STARBUCKS CORP
Form 10-K
November 17, 2017
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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 October 1, 2017
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 x 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 x
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 x 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 x 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, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act. (Check one):

| | |
|---|---|
| Large accelerated filer x | Accelerated filer ¨ |
| Non-accelerated filer ¨ (Do not check if a smaller reporting company) | Smaller reporting company ¨ |
| | Emerging growth company ¨ |

If an emerging growth company, indicate by checkmark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the

Exchange Act. ¨

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

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 April 2, 2017 as reported on the NASDAQ Global Select Market was $82 billion. As of November 10, 2017, there were 1,422.8 million shares of the registrant’s Common Stock outstanding.

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DOCUMENTS INCORPORATED BY REFERENCE

Portions of the definitive Proxy Statement for the registrant's Annual Meeting of Shareholders to be held on March 21, 2018 have been incorporated by reference into Part III of this Annual Report on Form 10-K.

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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,” “pla “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 75 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 high-quality food items, including snack offerings, 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 foodservice accounts. In addition to our flagship Starbucks Coffee brand, we sell goods and services under the following brands: Teavana, Tazo, Seattle’s Best Coffee, Evolution Fresh, La Boulange and Ethos.

Our objective is to maintain Starbucks standing as one of the most recognized and respected brands in the world. To achieve this, we are continuing the disciplined expansion of our global store base, adding stores in both existing, developed markets such as the U.S., and in newer, higher growth markets such as China, as well as optimizing the mix of company-operated and licensed stores in each market. In addition, by leveraging the experience gained through our traditional store model, we continue to offer consumers new coffee and other products in a variety of forms, across new categories, diverse channels and alternative store formats. We also believe our Starbucks Global Social Impact strategy, commitments related to ethically sourcing high-quality coffee, contributing positively to the communities we do business in and being an employer of choice are contributors to our objective.

In this Annual Report on Form 10-K (“10-K” or “Report”) for the fiscal year ended October 1, 2017 (“fiscal 2017”), 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, which is inclusive of the U.S., Canada, and Latin America; 2) China/Asia Pacific (“CAP”); 3) Europe, Middle East, and Africa (“EMEA”) and 4) Channel Development. We also have several non-reportable operating segments, including Teavana retail stores and Seattle's Best Coffee, as well as certain developing businesses such as Siren Retail, which includes the Starbucks Reserve™ Roastery & Tasting Rooms, certain Starbucks Reserve™ locations and Princi operations. Collectively, the combined group of non-reportable operating segments will be referred to as All Other Segments. Revenues from our reportable segments and All Other Segments as a percentage of total net revenues for fiscal 2017 were as follows: Americas (70%), CAP (14%), EMEA (5%), Channel Development (9%) and All Other Segments (2%).

Our Americas, CAP, and EMEA 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 CAP and EMEA 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, CAP and EMEA segments also include certain foodservice accounts, primarily in Canada, Japan and the U.K.

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

Starbucks segment information is included in Note 16, Segment Reporting, 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 October 1, 2017

| | Americas | As a% of Total Americas Stores | | CAP | As a% of Total CAP Stores | | EMEA | As a% of Total EMEA Stores | | All Other Segments | As a% of Total All Other Segments Stores | | Total | As a% of Total Stores | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Company-operated stores | 9,413 | 57 | % | 3,070 | 41 | % | 502 | 17 | % | 290 | 89 | % | 13,275 | 49 | % |
| Licensed stores | 7,146 | 43 | % | 4,409 | 59 | % | 2,472 | 83 | % | 37 | 11 | % | 14,064 | 51 | % |
| Total | 16,559 | 100 | % | 7,479 | 100 | % | 2,974 | 100 | % | 327 | 100 | % | 27,339 | 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 within a geographic region.

Company-operated Stores

Revenue from company-operated stores accounted for 79% of total net revenues during fiscal 2017. Our retail objective is to be the leading retailer and brand of coffee and tea in each of our target markets by selling the finest quality coffee, tea and related products, as well as complementary food and snack offerings, and by providing each customer with a unique Starbucks Experience. The Starbucks Experience is built upon superior customer service and a seamless digital experience as well as clean and well-maintained stores that reflect the personalities of the communities in which they operate, thereby building a high degree of customer loyalty.

Our strategy for expanding our global retail business is to increase our 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 expected financial returns, the maturity of the market, economic conditions, consumer behavior and local business practices.

