may be renewed indefinitely as long as they are in use and/or their registrations are properly maintained.

We own numerous copyrights for items such as product packaging, promotional materials, in-store graphics and training materials. We also hold patents on certain products, systems and designs. In addition, Starbucks has registered and maintains numerous Internet domain names, including "Starbucks.com," "Starbucks.net," "Starbucksreserve.com," "Seattlesbest.com" and "Teavana.com."

Seasonality and Quarterly Results

Our business is subject to moderate seasonal fluctuations, of which our fiscal second quarter typically experiences lower revenues and operating income. However, the COVID-19 outbreak may have an impact on consumer behaviors and customer traffic that may result in temporary changes in the seasonal fluctuations of our business. Additionally, as Starbucks Cards are issued to and loaded by customers during the holiday season, we tend to have higher cash flows from operations during the first quarter of the fiscal year. However, since revenues from Starbucks Cards are recognized upon redemption and not when cash is loaded onto the Card, the impact of seasonal fluctuations on the consolidated statements of earnings is much less pronounced. As a result of moderate seasonal fluctuations, results for any quarter are not necessarily indicative of the results that may be achieved for the full fiscal year.

Government Regulation

As a company with global operations, we are subject to the laws of the United States and multiple foreign jurisdictions in which we operate and the rules and regulations of various governing bodies, which may differ among jurisdictions. Compliance with these laws, rules and regulation has not had, and is not expected to have, a material effect on our capital expenditures, results of operations and competitive position as compared to prior periods.