

STARBUCKS CORP
Form 10-K
November 18, 2013
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UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

Form 10-K

x ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the Fiscal Year Ended September 29, 2013

or

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

For the transition period from _____ to _____.

Commission File Number: 0-20322

Starbucks Corporation

(Exact Name of Registrant as Specified in its Charter)

Washington

91-1325671

(State of Incorporation)

(IRS Employer ID)

2401 Utah Avenue South, Seattle, Washington 98134

(206) 447-1575

(Address of principal executive offices, zip code, telephone number)

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

Title of Each Class

Name of Each Exchange on Which Registered

Common Stock, \$0.001 par value per share

Nasdaq Global Select Market

Securities Registered Pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☒ No ☐

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ☐ No ☒

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☒ No ☐

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation of S-K (§ 229.405 of this chapter) is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☒

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer ☒

Accelerated filer ☐

Non-accelerated filer ☐ (Do not check if a smaller reporting company)

Smaller reporting company ☐

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

The aggregate market value of the voting stock held by non-affiliates of the registrant as of the last business day of the registrant's most recently completed second fiscal quarter, based upon the closing sale price of the registrant's common stock on March 29, 2013 as reported on the NASDAQ Global Select Market was \$41 billion. As of November 8,

2013, there were 753.6 million shares of the registrant's Common Stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the definitive Proxy Statement for the registrant's Annual Meeting of Shareholders to be held on March 19, 2014 have been incorporated by reference into Part III of this Annual Report on Form 10-K.

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Form 10-K

For the Fiscal Year Ended September 29, 2013

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CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Annual Report on Form 10-K includes “forward-looking” statements within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements can be identified by the fact that they do not relate strictly to historical or current facts. They often include words such as “believes,” “expects,” “anticipates,” “estimates,” “intends,” “plans,” “seeks” or words of similar meaning, or future or conditional verbs, such as “will,” “should,” “could,” “may,” “aims,” “intends,” “projects.” A forward-looking statement is neither a prediction nor a guarantee of future events or circumstances, and those future events or circumstances may not occur. You should not place undue reliance on forward-looking statements, which speak only as of the date of this Annual Report on Form 10-K. These forward-looking statements are all based on currently available operating, financial and competitive information and are subject to various risks and uncertainties. Our actual future results and trends may differ materially depending on a variety of factors, including, but not limited to, the risks and uncertainties discussed under “Risk Factors” and “Management’s Discussion and Analysis of Financial Condition and Results of Operations”. Given these risks and uncertainties, you should not rely on forward-looking statements as a prediction of actual results. Any or all of the forward-looking statements contained in this Annual Report on Form 10-K and any other public statement made by us, including by our management, may turn out to be incorrect. We are including this cautionary note to make applicable and take advantage of the safe harbor provisions of the Private Securities Litigation Reform Act of 1995 for forward-looking statements. We expressly disclaim any obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

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PART I

Item 1. Business

General

Starbucks is the premier roaster, marketer and retailer of specialty coffee in the world, operating in 62 countries. Formed in 1985, Starbucks Corporation's common stock trades on the NASDAQ Global Select Market ("NASDAQ") under the symbol "SBUX." We purchase and roast high-quality coffees that we sell, along with handcrafted coffee, tea and other beverages and a variety of fresh food items, through company-operated stores. We also sell a variety of coffee and tea products and license our trademarks through other channels such as licensed stores, grocery and national foodservice accounts. In addition to our flagship Starbucks brand, our portfolio also includes goods and services offered under these brands: Teavana, Tazo, Seattle's Best Coffee, Starbucks VIA, Starbucks Refreshers, Evolution Fresh, La Boulange and Verismo.

Our objective is to maintain Starbucks standing as one of the most recognized and respected brands in the world. To achieve this, we are continuing the disciplined expansion of our global store base. In addition, by leveraging the experience gained through our traditional store model, we continue to offer consumers new coffee and other products in a variety of forms, across new categories, and through diverse channels. Starbucks Global Responsibility strategy and commitments related to coffee and the communities we do business in, as well as our focus on being an employer of choice, are also key complements to our business strategies.

In this Annual Report on Form 10-K ("10-K" or "Report") for the fiscal year ended September 29, 2013 ("fiscal 2013"), Starbucks Corporation (together with its subsidiaries) is referred to as "Starbucks," the "Company," "we," "us" or "our."

Segment Financial Information

We have four reportable operating segments: 1) Americas, inclusive of the US, Canada, and Latin America; 2) Europe, Middle East, and Africa ("EMEA"); 3) China / Asia Pacific ("CAP") and 4) Channel Development. Segment revenues as a percentage of total net revenues for fiscal year 2013 were as follows: Americas (74%), EMEA (8%), CAP (6%), Channel Development (9%), and all other segments (3%).

