

Starbucks Takes Significant Actions to Position the Company for 2009 and Reports Third Quarter Fiscal 2008 Results

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Costs Related to Company's Transformation Significantly Impact Quarterly Earnings - Leadership and Non-Store Organization Restructuring Aimed at Further Enhancing Operating Efficiencies - Australia Market Restructured to Strengthen the International Business for the Long Term

Starbucks Corporation (NASDAQ:SBUX) today reported financial results for its third quarter ended June 29, 2008, revised its expectations for fiscal 2008, and announced additional actions designed to deliver on its financial targets for fiscal year 2009 and beyond.

Consolidated net revenues increased 9 percent to \$2.6 billion for the third quarter of 2008, compared to \$2.4 billion for the third quarter of 2007. For the 13-week period ended June 29, 2008, Starbucks reported a net loss of \$6.7 million compared to net income of \$158.3 million for the same period a year ago. Earnings per share (EPS) for the quarter was \$(0.01), compared to EPS of \$0.21 per share earned in the prior year period. The company estimates that costs associated with the ongoing implementation of its transformation agenda impacted third quarter 2008 EPS by approximately \$0.17 per share, primarily for restructuring charges associated with the U.S. company-operated store closures announced on July 1, 2008 totaling \$167.7 million pre-tax or \$0.14 per share after tax.

'During the quarter, we continued to make solid progress in transforming the business for long-term, profitable growth. We are taking decisive actions to strengthen our global store portfolio and gain efficiencies in our overall cost structure,' commented Howard Schultz, chairman, president and ceo. 'At the same time, we continued to invest in elevating the customer experience through innovative new offerings and we are encouraged by the early results of these investments.'

Schultz continued, 'While we recognize the near-term impact to our business from this transitional year, we also believe this is the right approach toward strengthening our business model and creating a healthy, solid foundation for fiscal 2009 and beyond. The store closures and organizational restructuring we announced this month resulted from rigorous evaluations of the entire business. While this has led to difficult decisions that impact the lives of our partners, customers and the communities we serve, these were necessary actions to transform our business and allow us to focus on delivering significant improvement in our long-term financial performance.'

Recent Company Actions

Starbucks announced on July 1, 2008, the decision to close approximately 600 company-operated stores in the U.S. as a result of the company's rigorous evaluation of the U.S. company-operated store portfolio.

As part of its multi-faceted plan to transform the company, on July 29, 2008, Starbucks announced the reduction of approximately 1,000 open and filled positions within its leadership structure and its non-store organization.

On July 29, 2008, Starbucks announced it will close 61 stores in Australia by August 3, 2008, while 23 stores will remain open in the market. After evaluating several alternatives to improve its business in Australia, Starbucks determined that this decision, which is in-line with the company's strategy to focus on profitable growth, operational efficiencies and an enhanced experience for customers and partners globally, was the appropriate course of action.

The combination of all these actions is estimated to result in a pre-tax benefit of approximately \$200 million to \$210 million in fiscal 2009, which equates to approximately \$0.17 to \$0.18 of EPS. The beneficial impact estimated here excludes the related carry over of the lease termination and severance costs from the store closure actions.

Third Quarter Financials

The 9 percent growth in consolidated net revenues in the third quarter 2008 was heavily influenced by the U.S. business, which contributed 76 percent of total net revenue. The company's lower than expected revenue growth was driven by continued slow traffic trends in the U.S., which resulted in a mid-single-digit decline in U.S. comparable store sales, and was a slight deterioration from the second quarter. For the quarter, U.S. total net revenues increased by \$107.5 million, or 6 percent, to \$1.9 billion mainly due to increased revenues from company-operated retail stores. International total net revenues expanded 24 percent, or \$103.6 million, to \$535.6 million for the 13 weeks ended June 29, 2008 as the company continued to expand its store presence in its 44 markets outside the U.S. International revenue growth was dampened somewhat by a slight decline in traffic in the U.K. along with slower sales momentum in Canada. For the Global Consumer Products Group (CPG), total net revenues increased by 4 percent, or \$3.6 million, to \$90.7 million for the third quarter fiscal 2008 due primarily to increased product sales and royalties in the International ready-to-drink business.

Of note, many of the company's operating expenses are fixed in nature. As a result, the softness in U.S. revenues during the third quarter fiscal 2008 impacted nearly all consolidated and U.S. segment operating expense line items when viewed as a percentage of sales.

Consolidated cost of sales including occupancy costs increased 260 basis points to 45.2 percent of total net revenues for the 13 weeks ended June 29, 2008, compared to 42.6 percent in the corresponding period in fiscal 2007. The increase was primarily due to higher distribution and occupancy costs.

Store operating expenses as a percentage of related company-operated retail revenues rose 330 basis points to 44.0 percent in the third quarter 2008, from 40.7 percent for the prior year period. The increase was primarily due to higher payroll expenditures as a percentage of revenues in the U.S. business as well as costs related to the company's transformation strategy.

General and administrative expenses as a percentage of total net revenues improved 60 basis points to 4.5 percent for the third quarter 2008, from 5.1 percent for the corresponding period of fiscal 2007. The favorability was primarily due to lower payroll-related expenses.

Restructuring charges of \$167.7 million are comprised of asset impairments for the approximately 600 underperforming company-operated stores in the U.S. market, initially announced and estimated on July 1, 2008. The majority of the store closures are scheduled to occur during the remainder of fiscal 2008 and the first half of fiscal 2009, and the related lease exit costs and severance expenses are expected to be recognized during that time frame.

