Starbucks (SBUX) Earnings Report: Q2 2015 Conference Call Transcript

The following Starbucks conference call took place on April 23, 2015, 05:00 PM ET. This is a transcript of that earnings call:

Company Participants

- JoAnn DeGrande; Starbucks; VP- IR
- Howard Schultz; Starbucks; Chairman, President, CEO
- Kevin Johnson; Starbucks; President, CEO
- Scott Maw; Starbucks; CFO
- Cliff Burrows; Starbucks; Group President - US, Americas, and Teavana
- Jon Culver; Starbucks; Group President - China/Asia Pacific, Channel Development, and Emerging Brands
- Mike Conway; Starbucks; President - Global Channel Development
- Adam Brotman; Starbucks; Chief Digital Officer
- Matt Ryan; Starbucks; Global Chief Strategy Officer
- John Culver; Starbucks; Starbucks Coffee China and Asia Pacific, Channel Development and Emerging Brands

Other Participants

- Sara Senatore; Bernstein; Analyst
- Keith Siegner; UBS; Analyst
- David Palmer; RBC Capital Markets; Analyst
- Joe Buckley; Bank of America Merrill Lynch; Analyst
- Karen Holthouse; Goldman Sachs; Analyst
- John Glass; Morgan Stanley; Analyst
- John Ivankoe; JPMorgan; Analyst
- David Tarantino; Robert W. Baird; Analyst
- Jeff Bernstein; Barclays Capital; Analyst
- Nicole Miller; Piper Jaffray; Analyst
- Diane Geissler; CLSA; Analyst
- Will Slabaugh; Stephens; Analyst
- Andrew Charles; Cowen and Company; Analyst

MANAGEMENT DISCUSSION SECTION

Operator:

Good afternoon. My name is Mike and I will be your conference operator today. At this time I would like to welcome everyone to Starbucks Coffee Company second-quarter fiscal year 2015 earnings conference call. (Operator Instructions). Thank you. Ms. DeGrande, you may begin your conference.

JoAnn DeGrande (VP- IR):

Thank you, Mike. Good afternoon. This is JoAnn DeGrande, Vice President of Investor Relations for Starbucks Coffee Company. Thank you for joining us today to discuss our second-quarter fiscal 2015 results, which will be led by Howard Schultz, Chairman, President, and CEO; Kevin Johnson, President and CEO, and Scott Maw, CFO.

Also joining us for Q&A are Cliff Burrows, Group President in US, Americas, and Teavana; Jon Culver, Group President, China/Asia Pacific, Channel Development, and Emerging Brands; Mike Conway, President, Global Channel Development; Adam Brotman, Chief Digital Officer; and Matt Ryan, Global Chief Strategy Officer.

This conference call will include forward-looking statements, which are subject to various risks and uncertainties that could cause our actual results to differ materially from these statements. Any such statements should be considered in conjunction with cautionary statements in our earnings release and risk factor discussions in our filings with the SEC, including our last annual report on Form 10-K.

Starbucks assumes no obligation to update any of these forward-looking statements or information. Please refer to our website at investor.starbucks.com to find the reconciliation of non-GAAP financial measures referenced in today's call with their corresponding GAAP measures. This conference call is being webcast, and an archive of the webcast will be available on our website at investor.starbucks.com later today. Let me now turn the call over to Howard. Howard?

Howard Schultz (Chairman, President, CEO):

Thank you, JoAnn, and welcome to everyone on today's call. Q2 of fiscal 2015 was a stunning quarter for Starbucks on almost every level. Record Q2 revenues of $4.6 billion, record Q2 operating income of $778 million, and record split-adjusted Q2 EPS of $0.33 per share, all clearly demonstrating a continuation of the strength, momentum, and robustness we saw in our business during holiday Q1. Equally impressive is that our Q2 results were delivered despite foreign exchange headwinds and soft consumer environments in several key markets.

Our global comp store sales increased a strong 7% in Q2, with 3% coming from increased traffic, our 21st consecutive quarter of comp sales growth of 5% or greater; and a spectacular result, given that our comps are now calculated off of a US store base of over 7,000 stores and a global store base of over 10,000 stores.

No other global retailer approaching our size or store base comes remotely close to posting such consistently strong comp performance.

Our Americas segment delivered another outstanding quarter, with performance driven by the successful introduction of several innovative new coffee beverages, including Starbucks Flat White, our new tiramisu and caramel flan beverage; an expanded selection of Teavana-branded tea beverages; and very positive customer response to our new breakfast sandwich lineup, all of which contributed to increased food attach across virtually all regions and dayparts. Turning to China and Asia Pacific.

Now with over 5,000 stores, our China/Asia Pacific segment delivered a company-leading 12% comp increase in Q2, almost entirely coming from increased traffic and a strong increase in operating income as well. We also completed the acquisition of Starbucks Japan in Q2, and are now in a position to aggressively go after business across all channels in Japan, both in and outside of our stores, in ways never before possible.

And we are already seeing an acceleration of our business in that key, highly opportunistic market. CAP remains a focal point of our future growth, and we are on track to meet our goal of doubling our CAP store count to roughly 10,000 locations, tripling our revenue to over $3 billion, and tripling our operating income to over $1 billion over the next five years.

In addition, I'm a proud to say that EMEA delivered the strongest Q2 performance in its history, reporting both record operating margin and record operating income. And our Channel Development segment also delivered a banner quarter, with a 16% increase in sales and strong increases in both operating margin and operating income, while at the same time further increasing Starbucks' already industry-leading share of premium single serve, premium packaged coffee, and premium packaged tea. Starbucks , by a wide margin, is the number-one premium coffee brand in the K-Cup category, and we now have shipped over 2.5 million K-Cup packs since launch.

Starbucks' stellar performance in Q2 was multi-segment, multi-channel, and multi-geographical, driven by our people in distinct markets all over the world, yet woven together by a common thread: industry-leading, partner-centric, and customer-facing innovation and the ongoing strength and global relevancy of the Starbucks brand and retail experience. Our history and experience demonstrate, and our research unequivocally confirms that the investments we make in deepening our connection to our people links directly back to value creation for our shareholders.

By offering every eligible partner the ability to profit alongside our shareholders through Bean Stock, providing paid health care coverage, providing competitive wages and incentive compensation opportunities, reimbursing college tuition costs through Starbucks College Achievement Plan, sharing and advancing our common values, and investing in the communities in which our people live and work, we are and will continue to make significant investments in our people around the world. And these investments are bearing fruit for our shareholders. You'll hear more about that -- about our additional partner investments that we are making in a few moments.

On today's call, I'm going to provide you with an overview of some of the innovations and strategic initiatives that we've announced or that we began to shape in the quarter, innovations and initiatives that will enable us to further extend Starbucks' global coffee authority and leadership around all things retail in mobile, and position us to continue to lead and to win around the world in the future. Then I will turn the call over to Kevin, who will share highlights of individual segment and market performance in Q2. And, finally, Scott will take you through our Q2 financial and operating results, and we'll finish up with Q&A.