Our Americas, EMEA, and CAP segments include both company-operated and licensed stores. Our Americas segment is our most mature business and has achieved significant scale. Certain markets within our EMEA and CAP operations are still in the early stages of development and require a more extensive support organization, relative to their current levels of revenue and operating income, than our Americas operations. The Americas and EMEA segments also include certain foodservice accounts, primarily in Canada and the UK. Our Americas segment also includes our La Boulange® retail stores.

Our Channel Development segment includes whole bean and ground coffees, premium Tazo® teas, Starbucks- and Tazo-branded single serve products, a variety of ready-to-drink beverages, such as Starbucks Refreshers™ beverages, and other branded products sold worldwide through channels such as grocery stores, warehouse clubs, specialty retailers, convenience stores, and US foodservice accounts.

Our other, non-reportable, operating segments include the operating results from Teavana, Seattle's Best Coffee, Evolution Fresh, and our Digital Ventures business. These other operating segments are referred to as All Other Segments.

Effective at the beginning of fiscal 2013, we decentralized certain leadership functions in the areas of retail marketing and category management, global store development and partner resources to support and align with the respective operating segment presidents. In conjunction with these moves, certain general and administrative and depreciation and amortization expenses associated with these functions, which were previously reported as unallocated corporate expenses within "Other," are now reported within the respective reportable operating segments to align with the regions they support.

Beginning in the second quarter of fiscal 2013, we changed the presentation of our unallocated corporate expenses, which were previously combined with our non-reportable operating segments in "Other". Unallocated corporate operating expenses pertain primarily to corporate administrative functions that support the operating segments but are not specifically attributable to or managed by any segment. These expenses are now presented as a reconciling item

between total segment operating results and consolidated operating results.

Concurrent with the reporting changes noted above, we revised our prior period financial information to reflect comparable financial information. Historical financial information presented herein reflects these changes. There was no impact on consolidated net revenues, total operating expenses, operating income, or net earnings as a result of these changes.

Starbucks segment information is included in Note 16 to the consolidated financial statements included in Item 8 of Part II of this 10-K.

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Revenue Components

We generate nearly all of our revenues through company-operated stores, licensed stores, consumer packaged goods ("CPG") and foodservice operations.

Company-operated and Licensed Store Summary as of September 29, 2013

	Americas	As a% of Total Americas Stores		EMEA	As a% of Total EMEA Stores		CAP	As a% of Total CAP Stores		All Other Segments	As a% of Total All Other Segments Stores		Total	As a% of Total Stores	
Company-operated stores	8,078	60	%	853	43	%	906	23	%	357	84	%	10,194	52	%
Licensed stores	5,415	40	%	1,116	57	%	2,976	77	%	66	16	%	9,573	48	%
Total	13,493	100	%	1,969	100	%	3,882	100	%	423	100	%	19,767	100	%

The mix of company-operated versus licensed stores in a given market will vary based on several factors, including our ability to access desirable local retail space, the complexity and expected ultimate size of the market for Starbucks, and our ability to leverage the support infrastructure in an existing geographic region.

Company-operated Stores

Revenue from company-operated stores accounted for 79% of total net revenues during fiscal 2013. Our retail objective is to be the leading retailer and brand of coffee in each of our target markets by selling the finest quality coffee and related products, and by providing each customer a unique Starbucks Experience. The Starbucks Experience is built upon superior customer service, as well as clean and well-maintained company-operated stores that reflect the personalities of the communities in which they operate, thereby building a high degree of customer loyalty. Our strategy for expanding our global retail business is to increase our market share in a disciplined manner, by selectively opening additional stores in new and existing markets, as well as increasing sales in existing stores, to support our long-term strategic objective to maintain Starbucks standing as one of the most recognized and respected brands in the world. Store growth in specific existing markets will vary due to many factors, including the maturity of the market.

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Company-operated store data for the year-ended September 29, 2013:

	Stores Open as of Sep 30, 2012	Opened	Closed	Net	Stores Open as of Sep 29, 2013
Americas ⁽¹⁾ :					
US	6,856	231	(38	) 193	7,049
Canada	874	69	(3	) 66	940
Brazil	53	18	(1	) 17	70
Puerto Rico	19	1	(1	) —	19
Total Americas	7,802	319	(43	) 276	8,078
EMEA ⁽²⁾ :					
UK	593	6	(50	) (44	) 549
Germany	157	9	(9	) —	157
France	67	7	(2	) 5	72
Switzerland	50	4	(2	) 2	52
Austria	12	4			