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Company-operated store data for the year-ended October 1, 2017:

| | Stores Open as of Oct 2, 2016 | Opened | Closed | Transfers | Net | Stores Open as of Oct 1, 2017 |
|---|---|---|---|---|---|---|
| Americas: | | | | | | |
| U.S. | 7,880 | 372 | (30) | — | 342 | 8,222 |
| Canada | 1,035 | 45 | (8) | 11 | 48 | 1,083 |
| Brazil | 104 | 5 | (1) | — | 4 | 108 |
| Total Americas | 9,019 | 422 | (39) | 11 | 394 | 9,413 |
| China/Asia Pacific[1]: | | | | | | |
| China | 1,272 | 285 | (17) | — | 268 | 1,540 |
| Japan | 1,140 | 90 | (12) | — | 78 | 1,218 |
| Thailand | 273 | 39 | — | — | 39 | 312 |
| Singapore | 126 | 10 | (3) | (133) | (126) | — |
| Total China/Asia Pacific | 2,811 | 424 | (32) | (133) | 259 | 3,070 |
| EMEA: | | | | | | |
| U.K. | 366 | 14 | (21) | (14) | (21) | 345 |
| All Other | 157 | 2 | (2) | — | — | 157 |
| Total EMEA | 523 | 16 | (23) | (14) | (21) | 502 |
| All Other Segments: | | | | | | |
| Teavana | 355 | — | (67) | — | (67) | 288 |
| Evolution Fresh | 2 | — | (2) | — | (2) | — |
| Siren Retail | 1 | 1 | — | — | 1 | 2 |
| Total All Other Segments | 358 | 1 | (69) | — | (68) | 290 |
| Total company-operated | 12,711 | 863 | (163) | (136) | 564 | 13,275 |

[1] China/Asia Pacific store data includes the transfer of 133 Singapore company-operated retail stores to licensed stores as a result of the sale to Maxim's Caterers Limited in the fourth quarter of fiscal 2017.

Starbucks® company-operated stores are typically located in high-traffic, high-visibility locations. Our ability to vary the size and format of our stores allows us to locate them in or near a variety of settings, including downtown and suburban retail centers, office buildings, university campuses and in select rural and off-highway locations. We are continuing the expansion of our stores, inclusive of Drive Thru formats that provide a higher degree of access and convenience, and alternative store formats, which are focused on an elevated Starbucks Experience for our customers.

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

| Fiscal Year Ended | Oct 1, 2017 | Oct 2, 2016 | Sep 27, 2015 |
|---|---|---|---|
| Beverages | 73 % | 74 % | 73 % |
| Food | 20 % | 19 % | 19 % |
| Packaged and single-serve coffees and teas | 3 % | 3 % | 3 % |
| Other[1] | 4 % | 4 % | 5 % |
| Total | 100 % | 100 % | 100 % |

[1] "Other" primarily consists of sales of serveware, ready-to-drink beverages and coffee-making equipment, among other items.

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Stored Value Cards

The Starbucks Card, our branded stored value card program, is designed to provide customers with a convenient payment method, support gifting and increase the frequency of store visits by cardholders, in part through the related Starbucks Rewards™ (previously My Starbucks Rewards®) loyalty program where available, as discussed below. Stored value cards are issued to customers when they initially load them with an account balance. They can be obtained in our company-operated and most licensed stores in North America, China, Japan, Latin America, and many of our markets in our CAP and EMEA segments. Stored value cards can also be obtained on-line, via the Starbucks® Mobile App, and through other U.S. and international retailers. Customers may access their card balances by utilizing their stored value card or the Starbucks® Mobile App in participating stores, which also include certain Teavana™ locations. Using the Mobile Order and Pay functionality of the Starbucks® Mobile App, customers can also place orders in advance for pick-up at certain participating locations in the U.S. and Canada. In nearly all markets, including the U.S. and Canada, customers who register their cards are automatically enrolled in the Starbucks Rewards™ program. Registered members can receive various benefits depending on factors such as the number of reward points (“Stars”) earned. Refer to Note 1, Summary of Significant Accounting Policies, included in Item 8 of Part II of this 10-K, for further discussion of our stored value cards and loyalty program.

Licensed Stores

Revenues from our licensed stores accounted for 11% of total net revenues in fiscal 2017. Licensed stores generally have a lower gross margin and a higher operating margin than company-operated stores. Under the licensed model, Starbucks receives a reduced share of the total store revenues, but this is more than offset by the reduction in our share of costs as these are primarily incurred by the licensee.