Leadership around all things coffee remains at our core, and we continue to innovate and invest in order to meaningfully elevate the premium, highly differentiated, locally relevant coffee experience we deliver to over 75 million customers for over 22,000 stores in 66 countries around the world each week. Starbucks Flat White, an espresso forward, handcrafted beverage that combines premium espresso quality with creative artistry into a delicious hot beverage that we introduced into the Americas segment early in Q2, has already generated a strong customer following and is driving a food attach exceeding our original expectations.

On the heels of the success of Flat White, we have also introduced both Starbucks Cold Brew, and, in certain markets, yogurt-based fruit smoothies, incorporating and leveraging branded Evolution Fresh juices. While in the early days, each of these beverages is receiving a highly favorable customer response, and we will be rolling out a fantastic lineup of innovative new Frappuccino beverages and branded Teavana iced teas for our customers during the hot summer months ahead.

You may recall that in our holiday Q1, we recorded record-setting card sales and loads of $1.6 billion that we expected to drive traffic and positively impact our business in Q2, and that is precisely what occurred. More important is that we are now seeing large numbers of last holiday's first-time gift receivers become loyal, engaged, repeat Starbucks customers, supporting and contributing to the growth we are seeing across our global customer base. And with increasing customer acceptance of our mobile app, we now have over 16 million active users.

Dollars loaded on Starbucks Card continues to rise -- this is a really important number -- at 19% year-over-year increase in Q2 alone, in which $1.1 billion in Q2 was loaded, a trend and a figure that bodes very well for our business in coming quarters. We know that increased Starbucks Card sales drives increased My Starbucks Rewards membership, and, in turn, increased traffic and sales in our stores. We added 1.3 million new My Starbucks Reward members alone in Q2, more additional members in one quarter than most loyalty programs have in total, and now have over 10 million active members with almost 6 million members being active Gold members.

My Starbucks Rewards will continue to be among our most important business drivers as new members contribute not only to short-term increases in revenue and profit, but also to long-term loyalty for many years to come.

In December, we introduced Mobile Order and Pay into 150 stores in Portland, Oregon. Since then, we have expanded Mobile Order and Pay to over 600 stores in the Pacific Northwest, and we are now on track to roll out Mobile Order and Pay nationwide this calendar year.

Mobile Order and Pay has been extremely well received by our customers, enabling them to order ahead, avoid lines, avoid waiting for orders to be filled, resulting in shorter lines; faster service; improved, more efficient in-store operations and execution; and an elevated Starbucks experience. And Mobile Order and Pay is driving incrementality, as we are seeing an increase in both attach and daily transactions in those stores and markets where Mobile Order and Pay has been launched.

In addition, as we have shared with you before, we are on-plan to launch delivery in Seattle and in the Empire State building in New York City during the second half of 2015. There's no doubt in our minds that delivery, like Mobile Order and Pay, will drive further incrementality and profitability for the Company. Many of you had the opportunity to experience the world's most premium coffee experience for yourselves when you were in Seattle for our Investor Day last December, and visited the one-of-a-kind, 15,000 square feet Starbucks Reserve Roastery and Tasting Room, what many have called the Willie Wonka of coffee. We fully anticipated that the Roastery would be a success, and that we would build additional Roasteries in select US and international cities in the years ahead.

But no one could have recently have anticipated the overwhelming customer and visitor response that the Roastery is generating in only the first four months of its operations. Look for our second Starbucks Reserve Roastery and Tasting Room in calendar 2016 in a city to be announced later this year. And while the Roastery is an immersive, experiential venue, it is actually so much more.

Our intent with the Roastery from day one was to create and build a new, ultra premium coffee brand and business unit. The additional small batch coffee roasting capacity provided by the Roastery is enabling us to source, roast, blend, and market spectacular, limited availability, micro-lot coffees from around the world, and to meaningfully elevate the super premium coffee experience we deliver to our customers. We are already expanding availability of Starbucks Reserve coffees to over 1,000 Starbucks locations as we begin to build the Starbucks Reserve brand.

And the Roastery is enabling the launch of 500 Starbucks Reserve stores worldwide, a new class of stores that will showcase the most premium of all super premium coffees in the world, and the newest coffee brewing methods such as pour-over; siphon; and Starbucks' proprietary brewing technology, Clover. Starbucks Reserve stores will also incorporate an integrated Teavana kiosk to leverage traffic and growing consumer interest in super premium loose leaf and packaged Teavana teas. Starbucks Reserve stores and Starbucks Reserve brand provides us with an exciting, innovative, highly differentiated, new, global growth opportunity that leverages all of Starbucks' strengths around the world in terms of coffee sourcing and roasting, [premiumization], coffee beverage development, retail site selection and design, merchandising, and customer engagement.

Watch for the opening of our new Starbucks Reserve flagship store towards the end of calendar 2015, and the opening of Starbucks Reserve coffee bars within select, existing Starbucks locations across the US as part of normal Starbucks store renovation cycles.

The addition of Starbucks Reserve coffee bars will both drive incrementality in existing Starbucks stores and quickly build consumer awareness of our new Starbucks Reserve brand, domestically and around the world. In closing, before I turn the call over to Kevin, I want to share with you what many within Starbucks and I already knew, that Kevin Johnson is a passionate servant-leader, a world-class businessman, an expansive thinker, and a wise counselor.

The partnership and the insights that Kevin brings to the senior leadership team as a highly engaged, six-year member of the Starbucks Board of Directors, and now as President and COO of our Company, are providing to be invaluable and already having a tremendous positive impact across all business segments and geographies. And he's just getting started. So I welcome Kevin to the call, and I now turn the call over to Kevin.

Kevin Johnson (President, CEO):

Thank you, Howard, and good afternoon, everyone. Q2 was an excellent quarter for Starbucks across the board. Before providing operating highlights for each of our segments, I thought I would share a very brief update on my transition into day-to-day management. Since January, I have been working closely with Howard and the Starbucks senior leadership team to ensure a smooth transition and a rapid ramp-up beginning on March 1. I am now almost 4 months into a deep immersion across all key business functions, as well as field visits to stores and facilities throughout North America and Europe, engaging with our partners, customers, and suppliers.

Next week my immersion takes me to Asia, where I will have the opportunity to visit Starbucks stores and partners in the region with our Group President, John Culver. This immersion process is providing me with a more comprehensive understanding of Starbucks' business and operations. But more than that, the immersion is providing me with an even greater appreciation of the enormous global opportunity that lies ahead for this fantastic company and the remarkably talented management team.

I'm committed to doing everything I can to create value for our Starbucks partners and shareholders, always through the lens of humanity, around the world, and into the future. Thanks to Howard and all of the Starbucks partners for their warm welcome, and for their help in making my transition into this role so seamless.

Now I would like to tell you about Q2. Our Americas business continues to deliver strong, consistent, profitable growth, with a 7% increase in comp sales in Q2 and record revenue of 11% over last year, record operating margin, and record operating income. Our US food program continues to be a key focus and a tremendous opportunity for us.

I'm pleased to report that in Q2, US food sales grew 16% year-on-year and contributed 2 points of comp growth with every daypart, platform, and region contributing to the increase. Noteworthy has been the sales of our innovative new breakfast sandwiches contributed to a 35% year-over-year growth in our breakfast sandwich program. Our lunch platform also delivered double-digit year-over-year gains as well.

