

Starbucks Reports First Quarter Fiscal 2008 Results

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Revenue and EPS Growth Continues in Challenging Operating Environment - Sharpens Focus on Strategic Initiatives - U.S. Business Slows Pace of FY08 Store Openings: Reduced by 34 Percent from FY07 - International Segment Delivers Strong Revenue and Operating Income

Fiscal First Quarter 2008 Highlights:

Consolidated net revenues of \$2.8 billion, a 17 percent increase from Q1 of 2007

Operating margin contracted 160 basis points to 12.0 percent

Earnings per share of \$0.28, compared to \$0.26 per share in Q1 of 2007

Comparable store sales growth of one percent

Starbucks Corporation (NASDAQ:SBUX) announced financial results for its fiscal first quarter ended December 30, 2007. Consolidated net revenues increased 17 percent to \$2.8 billion for the first quarter of 2008, compared to \$2.4 billion for the first quarter of 2007. For the 13-week period ended December 30, 2007, net earnings totaled \$208.1 million versus \$205.0 million for the same period a year ago, a two percent increase. The slight increase in net income includes the negative impact of incremental interest expense as a result of the company's inaugural senior notes offering during the fourth quarter of fiscal 2007. Earnings per share for the quarter rose eight percent to \$0.28 from \$0.26 in the prior year period.

'Over the coming months, our management team will focus on building a long-term model to realize our transformation agenda, and drive long-term shareholder value,' said Howard Schultz, chairman, president and ceo. 'We will do that by being laser focused on delivering what our customers want and expect, and providing our partners with the tools to help them exceed our customers' expectations. Our actions will dramatically change the business, which will enable us to offer a renewed Starbucks Experience to our customers, while systematically building the foundation for strong, sustainable growth in fiscal 2009 and beyond.'

Schultz continued, 'With a keen discipline around execution and profitability, we have already slowed the pace of store growth in the U.S. to approximately 1,175 stores for this fiscal year, down from a revised target of 1,600 stores, and increased the store opening target in International markets to approximately 975 stores. By reducing the number of openings, we expect to optimize our resources and potentially reduce cannibalization of our existing stores.'

Schultz went on to say, 'We will unveil additional details of our transformation plan, including bold innovations that will reassert our coffee leadership, redefine the in-store experience and introduce core brand-building initiatives, on March 19, 2008, at the company's Annual Meeting of Shareholders. Given all the work underway, we view 2008 as a year of refocus and renewal for Starbucks.'

The company said that in light of the ongoing implementation of its transformation agenda, and the continued macroeconomic weakness, it expects low double digit EPS expansion for this fiscal year. 'We are confident that our actions will get us back on track in redefining the customer experience and further expanding the differentiation between us and others in the coffee business,' commented Schultz. 'In addition, when Starbucks reports second quarter fiscal 2008 results on April 30, 2008, we plan to provide longer-term financial targets by which we and the financial community can measure our performance as we grow our business.'

In line with its announcement on January 7, 2008, Starbucks has reduced its fiscal 2008 global net new store opening target to approximately 2,150 stores, down from an adjusted 2,500 net new stores. This includes the closure of around 100 underperforming stores in the U.S. and the opening of approximately 75 additional net new stores in International markets. Net new store openings are expected to be approximately 650 company-operated locations and 525 licensed in the United States and approximately 975 stores in international markets. For 2009, Starbucks plans to open more than 1,000 stores internationally and less than 1,000 locations in the United States, approximately 500 of which will be company-operated stores.

Continued Solid Revenue Growth

The 17 percent growth in consolidated net revenues in the first quarter 2008 was primarily driven by the U.S. business, which contributed 77 percent of total net revenue. For the quarter, U.S. total net revenues increased by \$266.3 million, or 14 percent, to \$2.1 billion driven by the opening of 1,077 company-operated retail stores in the last 12 months. International total net revenues expanded 33 percent, or \$135.7 million, to \$540.8 million for the 13 weeks ended December 30, 2007 as the company continued to expand and strengthen its store presence in its 42 existing markets outside the U.S. The increase in International total net revenues resulted primarily from opening 285 new company-operated retail stores in the last 12 months, favorable foreign currency exchange for the Canadian dollar and the British pound sterling, and comparable store sales growth of five percent. For the Global Consumer Products Group (CPG), total net revenues increased by \$9.9 million, or 11 percent, to \$100.6 million for the first quarter fiscal 2008, primarily due to increased royalties and product sales in the international ready-to-drink business.

Consolidated company-operated retail revenues increased 17 percent to \$2.4 billion in first quarter 2008, from \$2.0 billion for the same period in fiscal 2007, primarily driven by new store openings in the U.S. and international markets. For the first quarter of fiscal 2008, United States company-operated retail revenues increased 14 percent to \$1.9 billion, while International company-operated retail revenues increased 33 percent to \$461.2 million in the period.

In the last 12 months, 1,362 new company-operated retail stores were opened, an increase of 16 percent over openings in the previous 12-month period. Company-operated store openings in the last 12 months were comprised of 1,077 in the U.S. and 285 in international markets.