The consolidated operating loss was \$21.6 million for the 13 weeks ended June 29, 2008, compared with operating income of \$245.2 million in the comparable prior year period. Operating margin was negative 0.8 percent of related revenues for the third quarter fiscal 2008 compared to 10.4 percent for the same period a year ago. The decline was primarily due to restructuring charges of \$167.7 million taken in the third quarter of fiscal 2008, which accounted for 650 basis points of the decrease as well as higher cost of sales including occupancy costs and store operating expenses.

Income tax for the third quarter was a benefit of \$26.5 million, compared to an expense of \$84.7 million for the same period a year ago. The third quarter of fiscal 2008 includes the impact of the release of tax reserves during the quarter as well as a modest downward revision to the full year expected tax rate. The impact of these items on the effective rate for the quarter was large as a percentage of the small amount of pretax loss of \$33.2 million.

For third quarter fiscal 2008, the U.S. segment produced an operating loss of \$27.8 million, compared with operating income of \$253.2 million for the same period a year ago. Operating margin was negative 1.4 percent of related revenues for the third quarter fiscal 2008 compared to 13.8 percent in the corresponding period of fiscal 2007. This decrease was driven by restructuring charges of \$167.7 million taken in the period, which had an 860 basis point impact, softer revenues due to weak traffic, and higher store operating expenses and higher cost of sales including occupancy costs, which were partly due to costs related to the implementation of the company's transformation strategy.

International operating income increased slightly to \$35.5 million for the third quarter 2008, with the related operating margin contracting 90 basis points to 6.6 percent of related revenues, from 7.5 percent in the third quarter of fiscal 2007. The primary reason for this decline was higher cost of sales including occupancy costs, due in part to higher dairy costs.

Operating income for the CPG segment increased to \$48.7 million for the 13 weeks ended June 29, 2008, a 16.2 percent increase over third quarter 2007. Operating margin increased 560 basis points to 53.7 percent of related revenues from 48.1 percent for the prior year period, primarily due to the mix of revenue being less weighted toward the initial sale of coffee and tea products to Starbucks distributor, and more toward revenue profit sharing earned on the distributor's sales to retailers.

For the first nine months of fiscal 2008, consolidated net revenues increased 13 percent to \$7.9 billion, compared to \$7.0 billion for the same period a year ago. Net earnings totaled \$310.1 million for the first nine months of fiscal 2008, versus \$514.1 million for the same period of fiscal 2007, while EPS for the period was \$0.42, compared to EPS of \$0.66 for third quarter year-to-date in fiscal 2007. Year-to-date, restructuring and other transformation strategy-related costs impacted EPS by approximately \$0.19 per share.

Full-Year 2008 Guidance

Declining economic conditions as reflected in reduced traffic and, to a lesser extent, increased cost pressures have continued to negatively impact the current operating environment. As a result, Starbucks now expects full-year fiscal 2008 non-GAAP EPS to be in the mid-seventy-cent range, which excludes the \$0.19 year-to-date impact from restructuring and other transformation costs, as well as additional costs to be incurred in the fourth quarter related to executing on recently announced decisions. Full-year fiscal 2008 EPS, on a GAAP basis, will be impacted by the remaining restructuring charges that are expected to be spread across the fourth quarter of fiscal 2008 and the first half of fiscal 2009, the timing of which is dependent on lease termination negotiations with third parties. In line with this revised view, Starbucks anticipates total net revenue growth of approximately 11 percent in fiscal year 2008. These targets reflect the company's current assumption that fourth quarter company-operated comparable store sales trends will remain relatively stable with the third quarter.

The company lowered its U.S. store opening targets for fiscal 2008 to approximately 900 net new stores. This target is evenly distributed between company-operated and licensed stores and assumes that approximately 200 of the 600 company-operated store closures occur in the fourth quarter of fiscal 2008. In light of the current global economic climate, Starbucks and its joint venture and licensed partners are taking a more conservative approach to store openings. Internationally, the company is now targeting approximately 825 net new store openings for fiscal 2008, which includes the closure of 61 stores in Australia. Capital expenditures for fiscal 2008 are now expected to be approximately \$1.0 billion, below the \$1.1 billion the company previously anticipated.

Updates to 2009 Financial Targets

Starbucks is providing updated information about fiscal 2009 key financial and operational metrics, which are impacted by recent actions associated with its transformation strategy.

For fiscal year 2009, the company expects its non-GAAP EPS target, which excludes carry over of lease termination and severance costs from the fiscal 2008 U.S. and Australia store closures, to remain in the range of \$0.90 to \$1.00. Positive benefits factored into the range include: cost savings from the leadership and non-store organization changes, U.S. company-operated store closures, and restructuring of the Australia market. Fiscal 2009 EPS, on a GAAP basis, will be impacted by the lease termination and severance costs from the fiscal 2008 U.S. and Australia store closures that are expected to be spread across the fourth quarter of fiscal 2008 and the first half of fiscal 2009, the timing of which is dependent on lease termination negotiations with third parties.

The company has lowered its fiscal 2009 store opening target in the U.S. to approximately a negative 60 net new stores, which includes a nearly 225 company-operated store decline and approximately 165 licensed net new stores. Internationally, Starbucks is planning to open approximately 900 net new stores in fiscal 2009, two-thirds of which are expected to be licensed, as it factors in the current global economic climate, with a cautious approach in the UK and Western Europe. Capital expenditures for fiscal 2009 are now expected to be approximately \$750 million, which reflects the reduced store targets for the U.S. and International segments.

The company will provide additional details on its fiscal 2009 targets during its fiscal year-end conference call in November.

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