As Howard mentioned, we introduced the Starbucks Flat White beverage that was enthusiastically embraced by our customers. Flat White both elevated the entire core espresso category and drove increased food attach. We launched another coffee forward beverage, Starbucks Cold Brew, in select North American markets with a plan to offer Starbucks Cold Brew in many more US stores this summer.

While still early in its innings, customer response to Starbucks Cold Brew has been very strong.

Handcrafted branded Teavana tea beverages sold in Starbucks' retail stores continued to drive both food attach and strong growth in the tea category in Q2, with tea revenue up 15% year-on-year, driven in large part by very strong customer response to the launch of Teavana branded shaken iced teas and Teavana Tea Lattes. Teavana represents a very compelling, strategic opportunity for Starbucks , and we plan to expand availability of branded Teavana tea beverages throughout Starbucks retail stores in multiple new geographic markets in the quarters ahead.

Based on our success in the United States with La Boulange Bakery platform, we have now begun deployment throughout Canada. Already nearly 70% of Starbucks Canada cafes have transformed pastry cases, with the balance to be converted by summer. And our core Frappuccino platform, introduced 20 years ago, remains very strong and continues to attract both new and repeat customers. Birthday Cake Frappuccino, available only five days in March, was a huge success.

And as Howard mentioned earlier, we have some very exciting Frappuccino and branded Teavana iced tea beverages planned for this summer. Starbucks China/Asia Pacific region, our fastest-growing region, delivered another very strong quarter with comp sales rising 12%, the strongest comp sales increase since 2012. With revenues increasing 124% -- or 24% when excluding the $270 million incremental revenue from the acquisition of Starbucks Japan -- operating income rose 29% from Q2 last year.

We have more than doubled our CAP store count to over 5,000 stores in the past five years. We've added 769 net new stores in the last 12 months. We will open our 1,600th store in China later this month, where we now operate in 87 cities, and our on our plan to increase our store count to over 10,000 stores in CAP over the next five years.

Passion for coffee and partner customer engagement in CAP are among the highest of any market in the world. In response to customer and partner demand, we have expanded availability of Starbucks Reserve packaged coffee, and we now offer Starbucks Reserve in 136 stores across 10 CAP markets. In Q2, we assumed full ownership of the strategically important Japanese market. Japan is a market we first entered nearly 20 years ago.

And now with full ownership, we have the ability to further accelerate store growth, expand the Starbucks brand across multiple other channels, and cross-sell products into other CAP regions. As an example, we recently introduced Origami, our premium, single serve, pour-over packaged coffee, formerly only available in Japan, into Taiwan, Hong Kong, Korea, and mainland China, to a strong positive customer response.

Our China/Asia Pacific business continues to perform extremely well, reinforcing our confidence in the long-term growth potential of the market. The evolution of our EMEA business continues, with the business reporting a 2% comp sales increase in the quarter, with 2% driven by traffic growth and 1% increase in ticket. We are building our EMEA business by introducing new food and beverage offerings and innovative new store designs, while at the same time increasing sales across all dayparts and successfully building capacity at peak.

And we continue to enter high customer traffic locations by adding additional channel licensees at venues such as train stations, airports, and supermarkets. Equally important, the EMEA team's laser focus on operations and the ongoing mix shift towards licensed stores enabled that segment to significantly increase both operating margin and operating income, despite formidable foreign exchange headwinds, a subject Scott will discuss in a few moments.

Channel Development. Now operating in 41 markets around the world, in Q2 our Channel Development segment, already our second-most profitable business segment, increased revenue 16% and operating income 23% year-on-year. At the same time the Channel Development team increased share of every product within its portfolio, including roast and ground, K-Cup, VIA and Tazo Teas. Our Channel Development segment remains on track to grow its top line by 60% and its operating income by nearly 100% by the year 2019.

Since launch, Starbucks has built its leading position on the K-Cup platform through ongoing product innovation, including the introduction of single origin coffees and seasonal and LTO offerings, including holiday blends. And by expanding our channels of distribution. We will continue to innovate around out K-Cup portfolio, including new offerings for summer refreshment, including iced Starbucks coffee and Tazo iced tea K-Cups to brew over ice.

And in Q2 our growing food services business, which increased sales 11% year-over-year, began serving millions of customers traveling on Delta, and Delta Connection flights, around the world. The global ready-to-drink coffee market, a market we are uniquely well positioned to lead, is large and growing rapidly.

Our plan is to double our international ready-to-drink coffee business over the next five years. We have taken an important step forward with the strategic partnership we announced last month with Tingyi, among China's largest and most respected beverage companies. Combining the Starbucks brand and our 1,600 retail store footprint in China with Tingyi's local manufacturing capabilities, its grocery sales expertise and its broad distribution capabilities, positions us to unlock the huge opportunity that exists for Starbucks ready-to-drink coffees in China.

Among the things that has impressed me most throughout my immersion has been the pace of innovation that's taking place at Starbucks . Highlighting all the innovation currently underway across the Company in beverage, food, store design, marketing, merchandising, would require many more hours than we have available today. But I would like to share a few highlights of what I believe to be game-changing innovation taking place on the customer digital experience.

We are delighted with the initial results of Mobile Order and Pay, our mobile ordering capability now available in over 600 stores across the Pacific Northwest. Starbucks Mobile Order and Pay experience is a proprietary, fully integrated technology that allows customers to order their food and beverage selections through their mobile device ahead of time, and go to their participating store to pick up the completed order.

Our experience to date gives us confidence that once fully deployed, Mobile Order and Pay will drive a significant increase in mobile payment transactions in stores across the US. Enhancing our in-store experience with customer focused digital experiences like Mobile Order and Pay creates a positive flywheel effect on our business and attracts more My Starbucks Rewards members. Each new MSR member represents a deeper, more personalized customer relationship. And more personalized customer relationships allow us to better serve customers and grow our business, as evidenced by the significant increase in the number of active MSR members we are serving.

For the first time ever, we now have over 10 million active MSR members in the US, up 27% over last year, having added 1.3 million new MSR members in Q2. We are now processing over 8 million mobile payment transactions per week, equaling nearly 19% of our US store tender. And in Q2, we not only experienced record card redemptions following the record holiday card sales and loads, but we also recorded Q2 record card loads of over $1.1 billion for North America, a 19% increase year-over-year.

While Mobile Order and Pay is exceeding every internal goal we have set, we are even more proud of the difference the technology is making in our customers' lives. We are receiving positive feedback from many customers: students who now have time to visit Starbucks between classes; parents who are able to easily order their favorite Starbucks food and beverages while running errands with their children; and busy people from all walks of life who are leveraging this new capability to enable their own personal Starbucks experience. We also received overwhelming appreciation from deaf customers, who are now able to easily order and receive their customized beverage just the way they want. Customer connection has always been core to who we are as a company.

And we are leveraging the digital assets to expand and enhance that customer connection to what is now more than 16 million active users of our mobile apps in the US alone. We remain on track to fully deploy Mobile Order and Pay to all US company-owned locations before this holiday season.

At the same time, we will begin testing delivery. In March we announced, through a collaboration with Postmates, a leading on-demand delivery service, we will enable customers to order food and beverage items using Starbucks' mobile app and receive on-demand delivery within defined areas.