Consolidated comparable store sales grew one percent in the first quarter, which included a two percent increase in the average value per transaction and a one percent transaction decline. The softness in consolidated comparable store sales growth was driven by the U.S. business. For the first quarter, U.S. comparable store sales contracted one percent, due to a three percent decline in transactions partially offset by a two percent rise in the average value per transaction, which included the impact of a price increase taken in late July 2007. The International segment continued to show strength, with comparable store sales growth for the first quarter of five percent, with a three percent increase in transactions and a two percent increase in the average value per transaction.

Specialty revenues in the first quarter 2008 increased 19 percent to \$416.1 million, driven by licensing revenues, which increased 20 percent to \$304.8 million. The growth in licensing revenues resulted from higher product sales and royalty revenues from the opening of 1,226 new licensed retail stores in the last 12 months, 690 of which were in the U.S. and 536 in international markets, and 11 percent revenue growth in the CPG segment, primarily due to increased royalties and product sales in the international ready-to-drink business.

Leveraging G&A Amid Higher Cost Environment

Cost of sales including occupancy costs increased 110 basis points to 42.9 percent of total net revenues for the 13 weeks ended December 30, 2007, compared to 41.8 percent in the corresponding period in fiscal 2007. The increase was primarily due to increased dairy costs and a shift in sales to higher cost products.

Store operating expenses as a percentage of related company-operated retail revenues increased 90 basis points to 39.4 percent in the first quarter 2008, from 38.5 percent for the prior year period. The increase was primarily due to higher payroll expenditures as a percentage of revenues in the U.S. segment, driven by softer sales from U.S. company-operated stores and wage increases, partially offset by the impact of labor optimization initiatives in the stores.

Other operating expenses (expenses associated with the company's specialty operations) rose 30 basis points to 20.6 percent of related total specialty revenues for the 13 weeks ended December 30, 2007, compared to 20.3 percent for the same period a year ago. The increase in expense was primarily due to higher international payroll-related expenditures as a percentage of related revenues in support of the continued expansion of the segment into new and existing markets.

General and administrative expenses as a percentage of total net revenues improved 50 basis points to 4.5 percent for the first quarter 2008, from 5.0 percent for the corresponding period of fiscal 2007. The company continues to focus on leveraging its scale and infrastructure, as well as implementing systematic changes that are expected to better position Starbucks back-end infrastructure to deliver more efficient service to the field.

Operating Income Impacted By Higher Costs in U.S. Business

Consolidated operating income increased four percent to \$333.1 million for the 13 weeks ended December 30, 2007. Operating margin contracted 160 basis points to 12.0 percent of total net revenues in the first quarter, from 13.6 percent for the same period a year ago. Higher cost of sales including occupancy costs and store operating expenses as a percentage of total net revenues were only partially offset by lower general and administrative expenses as a percentage of revenues.

For first quarter fiscal 2008, United States operating income declined by four percent to \$310.9 million. Operating margin contracted 290 basis points to 14.6 percent of related revenues from 17.5 percent in the corresponding period of fiscal 2007. The decrease was driven by higher cost of sales including occupancy costs and higher store operating expenses as a percentage of total net revenues, partially offset by lower general and administrative expenses as a percentage of revenues. Higher dairy costs contributed approximately 100 basis points to the decline.

International operating income grew 63 percent to \$54.1 million for the first quarter 2008. Operating margin increased 180 basis points to 10.0 percent of related revenues from 8.2 percent in the first quarter of fiscal 2007. The primary reasons for this improvement were lower cost of sales including occupancy costs partially due to lower leasing costs in the United Kingdom and improved leverage on store operating expenses overall.

Operating income for the CPG segment increased to \$50.6 million for the 13 weeks ended December 30, 2007, a 22 percent increase over first quarter 2007. Operating margin increased to 50.3 percent of related revenues from 45.9 percent for the prior year period, primarily due to a decrease in the cost of sales expense as a percentage of revenues.

Capital Structure Aligned With Strategy

For the 13 weeks ended December 30, 2007, net cash flow from operating activities totaled \$807.6 million, compared to \$678.4 million in the same period a year ago.

During the first quarter, the company repurchased a total of 12.2 million shares at a cost of \$295 million, and had 1.3 million shares remaining available for repurchase under the authorization in place at the end of the period. On January 29, 2008, Starbucks Board of Directors authorized the repurchase of up to 5 million additional shares of the company's common stock.

Comments on Recent Test of \$1 Brewed Coffee Short Cup

In response to recent inquiries about the test of a \$1 brewed coffee short cup, the company commented that Starbucks is built on premium coffee and a premium experience. Schultz observed, 'Similar to other leading global consumer brands, we believe there are opportunities to create segmentation, provide an entry point for new customers, and generate trial in a way that will also maintain the value of the core brand proposition we offer. It also recognizes the economic pressures our customers are under. We intend to reaffirm our position as the coffee authority and maintain our leadership position while broadening our appeal. But this offering is just a test, and we will be listening intently to customer feedback, as well as evaluating whether such a product advances our business objectives, elevates further the premium coffee experience, and creates value for us.'

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