In our licensed store operations, we leverage the expertise of our local partners and share our operating and store development experience. Licensees provide improved, and at times the only, access to desirable retail space. Most licensees are prominent retailers with in-depth market knowledge and access. As part of these arrangements, we sell coffee, tea, food and related products to licensees for resale to customers and receive royalties and license fees from the licensees. We also sell certain equipment, such as coffee brewers and espresso machines, to our licensees for use in their operations. Employees working in licensed retail locations are required to follow our detailed store operating procedures and attend training classes similar to those given to employees in company-operated stores. For Starbucks® and Teavana™ stores within certain international markets, we also use traditional franchising and include these stores in the results of operations from our other licensed stores.

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Licensed store data for the year-ended October 1, 2017:

| | Stores Open as of Oct 2, 2016 | Opened | Closed | Transfers | Net | Stores Open as of Oct 1, 2017 |
|---|---|---|---|---|---|---|
| Americas: | | | | | | |
| U.S. | 5,292 | 477 | (61) | — | 416 | 5,708 |
| Mexico | 563 | 71 | (2) | — | 69 | 632 |
| Latin America | 369 | 66 | (6) | — | 60 | 429 |
| Canada | 364 | 32 | (8) | (11) | 13 | 377 |
| Total Americas | 6,588 | 646 | (77) | (11) | 558 | 7,146 |
| China/Asia Pacific[1]: | | | | | | |
| China | 1,110 | 310 | (24) | — | 286 | 1,396 |
| Korea | 952 | 164 | (8) | — | 156 | 1,108 |
| Taiwan | 392 | 33 | (5) | — | 28 | 420 |
| Philippines | 293 | 32 | (1) | — | 31 | 324 |
| Indonesia | 260 | 62 | (5) | — | 57 | 317 |
| Malaysia | 226 | 24 | (2) | — | 22 | 248 |
| All Other | 399 | 76 | (12) | 133 | 197 | 596 |
| Total China/Asia Pacific | 3,632 | 701 | (57) | 133 | 777 | 4,409 |
| EMEA: | | | | | | |
| U.K. | 532 | 69 | (9) | 14 | 74 | 606 |
| Turkey | 314 | 80 | (7) | — | 73 | 387 |
| United Arab Emirates | 148 | 21 | (5) | — | 16 | 164 |
| Germany | 161 | 6 | (11) | — | (5) | 156 |
| Saudi Arabia | 92 | 32 | — | — | 32 | 124 |
| Kuwait | 95 | 24 | (1) | — | 23 | 118 |
| Russia | 107 | 11 | (3) | — | 8 | 115 |
| Spain | 96 | 23 | (6) | — | 17 | 113 |
| All Other | 574 | 132 | (17) | — | 115 | 689 |
| Total EMEA | 2,119 | 398 | (59) | 14 | 353 | 2,472 |
| All Other Segments: | | | | | | |
| Teavana | 34 | 4 | (1) | — | 3 | 37 |
| Seattle's Best Coffee | 1 | — | (1) | — | (1) | — |
| Total All Other Segments | 35 | 4 | (2) | — | 2 | 37 |
| Total licensed | 12,374 | 1,749 | (195) | 136 | 1,690 | 14,064 |

[1] China/Asia Pacific store data includes the transfer of 133 Singapore company-operated retail stores to licensed stores as a result of the sale to Maxim's Caterers Limited in the fourth quarter of fiscal 2017.

Consumer Packaged Goods

Revenues from sales of consumer packaged goods comprised 8% of total net revenues in fiscal 2017. Our consumer packaged goods business includes both domestic and international sales of packaged coffee and tea as well as a variety of ready-to-drink beverages and single-serve coffee and tea products to grocery, warehouse clubs and specialty retail stores. It also includes revenues from product sales to and licensing revenues from manufacturers that produce and market Starbucks-, Seattle’s Best Coffee- and Tazo-branded products through licensing agreements.

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Foodservice

Revenues from foodservice accounts comprised 2% of total net revenues in fiscal 2017. We sell Starbucks® and Seattle's Best Coffee® roasted whole bean and ground coffees, a selection of premium Tazo® teas, Starbucks VIA® Ready Brew, and other coffee and tea-related products to institutional foodservice companies that service business and industry, education, healthcare, office coffee distributors, hotels, restaurants, airlines and other retailers. We also sell our Seattle's Best Coffee® through arrangements with national accounts. The majority of the sales in this channel come through national broadline distribution networks with SYSCO Corporation, U.S. Foodservice and other distributors.