We are also launching a green apron delivery test with our partners, delivering orders within specific office buildings. As Howard mentioned, our first green apron delivery test will begin in New York's Empire State building in the second half of 2015.Creating a genuine Starbucks experience for our customers and an authentic and personal connection between our customers and our partners is core to everything we do. Earlier this fiscal year, we began rolling out a series of investments in support of our in-store partners who deliver the Starbucks experience.

Conceived, carefully developed and honed over the past year, the changes we have implemented are already touching 135,000 partners across our US store base. Changes include increased barista and shift supervisor pay rates, additional performance-based recognition programs, updates to our dress code, a new food benefit, as well as our industry-leading College Achievement Program.

We are also investing in digital solutions to automate store tasks, freeing up our partners to focus more of their time and attention on customer engagement. We are beginning deployment of handheld devices connected with a scanner to simplify things like inventory management. This is just one example of many where we intend to leverage technology to empower in-store partners in support of our mission. This is a journey, and we are committed to listening to our partners and to delivering further enhancements to the partner experience. We are making similar investments in locally relevant ways to improve our partner experience elsewhere around the world.

In closing, and as Howard mentioned, if there is one word to describe Starbucks' record performance in the quarter, I think it would be innovation. Innovation around new, locally relevant food and beverage offerings; innovation around stunning new store designs; innovation through the creation of new global growth platforms, all centered around coffee; innovation around how we serve and engage with our customers and build customer loyalty; innovation around our breakthrough mobile and digital technologies; and innovation around how we invest in and connect with our most important asset, our people.

Innovation will continue to drive our business in the future, and provide us with the confidence and ability to continue growing our business in markets and channels on a global basis. And while we were pleased with our Q2 performance, we know that we have much more work to do to achieve our aspiration of becoming the world's most respected and enduring customer brand. With that, I will turn the call over to our CFO, Scott Maw. Scott?

Scott Maw (CFO):

Thanks, Kevin, and good afternoon, everyone. I am very pleased to comment on the strong Q2 financial results that Starbucks announced today, especially in light of the fact that each of our segments contributed meaningfully to the results. Strong global comp growth of 7% in the quarter demonstrates once again the increasing strength and relevancy of the Starbucks brand.

Transaction comps of 3%, driven in large part by an excellent execution in our key, fast-growing CAP region, exceeded transaction comps in the Americas, reflecting the increasingly global nature of our brand. Revenues grew to $4.6 billion, an 18% increase over prior year, despite nearly 2 percentage points of headwind through foreign currency translation.

GAAP EPS came in at $0.33. And our non-GAAP EPS, also at $0.33, came in ahead of the pre-split consensus. We raised our guidance modestly at our annual shareholders' meeting in March, and the results we announced today are at the top end of that revised range. Excluding non-GAAP items, operating income increased 23% over Q2 last year to $789 million, while non-GAAP operating margin expanded 70 basis points to 17.3% in the quarter. Importantly, we saw a meaningful increase in COGS leverage this quarter, as supply chain initiatives we have previously discussed increasingly benefit our operations.

Our year-over-year operating performance improvement becomes even more meaningful in light of the ongoing investments we continue to make around building new stores and renovating existing stores, the partner investments we are making, and unfavorable foreign currency translation. I will now tell you about each of our segments and how they performed in Q2.

Our Americas segment revenues grew 11% in Q2, primarily driven by a strong 7% comp growth and another quarter of 2% transaction growth. Of the 7% comp growth, food sales drove 2 points of the increase, while beverage innovation and tea drove 1 point each. Noteworthy is that the contribution to comp growth from tea has roughly doubled since we introduced Teavana teas into our Starbucks stores last summer, adding 1 point to comp in each of the last three quarters. In Q2, Americas operating margin expanded 110 basis points over Q2 last year to 22.7%, an excellent result as the bulk of our US store partner investments began in earnest during the quarter.

The largest components of the new partner investments were wage adjustments and the introduction of a new food shift benefit. Altogether, these investments impacted Q2 operating income by $34 million and operating margin by 100 basis points. For fiscal 2015, we expect partner investments to total approximately $140 million, and this amount was fully included in our initial and current guidance. Looking forward, we expect modest further expansion of the Americas margin during the second half of the year.

Our EMEA segment increased operating income 65% over Q2 of last year to a Q2 record $29 million. Our licensed store portfolio in the region continues to perform exceedingly well, with high-single-digit comps once again this quarter, reflecting the strength and resiliency of the Starbucks brand.

At the same time, EMEA's operating margin expanded 470 basis points to a Q2 record 10.4%, reflecting the continued progress that the EMEA team is making against our plan to improve operations and achieve mid-teens operating margins over the near-term. EMEA saw a decline in revenues largely due to unfavorable foreign exchange translation and the ongoing shift from company-owned to licensed stores in several markets. These factors, coupled with continued consumer weakness in several countries within the EMEA region, make this segment's Q2 performance that much more impressive.

We remain confident that EMEA's operating margin will reach the upper end of our 10% to 12% guidance during fiscal 2015.Our China/Asia Pacific segment delivered a 29% increase in operating income to $112 million in Q2. GAAP operating margin declined from 32.8% to 18.9%, reflecting the impact of our acquisition of Starbucks Japan.

As I have mentioned previously, our Japan stores remain among our most profitable in the world. Excluding the nearly 15 point financial impact of the ownership change in Starbucks Japan, CAP's operating margin increased by 80 basis points, driven primarily by sales leverage throughout the region, including very strong sales leverage in China. We continue to drive an increase in store unit economics in China, and our newest class of stores is delivering excellent first-year operating profitability.

The CAP team remains laser-focused on continuing to deliver substantial, disciplined, profitable growth. And we are increasing our CAP operating margin guidance slightly, as we now expect operating margin to approach 20% for all of 2015.Channel Development had an excellent Q2, with operating income increasing 23% to a record $156 million. Operating margin for the second quarter expanded 210 basis points to 36.5%, primarily driven by efficiencies in cost of goods sold, strong results from our North American coffee partnership that delivered its highest quarterly year-over-year profit growth since 2009, and sales leverage.

We now expect approximately 150 basis points of operating margin improvement in Channel Development in fiscal 2015. Strong results during the first half of 2015 enabled us to generate earnings per share at the upper end of our 16% to 18% non-GAAP target EPS growth range. Accordingly, in March, we increased our guidance range, and today reaffirmed that range with GAAP EPS targeted between $1.77 and $1.79, and non-GAAP EPS targeted between $1.55 and $1.57. For Q3, we are targeting GAAP EPS of between $0.39 and $0.40, and non-GAAP EPS in the range of $0.40 to $0.41. For 4Q, we expect GAAP EPS in the range of $0.40 to $0.41, and non-GAAP EPS in the range of $0.42 to $0.43.

One further note about our guidance for Q3 and Q4. While we fully expect margin expansion from Q3 to Q4, our earnings growth for Q4 will be slightly below our average earnings growth for the year, due to the impact of the partner investments, higher negative foreign currency translation, and lapping a particularly strong Q4 of 2014. Revenue growth for fiscal 2015 remains targeted at 16% to 18%, despite 2 points of headwind from foreign currency translation. We continue to expect commodities to be roughly neutral in 2015 as compared to 2014.