Product Supply

Starbucks is committed to selling the finest whole bean coffees and coffee beverages. To ensure compliance with our rigorous coffee standards, we control coffee purchasing, roasting and packaging and the global distribution of coffee used in our operations. We purchase green coffee beans from multiple coffee-producing regions around the world and custom roast them to our exacting standards for our many blends and single origin coffees.

The price of coffee is subject to significant volatility. Although most coffee trades in the commodity market, high-altitude arabica coffee of the quality sought by Starbucks tends to trade on a negotiated basis at a premium above the "C" coffee commodity price. Both the premium and the commodity price depend upon the supply and demand at the time of purchase. Supply and price can be affected by multiple factors in the producing countries, including weather, natural disasters, crop disease, general increase in farm inputs and costs of production, inventory levels and political and economic conditions. Price is also impacted by trading activities in the arabica coffee futures market, including hedge funds and commodity index funds. In addition, green coffee prices have been affected in the past, and may be affected in the future, by the actions of certain organizations and associations that have historically attempted to influence prices of green coffee through agreements establishing export quotas or by restricting coffee supplies.

We buy coffee using fixed-price and price-to-be-fixed purchase commitments, depending on market conditions, to secure an adequate supply of quality green coffee. Price-to-be-fixed contracts are purchase commitments whereby the quality, quantity, delivery period, and other negotiated terms are agreed upon, but the date, and therefore the price, at which the base "C" coffee commodity price component will be fixed has not yet been established. For most contracts, either Starbucks or the seller has the option to "fix" the base "C" coffee commodity price prior to the delivery date. For other contracts, Starbucks and the seller may agree upon pricing parameters determined by the base "C" coffee commodity price. Until prices are fixed, we estimate the total cost of these purchase commitments. Total green coffee purchase commitments as of October 1, 2017 were $1.2 billion, comprised of $860 million under fixed-price contracts and an estimated $336 million under price-to-be-fixed contracts. As of October 1, 2017, none of our price-to-be-fixed contracts were effectively fixed through the use of futures contracts. All price-to-be-fixed contracts as of October 1, 2017 were at the Company's option to fix the base "C" coffee commodity price component. Total purchase commitments, together with existing inventory, are expected to provide an adequate supply of green coffee through fiscal 2018.

We depend upon our relationships with coffee producers, outside trading companies and exporters for our supply of green coffee. We believe, based on relationships established with our suppliers, the risk of non-delivery on such purchase commitments is remote.

To help ensure the future supply of high-quality green coffee and to reinforce our leadership role in the coffee industry, Starbucks operates eight farmer support centers. The farmer support centers are staffed with agronomists and sustainability experts who work with coffee farming communities to promote best practices in coffee production designed to improve both coffee quality, yields and agronomy support to address climate and other impacts.

In addition to coffee, we also purchase significant amounts of dairy products, particularly fluid milk, to support the needs of our company-operated stores. We believe, based on relationships established with our dairy suppliers, that the risk of non-delivery of sufficient fluid milk to support our stores is remote.

Products other than whole bean coffees and coffee beverages sold in Starbucks® stores include tea and a number of ready-to-drink beverages that are purchased from several specialty suppliers, usually under long-term supply contracts. Food products, such as pastries, breakfast sandwiches and lunch items, are purchased from national, regional and local sources. Our food program continues to develop, and we expect the amount of food products purchased to impact our operations. We also purchase a broad range of paper and plastic products, such as cups and

cutlery, from several companies to support the needs of our retail stores as well as our manufacturing and distribution operations. We believe, based on relationships established with these suppliers and manufacturers, that the risk of non-delivery of sufficient amounts of these items is remote.

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Competition

Our primary competitors for coffee beverage sales are specialty coffee shops offering premium and artisanal products and experiences. In almost all markets in which we do business, there are numerous competitors in the specialty coffee beverage business. We believe that our customers choose among specialty coffee retailers primarily on the basis of product quality, service and convenience, as well as price. We continue to experience direct competition from large competitors in the U.S. quick-service restaurant sector and the U.S. ready-to-drink coffee beverage market, in addition to well-established companies in many international markets. We also compete with restaurants and other specialty retailers for prime retail locations and qualified personnel to operate both new and existing stores.

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

Trademarks, Copyrights, Patents and Domain Names

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

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

Seasonality and Quarterly Results

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

Employees

Starbucks employed approximately 277,000 people worldwide as of October 1, 2017. In the U.S., Starbucks employed approximately 185,000 people, with approximately 175,000 in company-operated stores and the remainder in support facilities, store development, and roasting, manufacturing, warehousing and distribution operations. Approximately 92,000 employees were employed outside of the U.S., with approximately 89,000 in company-operated stores and the remainder in regional support operations. The number of Starbucks employees represented by unions is not significant. We believe our current relations with our employees are good.

Executive Officers of the Registrant

| Name | Age | Position |
|---|---|---|
| Howard Schultz | 64 | executive chairman |
| Kevin R. Johnson | 57 | president and chief executive officer |
| Rosalind G. Brewer | 55 | group president, Americas and chief operating officer |
| Cliff Burrows | 58 | group president, Siren Retail |
| John Culver | 57 | group president, International and Channels [1] |
| Scott Maw | 50 | executive vice president, chief financial officer |
| Paul Mutty | 58 | senior vice president, interim general counsel |

[1] Channels includes various business groups, including channel development and certain emerging brands, including Seattle's Best Coffee and Evolution Fresh.

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Howard Schultz is the founder of Starbucks Corporation and has served as executive chairman since April 2017. Mr. Schultz has served as chairman of the board of directors since Starbucks inception in 1985, and in January 2008, he reassumed the role of president and chief executive officer. He served as chief executive officer until April 2017 and served as president until March 2015. From June 2000 to February 2005, Mr. Schultz also held the title of chief global strategist. From November 1985 to June 2000, he served as chairman of the board and chief executive officer. From November 1985 to June 1994, Mr. Schultz also served as president. From January 1986 to July 1987, Mr. Schultz was the chairman of the board, chief executive officer and president of Il Giornale Coffee Company, a predecessor to the Company. From September 1982 to December 1985, Mr. Schultz was the director of retail operations and marketing for Starbucks Coffee Company, a predecessor to the Company.

Kevin R. Johnson has served as president and chief executive officer since April 2017, and has been a Starbucks director since March 2009. Mr. Johnson served as president and chief operating officer from March 2015 to April 2017. Mr. Johnson served as Chief Executive Officer of Juniper Networks, Inc., a leading provider of high-performance networking products and services, from September 2008 to December 2013. He also served on the Board of Directors of Juniper Networks from September 2008 through February 2014. Prior to joining Juniper Networks, Mr. Johnson served as President, Platforms and Services Division for Microsoft Corporation, a worldwide provider of software, services and solutions. Mr. Johnson was a member of Microsoft’s Senior Leadership Team and held a number of senior executive positions over the course of his 16 years at Microsoft. Prior to joining Microsoft in 1992, Mr. Johnson worked in International Business Machine Corp.’s systems integration and consulting business.

Rosalind G. Brewer has served as group president, Americas and chief operating officer since October 2017, and has been a director of Starbucks since March 2017. Ms. Brewer served as President and Chief Executive Officer of Sam's Club, a membership-only retail warehouse club and a division of Walmart, from February 2012 to February 2017. Previously, Ms. Brewer was Executive Vice President and President of Walmart's East Business Unit from February 2011 to January 2012; Executive Vice President and President of Walmart South from February 2010 to February 2011; Senior Vice President and Division President of the Southeast Operating Division from March 2007 to January 2010; and Regional General Manager, Georgia Operations, from 2006 to February 2007. Prior to joining Walmart, Ms. Brewer was President of Global Nonwovens Division for Kimberly-Clark Corporation, a global health and hygiene products company, from 2004 to 2006 and held various management positions at Kimberly-Clark Corporation from 1984 to 2006. She serves as the Chair of the Board of Trustees for Spelman College and formerly served on the Board of Directors for Lockheed Martin Corporation and Molson Coors Brewing Company.

Cliff Burrows joined Starbucks in April 2001 and has served as group president, Siren Retail, since September 2016, which includes the Starbucks Reserve™ Roastery & Tasting Rooms, Starbucks Reserve brand and products and Princi operations. Mr. Burrows also oversees Global Coffee and the Teavana brand. From July 2015 to September 2016, he served as group president, U.S. and Americas. From February 2014 to June 2015, he served as group president, U.S., Americas and Teavana. From May 2013 to February 2014, he served as group president, Americas and U.S., EMEA (Europe, Middle East and Africa) and Teavana. Mr. Burrows served as president, Starbucks Coffee Americas and U.S. from October 2011 to May 2013 and as president, Starbucks Coffee U.S. from March 2008 to October 2011. He served as president, EMEA from April 2006 to March 2008. He served as vice president and managing director, U.K. prior to April 2006. Prior to joining Starbucks, Mr. Burrows served in various management positions with Habitat Designs Limited, a furniture and housewares retailer.