Our coffee team's patience around coffee pricing paid off, resulting in our costs for fiscal 2015 being below average market prices. Moving on to margin, we now expect a modest increase in fiscal 2015 non-GAAP operating margin over last year, representing a slight increase over our prior guidance. We still anticipate 1,650 net new stores in fiscal 2015. But we now expect Americas to have approximately 600 net new stores, slightly lower than previous guidance, due to the impact of the closing of the 132 licensed Target stores in Canada. Our EMEA net new store target moves up slightly to 200, and net new stores in CAP remains the same at 850. All other guidance remains consistent with last quarter.

A quick note on 2016 coffee pricing. Due to the recent drop in coffee prices, we have been locking in supply for 2016, and are now close to 70% priced for 2016 at prices somewhat favorable to 2015. We will update you on the impact of coffee prices on 2016 performance as the year progresses. Finally, a few words of caution about extrapolating our current-quarter performance into results above the upper end of our guidance. While we are comfortable with the range that we affirmed today, several factors need to be understood when considering the upper end of our range.

First, the US store partner investments that both Howard and Kevin spoke about will be fully ramped up during the third and fourth quarters of fiscal 2015, impacting margins for the Americas segment during the back half of the year. We have fully planned for these investments. However, the future benefits that will flow from these investments are significant. And we will not hesitate to take advantage of opportunities to make additional targeted partner investments that build and strengthen the business as we move through the balance of 2015.

Second, both CAP and Channel Development had banner second quarters. And we fully expect each segment to finish the year very strong, but we do not anticipate a repeat of second-quarter performance for either segment. For example, in the back half of 2015, our internal projections call for Channel Development revenue growth to be closer to 10%, consistent with the growth that we have seen over the past several years.

Finally, foreign exchange is becoming an increasingly challenging headwind, with over 2 percentage points of negative impact on both revenue and earnings growth planned into the back half of 2015. This was not contemplated in our plan or our initial guidance for the year, and we are still planning to deliver earnings growth of 17% to 18%, despite over 2 points of currency impact. In fact, we modestly increased both the top and bottom ranges of our full-year EPS guidance last month. We believe that this level of growth will represent best-in-class performance, the right level of investment in our partners, and an industry-leading return for shareholders.

One final subject before turning the call to Q&A. In the past, we have given guidance for the upcoming fiscal year during our third-quarter earnings call, even though our annual operating plan is typically not finalized until September. Kevin and I have been discussing this, and, given the size and scale of our increasingly complex and global business, have decided that going forward we will move future guidance to our Q4 earnings call, enabling us to complete and fully vet our plan prior to providing guidance.

Be assured that this change is not related to Q3 performance to date. In fact, we are quite pleased with how the quarter has started. Nor does it signal any coming change in long-term targets; it does not, and our long-term targets remain unchanged.

Instead, we are making this adjustment for the sole and simple reason that doing so will result in a more complete and informed forward guidance conversation.Q2 represented another quarter of strong growth and excellent financial and operating performance for Starbucks , all around the world.

As we enter the second half of 2015 and look to the future, we are ideally positioned to continue benefiting from the investments we are making in our people, in our stores, and in innovation, and to continue providing world-class returns to our shareholders. We will continue to update you on our progress as we move throughout the year. Now I will turn the call back to the operator for Q&A. Operator?

QUESTIONS & ANSWERS

Operator:

(Operator Instructions). Sara Senatore, Bernstein.

Sara Senatore (Analyst - Bernstein):

I was wondering if you could talk a little bit more about Mobile Order and Pay, a couple of questions related. One of them is you're about halfway through the year and you have 650 stores, and you are looking to accelerate I think quite nicely in the back half.

If you could talk a little bit about what you've learned that will allow you to accelerate that pace. And the other piece we are curious about is, are you seeing that only people who already use mobile pay are using the order and pay? Or are you actually attracting new customers to the use of the app, now that you have the ordering capability?

Adam Brotman (Chief Digital Officer):

This is Adam Brotman. I will take the second question first. The answer is yes. We are seeing new customers come in and use -- join MSR, use the mobile app, and also use Mobile Order and Pay. So this is not just leveraging the strong base that we already have in our mobile commerce platform. In terms of the rollout plans and what we're learning, we're very pleased with how this has started.

We will actually see a significantly ramped up, accelerated pace of roll out in the second half of the year, as you mentioned. We have a big wave of stores coming on this summer. And while we continue to learn and optimize a couple of areas -- for example, the estimated wait time pick-up -- we're dialing in store level menu and inventory management.

These are all things that we're going to continue to improve on. But, frankly, we're ecstatic about the fact that, out of the gate, our customers and our partners are really pleased with how this is going. In fact, Seattle started out even quicker than Portland. And as we roll this into more dense urban environments, that bodes really well for how this is going to continue to drive transactions and be a great thing for our customers.

And, operationally, our partners are telling us there is no impact, and they are very happy with this as well. So we're excited to accelerate that rollout, as you mentioned, into the second half of the year. We're also going to be adding this to our Android app, and launching this in the UK and in Canada all before the end of the year, so we're truly just getting started.

Sara Senatore (Analyst - Bernstein):

Great, thank you.

Operator:

Keith Siegner, UBS.

Keith Siegner (Analyst - UBS):

Congratulations on a great quarter. I want to ask a question about the Americas with the check growth. Very impressive; it's the highest two-year ticket growth we've seen in many years. And with some of these new premium products like Flat White, like Reserve, like Cold Brew, with the mobile order rolling throughout this year, with the food attach increasing as you've talked about, lots of tailwinds here. Could this be the beginning of a run of closer to mid-single-digit ticket growth in the US?

Cliff Burrows (Group President - US, Americas, and Teavana):

Okay, thank you for your -- it's Cliff -- thank you for your comments there about our ticket growth. Yes, we are absolutely delighted with our ticket growth in the quarter. We've seen 2% come from food. We've seen 1% from tea.

We've seen strength from our base business, whether it is Frappuccino in the sun-belt; or, as you say, Flat White, all of which help our ticket in the quarter. Plus our routine and disciplined approach to price in the quarter, all have helped. As far as the future, I will pass it over to Scott.

Scott Maw (CFO):

Yes, I think the only thing I would add, Keith, is that ticket mix was blended nicely across the three drivers that Cliff was talking about. So, a little bit of price, a little bit of up-level premiumization with Flat White and some of the things that we're doing with food, and a nice increase in attach.

So the mix of that is really helping. And so, as I said in my comments, I think we're quite excited about how the rest of the year looks, but we're still holding to our mid-single-digit comp guidance as we look forward.

Keith Siegner (Analyst - UBS):

Thank you.

Operator:

David Palmer, RBC Capital Markets.

David Palmer (Analyst - RBC Capital Markets):

Congratulations. A couple of P&L oriented ones, perhaps for Scott. The COGS leverage was really strong in the quarter, as you mentioned. And you mentioned in the release how supply chain efficiencies were driving a good bit of it, particularly in the Channel Development segment. But as we look forward, how should we think about that COGS line?

That, plus coffee -- will that kind of leverage continue? And then separately, with regard to G&A, you had a significant increase in the quarter. I think it was 27%. What investments are driving that? And how should we think about that line as well? Thanks.

Scott Maw (CFO):

On the COGS point, the short answer is yes. We expect continued leverage. I don't expect it to be as high as it was this quarter. This was a really good quarter with some of the initiatives that we talked about kicking in, and also in Cliff's business, significant continued traction around waste. But we see that leverage continuing in the quarter. And we've got a number of things stacked up against making sure that happens. And then on G&A, the biggest driver of that at the corporate level is some true-ups that we had around total compensation.

David Palmer (Analyst - RBC Capital Markets):

Thank you.

Operator:

Joe Buckley, Bank of America Merrill Lynch.

Joe Buckley (Analyst - Bank of America Merrill Lynch):

A couple of clarification questions. Forgive me if I missed it, but did you give the mainline China same-store sales increase for the quarter within that strong CAP number?

Scott Maw (CFO):

We didn't break it out, Joe. But, as always, China is obviously the biggest contributor to that growth. So we were really happy with what we saw in China this quarter.

John Culver (Starbucks Coffee China and Asia Pacific, Channel Development and Emerging Brands):

Joe, this is John. I would just add that the main driver for the comp growth has been transactions. And the experience that we are providing across the region has never been stronger. And in particular, what we're seeing is that Starbucks is becoming part of that daily ritual of our customers in China, in Japan, or in the other markets that we're operating in.

And the level of frequency of our existing customers and the new customers that we are attracting continues to grow. We are now serving well over 5 million customers a week across the region, and extremely proud of the job our team is doing over there.

Joe Buckley (Analyst - Bank of America Merrill Lynch):

Okay. And then just a question on the Tingyi -- if I'm pronouncing that correctly -- agreement. How quickly will that ramp up? And the bullet in the release mentions the ready-to-drink coffee category. Will that cover tea products as well?

Mike Conway (President - Global Channel Development):

Yes, Joe, this is Mike Conway. So, we currently distribute the Frappuccino product in China today, although it is in a more limited geographical presence than we would have. From a timing perspective, we're going to be transitioning in 2016 to Tingyi. And we expect that with the strength of their distribution and their knowledge of the marketplace, combined with our strong brand, that we will significantly unlock the growth for China.

Howard Schultz (Chairman, President, CEO):

Mike, you want to just spend a little bit more time on Channel Development, since we haven't had an opportunity?

Mike Conway (President - Global Channel Development):

Sure.

Howard Schultz (Chairman, President, CEO):

And also with regard to Tingyi, maybe you can talk about how many points of distribution they have.

Mike Conway (President - Global Channel Development):

Yes, absolutely. So, and you also, Joe, mentioned about tea. And, yes, we will, over time, be launching tea as well with the Tingyi distribution. We will, from a channel to distribution perspective, points of distribution, they have well over 100,000 points of distribution within China. And for Channel Development for this quarter, we are actually very pleased with our results. Our 16% growth was, by all measures, quite exceptional, and was driven by a number of factors for us.

First of all, very, very strong programming, in-store execution, as well as the success of and launch of innovations like our new iced K-Cup platform. And as we think about the remainder of the year, we have other innovations coming on as well, including a launch of iced -- or rather our cocoa K-Cups as well. And so we expect very strong performance in the back half, although expect it to be more in line with our historical growth of around 10%.

Joe Buckley (Analyst - Bank of America Merrill Lynch):

Thank you.

Operator:

Karen Holthouse, Goldman Sachs .

Karen Holthouse (Analyst - Goldman Sachs):

Actually another question on the channel development side of the business. So, we've seen in the last, probably few months, on Nielsen or IRI data that pricing has actually come in for Starbucks both on an absolute basis and relative to the market. I'm just curious -- the logic behind that, if that was seen as an opportunity. Your net profit accretion, if it's sending off potential entrants into the market with Duncan, moving into more points of distribution, just some of the logic behind that. And, of course, congratulations for a fantastic quarter.

Scott Maw (CFO):

Yes, thank you. From a pricing perspective, we actually are quite pleased with the way we were able to balance our base with promotional pricing. You combine that with the strong in-store merchandising that we had, we were able to achieve significant share growth across all of our businesses during the quarter. And so we will continue to monitor the market, continue to monitor the pricing, and make appropriate shifts. But at the moment, we're quite pleased with how our pricing is lining up in the marketplace, and in particular how we're driving share in the market.

Karen Holthouse (Analyst - Goldman Sachs):

Great, thank you.

Operator:

John Glass, Morgan Stanley .

John Glass (Analyst - Morgan Stanley):

A few quarters ago there was a notion of maybe greater partnerships in the tech side, either using some of their technology, maybe white-labeling some of Starbucks' payment platforms, et cetera. So where does that stand now? What's your current thinking on that? And Kevin, as you come to this full-time, maybe are there specific areas that you think are even greater opportunities that you bring your outside experience into Starbucks ?

Howard Schultz (Chairman, President, CEO):

I think Matt and Ryan is going to start, and then Kevin will follow up.

Matt Ryan (Global Chief Strategy Officer):

Sure. We continue to be in a number of active dialogues right now about a number of different partnerships, leveraging mobile. We see the continued growth as being our permission to do more and more in that space. We're not prepared to announce anything specific today. And what I can tell you is in the months and year to come, there will be more on that front.

Kevin Johnson (President, CEO):

Yes, in terms of opportunities for us to better leverage technology, early observation, I think we're ahead of the industry in thought leadership around the digital customer experience. And we're going to keep pushing the envelope on that.

We have kind of outlined that for you, and there's more ideas even behind that. The area that I think we have opportunity certainly is with our in-store partners, on leveraging technology to help our in-store partners with the tasks they have to do that are more about the administrative side of things like inventory management; making it easier for them to do scheduling of our store partners, communicating with our store partners, the way we reach in-store partners with training and communications.

We've got a tremendous opportunity to step up our game in that particular area and were going to do more there. And then certainly if you look at how we're utilizing information across the enterprise to make more informed and better decisions, whether it's using data -- big data kinds of analytics to help us with a store location, or big data analytics to help us understand how to do a better job of promoting to our customers at different times of the year. I think those are the big opportunities that we see, and we're going to continue to drive forward with those.

Operator:

John Ivankoe, JPMorgan .

John Ivankoe (Analyst - JPMorgan):

Howard and Kevin, you were very, very clear that the Mobile Order and Pay has exceeded every goal that you've set. So I wanted to get just a little bit more into the details of this. One would think that mobile order would work the best at the constraint or the pinch point, I think, in your words, would be at the register and not at the barista.

And so as that rollout has continued, what you've actually learned about increasing barista capacity. Is it just an issue of adding more baristas, adding more equipment? And as you think about mobile order/mobile pay over time, how much more latent capacity exists within the existing Starbucks unit because of this technology?

Howard Schultz (Chairman, President, CEO):

John, this is Howard. Cliff is going to take that in terms of the details of the question. I think it's fair to say that we did not intend, nor do we foresee, adding equipment as a result of Mobile Order and Pay.

The incrementality that we're seeing in the early stages strongly suggests that we're going to be able to integrate this well within the engine of Starbucks . With regard to labor and how we're deploying it, I will let Cliff take it. But I would say, as Adam shared with you, that the early signs of Mobile Order and Pay is this is going to be a much more seamless integration than we really anticipated, both in terms of customer response and the level of convenience.

And also I wouldn't underestimate one other thing, which we learned with Flat White, and that is our people are so excited and so proud of this initiative and this technology. They've embraced it. They're enthused about it. And as a result of that that's one of the primary reasons why it's working so well. Cliff, do you want to answer the issue of incremental labor?

Cliff Burrows (Group President - US, Americas, and Teavana):

Yes, let me just talk about this. I think one of the things that we're seeing is convenience; improved relationship between the customer and their store where [their] order. They feel much more in control of it. Food attach is strong in it, and just the repeat nature of these transactions is really, really helping. It is convenient for the customer.

They have no queue time. They are coming in and going straight to the handoff point and collecting. That, in turns, is freeing up space in the stores and taking stress away from the register transaction. And we are seeing really encouraging signs of growth at peak in our busiest stores, which is what is most exciting here.

Those busiest stores -- we can only really talk about Seattle -- but where we have put in Mobile Order and Pay, we are seeing really strong growth at peak. And there has been no additional equipment, over and above putting in a printer to receive the orders from customers. And it's really encouraging that we will be able to get more capacity at peak out of existing stores with the addition of Mobile Order and Pay.

Howard Schultz (Chairman, President, CEO):

Adam, can you or Kevin just talk about how this has been integrated into the ecosystem with regard -- this is not a bolt-on. Thank you.

Adam Brotman (Chief Digital Officer):

Yes. First of all, the ecosystem you are referring to is the mobile commerce platform, which includes loyalty, the mobile app, our card program, our POS systems in our stores. We have integrated all of those together. And it's actually that entire mobile commerce platform and ecosystem, and as you heard earlier is accelerating. We're seeing unbelievable numbers of active MSR members, mobile users, mobile payment transactions.

So it's into that momentum that we've launched Mobile Order and Pay. So this is not a bolt-on. This is get to leverage that existing ecosystem. And I think that's why, frankly, our customers are loving it. They don't have to download a new app. They don't have to learn something new. This is just seamless for the customers, just like it is for the partner.

Howard Schultz (Chairman, President, CEO):

That's great. Thank you.

Operator:

David Tarantino, Robert W. Baird.

David Tarantino (Analyst - Robert W. Baird):

Just a follow-up on the Mobile Order and Pay initiative. It sounds like you might be starting to see some increases in My Starbucks Rewards members also as a result of rolling this out. So just wondering if you can maybe comment on the thought process, or how you think about the increase you are seeing in the loyalty program members, and how you plan to utilize that as you get this rolled out. May be more one-to-one offers than what you're doing currently, or maybe that's not part of the plan. But any thoughts there would be helpful.

Matt Ryan (Global Chief Strategy Officer):

Sure. This is Matt Ryan again. Thank you for the question. There are two ways of looking at this. There are lots of ways that we're actually growing our membership, and Mobile Order and Pay is one of them. We are actually increasing the strength of our value proposition over time, with more offers through one-to-one. People are recognizing that. People see the convenience within the stores. And because it is an overall initiative to recruit more and more people, we are seeing the growth in the platform.

That begets a virtuous circle whereby we can do more things with that platform. Certainly the ability to become more and more targeted and send more offers to the right person at the right time, in the way that they want it, is a capability we've been growing here. But the growth of that platform is, in fact, the permission that we have to do more, over time, in the digital space. Because as we grow that engaged base of customers, the adjacent things we can do with them -- starting with Mobile Order and Pay, moving on to delivery, and on to other opportunities -- is going to be an enormous long-run play for us.

David Tarantino (Analyst - Robert W. Baird):

Thank you. And have you seen, in fact, that the membership levels in the Northwest has increased since you rolled the Mobile Order and Pay out?

Kevin Johnson (President, CEO):

Well, I think as Adam commented earlier, we have seen increase in MSR, with new MSR customers coming to use Mobile Order and Pay. And, granted, we're just in the Pacific Northwest right now, so it's still early days. But I think that's a fantastic example of a feature that is a customer-focused feature. It's all about that benefit to the customer, the consumer. And we think offering those types of benefits and those types of features as part of our mobile app, it will bring more people into the MSR program.

David Tarantino (Analyst - Robert W. Baird):

Great, thank you.

Operator:

Jeff Bernstein, Barclays Capital.

Jeff Bernstein (Analyst - Barclays Capital):

Just two questions; one on the Americas comp. I don't know if you mentioned this, but in terms of the traffic growth across all dayparts, I was wondering whether you were seeing, again, stability across all those dayparts, and whether or not that would imply that at this point there still no real signs of throughput constraints, despite obviously the outside comp growth.

And then my other question was just on the Americas units. I know that in fiscal 2015, I guess half of your opening is going to be licensed. Just wondering whether there's any underlying strategy in coming years to move towards more licensed over time, not unlike I guess many of your international markets. Thanks.

Cliff Burrows (Group President - US, Americas, and Teavana):

Thanks, Jeff, and I'll take both the questions. This is Cliff. As we said earlier in the script, we have seen growth in the Americas in all dayparts, all geographies, and across all platforms. It really was a very balanced portfolio. And we are seeing growth at peak times in our busiest stores, which really gives us the encouragement that we are -- we still have room for capacity. And Mobile Order and Pay will only help that in the coming months.

Secondly, around store growth, this quarter, as we said, was a bit of an anomaly with the closure of the 132 licensed stores in Canada, so that will distort the number a little bit this year. But I think over the coming years, you will see us continue a balance between company-operated and licensed stores. There may be times where it goes up or down, one way or the other. But in terms of strategy, we continue to look for opportunities to grow both our company-operated, and even here in the US, we still see a very healthy pipeline of new opportunities.

And we open very soon our first small footprint store in New York, which gives us another opportunity for growth. And as Howard said earlier, with the premium nature of the -- building off the Roastery, we have again another opportunity for growth. So, we see the pipeline out into the future being very healthy, balanced between company-operated and licensed.

Howard Schultz (Chairman, President, CEO):

Let me just add a few things to that. For those of you who have followed the Company for many years, it wasn't that long ago that our stores closed early in the evening -- 7, 8 o'clock at night. And most of our business -- 50% or so -- was driven before 10, 11 AM. In the last few years, I think Cliff and his team have done a wonderful job of two primary things

But the big news in the last couple of years is identifying dayparts and need states through unique products in which we could leverage the fixed asset of the store. So lunch, as an example, is driving a significant level of visits and incrementality, both in traffic and in ticket. The new opportunity with smoothies in terms of health and wellness, identifying that need state, and leveraging that daypart opportunity, which is mostly refreshment in the afternoon and health and wellness.

And then one thing we have not talked about, either in the script or the Q&A, is the advancement of evenings, which we're very excited about. And so all these things have given us the ability to integrate new product, new levels of innovation, and identify need states and dayparts that five years ago, candidly, were not part of the unit average volume. If you looked at the average volume of Starbucks both in terms of mature stores and, probably most importantly, new stores, we are experiencing the best performing new store class in our history. And one of the primary reasons is what I've just described.

Then you leverage MSR and Mobile Order and Pay on that, and your imagination can really -- I can't begin to think about how much volume we can put through these stores. And I think we're just getting started with a level of innovation we think that food team can create. And so that's why we're so excited about the future in terms of the opportunity to drive incrementality in existing and new stores.

Jeff Bernstein (Analyst - Barclays Capital):

Helpful. Thank you.

Operator:

Nicole Miller, Piper Jaffray.

Nicole Miller (Analyst - Piper Jaffray):

Whoever put the coffee in Delta, thank you so much. And on that note, can you talk a little bit -- or just walk us through -- I think it's 100% of coffee is locked for this year. We know it's favorable. Can you give us any color on how much?

We were also supposed to see a benefit of lower dairy and diesel, I think, in the back half of the year. Are you seeing that? And then also, thank you for the color on 2016 and the lock there. Price is lower again -- by how much? Just wondering, can we flow that through, or do you want us to assume you'll make investments against that? Thanks.

Scott Maw (CFO):

Thanks, Nicole. So as it relates to 2015, what you have to remember is that coffee prices throughout 2014 were quite low. So for a long time, they were in the $1.20 and $1.30 range. And so 2015 coffee prices, despite the fact that we were patient and waited out all the spikes above $1.90 and bought it far below average market prices, our coffee is actually a little bit unfavorable year-over-year. But that's much more about how low 2014 was than it is around 2015. We actually did a really good job buying below the market. So a little bit of unfavorability, and a very little bit, offset by favorability in dairy and diesel. That's kind of how the year is shaping up.

When we gave guidance all the way back in the summer, we expected coffee prices to come down, just given what we saw in the market. We didn't know they were going to come down, but we expected that. We waited, and we were patient; and when they came into our target range, we filled up our needs for the year. So that's how to think about 2015 -- roughly flat, a little bit unfavorable on coffee, a little bit favorable on dairy. On 2016, because we did so well in 2015, despite the fact that we've locked at slightly lower prices, again, that favorability, while meaningful, it is probably not as high as you might calculate based upon average market prices.

So we'll give you more update. We still have a full third of our coffee to price. We will give you a bit more update as we move into 2016 and become more specific.

Nicole Miller (Analyst - Piper Jaffray):

Thank you.

Operator:

Diane Geissler, CLSA.

Diane Geissler (Analyst - CLSA):

I wanted to ask on the CPG business. I think Danone announced on its earnings call that it was co-branding an Evolution Fresh product with you, yogurt product. Obviously the Tingyi deal, I think, is a big deal in the CPG space in China for 2016. So, just going back two analyst days ago -- which would've been, I appreciate, quite a while ago, where you talked about the CPG space, and how you thought it could rival the size of the US retail business at some point in the future.

Could you talk about your growth plans within CPG? Which I think you've obviously crystallized around the K-Cup business. But there's lots of opportunities in a lot of different aisles in not only the Americas, but also in China. So could you talk a little bit -- maybe add a little bit more detail around that? I'd really appreciate (multiple speakers).

John Culver (Starbucks Coffee China and Asia Pacific, Channel Development and Emerging Brands):

Yes, Diane, this is John Culver, and let me just take that. Clearly the CPG business, first off, had a very strong quarter and it continues to grow. And our expectation is that it will continue to grow at that double-digit rate in the foreseeable future. Now, as we look at the growth, that growth is being driven by our core coffee, and really K-Cups is a big piece of that.

As we look at other areas of growth, though, we see tremendous opportunity to grow outside of coffee. The biggest is the tea opportunity, and in particular with the Tazo Tea, and then as we introduce Teavana tea down the aisle and through ready-to-drink as well.

And then we've also worked very closely on Evolution Fresh. And Evolution Fresh today stands in over 11,000 doors across the country. The CPG share that we have both in natural, as well as in traditional FDM is a very strong, and it continues to grow. We just repackaged the product. And we now have new packaging, an 11-ounce and a 15.2 ounce.

And then we've also launched Evolution Fresh smoothies in our stores. And we anticipate launching Evolution Fresh yogurt, with fruit on the bottom, in our stores with our Dannon partnership. So, for us, these are all investments that we continue to make in our channel business, given the relevance and the strength of the business. And also we are very optimistic about the future growth of the business going forward.

Diane Geissler (Analyst - CLSA):

Okay, great. Thank you.

Operator:

Will Slabaugh, Stephens Inc.

Will Slabaugh (Analyst - Stephens):

One more question on channel development, but more on the international front. I don't know if you had an update that you could give us there on some key markets internationally -- where you stand now versus what type of growth you might expect in those key markets in the next couple of years as you might hit your goals.

Mike Conway (President - Global Channel Development):

Well, thank you. This is Mike Conway. We see channel A specific as being one of our most important markets going forward. Certainly with the partnership we have with Tingyi, China will be a big market for us, particularly driven by the size of the ready-to-drink energy and coffee business. And we also -- Japan is one of our longest-standing ready-to-drink markets.

While it is somewhat mature, at the same time there's a lot of growth for us there, particularly with the move that we made now fully owning the Japan market.

Beyond that, there are a number of the emerging markets that we're really focused on. We still have have fairly emerging business within our Latin America region. And we're looking at markets like Brazil to establish a presence there, another big market for us.

And then we have an established relationship in (technical difficulty), but we have probably the largest number of markets -- on sorry, in Europe -- we have the largest number of markets in the EMEA, and we are going to continue to drive our business there as well. But the UK, France -- those are some of our largest markets. So as I think about the significant growth that we have for ready-to-drink coffee, we are really looking at the CAP region as well as Latin America.

Will Slabaugh (Analyst - Stephens):

Thank you.

JoAnn DeGrande (VP- IR):

Operator, this will be our last question.

Operator:

Andrew Charles, Cowen and Company.

Andrew Charles (Analyst - Cowen and Company):

Just wanted to touch base with Adam on the mobile payment just jumping to roughly 19%; it had been stuck for a while around 15%. Just wanted to know what you attributed the increase in mix to.

Adam Brotman (Chief Digital Officer):

Thanks, Andrew. This is Adam. It's a great question. I would say the core ecosystem that Howard and I were talking about earlier is an interconnected set of parts that are all -- have momentum. So the fact that MSRs -- you've seen the momentum in MSR. You've seen the momentum in mobile active users in general. You are seeing the momentum in card loads and card redemptions.

And those things are all tied together, so like the flywheel they all power one another. And so it's not a surprise that we're seeing that kind of acceleration happen when it comes to mobile payments as well; over 8 million per week, approaching 19%-plus in the US in terms of percentage of tender. And it just speaks to the momentum and the overall mobile commerce platform in general.

Andrew Charles (Analyst - Cowen and Company):

Thank you, Adam. Great quarter, thanks.

JoAnn DeGrande (VP- IR):

Thanks, Mike. This concludes Starbucks' Q2 fiscal 2015 earnings call. Thank you all for joining us today.

Operator:

This concludes Starbucks Coffee Company's second-quarter fiscal year 2015 earnings conference call.