John Culver joined Starbucks in August 2002 and has served as group president, International and Channels, since October 2017. From September 2016 to October 2017, he served as group president, Starbucks Global Retail. From May 2013 to September 2016, he served as group president, China, Asia Pacific, Channel Development and Emerging Brands. Mr. Culver served as president, Starbucks Coffee China and Asia Pacific from October 2011 to May 2013. From December 2009 to October 2011, he served as president, Starbucks Coffee International. Mr. Culver served as executive vice president; president, Global Consumer Products, Foodservice and Seattle’s Best Coffee from February 2009 to September 2009, and then as president, Global Consumer Products and Foodservice from October 2009 to November 2009. He previously served as senior vice president; president, Starbucks Coffee Asia Pacific from January 2007 to February 2009, and vice president; general manager, Foodservice from August 2002 to January 2007.

Scott Maw joined Starbucks in August 2011 and has served as executive vice president, chief financial officer since February 2014. From October 2012 to February 2014, he served as senior vice president, Corporate Finance and as corporate controller from August 2011 to October 2012. Prior to joining Starbucks, Mr. Maw served as chief financial officer of SeaBright Insurance Company from February 2010 to August 2011. From October 2008 to February 2010, Mr. Maw served as chief financial officer of the Consumer Banking division of JPMorgan Chase & Co., having held a similar position at Washington Mutual Bank prior to its acquisition by Chase. From 1994 to 2003, he served in various finance leadership positions at General Electric Company. Mr. Maw serves on the Board of Directors of Avista Corporation.



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Paul Mutty joined Starbucks in September 1998 and has served as senior vice president, interim general counsel since August 2017. From July 2011 to July 2017, he served as senior vice president, deputy general counsel and assistant secretary. Mr. Mutty previously served as vice president, assistant general counsel from June 2002 to July 2011 and as director, corporate counsel from September 1998 to June 2002. Mr. Mutty has previously led the Starbucks legal department's EMEA region, Channel Development, Starbucks Law & Corporate Affairs business operations, global commercial, litigation, regulatory, technology, real estate and licensing legal teams. Prior to joining Starbucks, Mr. Mutty served as executive vice president and general counsel for SP Investments, Inc., from May 1996 to September 1998. Mr. Mutty was formerly with the Seattle law firm of Riddell, Williams, Bullitt & Walkinshaw, where he was a corporate attorney from 1986 to 1996 and was a partner from 1992 to 1996.

Global Social Impact

We are committed to being a deeply responsible company in the communities where we do business. Our focus is on ethically sourcing high-quality coffee, reducing our environmental impacts and contributing positively to communities around the world. Starbucks Global Social Impact strategy and commitments are integral to our overall business strategy. As a result, we believe we deliver benefits to our stakeholders, including employees, business partners, customers, suppliers, shareholders, community members and others. For an overview of Starbucks Global Social Impact strategy and commitments, please visit www.starbucks.com/responsibility.

Available Information

Starbucks 10-K reports, along with all other reports and amendments filed with or furnished to the Securities and Exchange Commission (“SEC”), are publicly available free of charge on the Investor Relations section of our website at investor.starbucks.com or at www.sec.gov as soon as reasonably practicable after these materials are filed with or furnished to the SEC. Our corporate governance policies, code of ethics and Board committee charters and policies are also posted on the Investor Relations section of Starbucks website at investor.starbucks.com. The information on our website is not part of this or any other report Starbucks files with, or furnishes to, the SEC.

Item 1A. Risk Factors

You should carefully consider the risks described below. If any of the risks and uncertainties described in the cautionary factors described below actually occurs, our business, financial condition and results of operations, and the trading price of our common stock could be materially and adversely affected. Moreover, we operate in a very competitive and rapidly changing environment. New factors emerge from time to time and it is not possible to predict the impact of all these factors on our business, financial condition or results of operations.

- Economic conditions in the U.S. and international markets could adversely affect our business and financial results.

As a retailer that is dependent upon consumer discretionary spending, our results of operations are sensitive to changes in or uncertainty about macro-economic conditions. Our customers may have less money for discretionary purchases and may stop or reduce their purchases of our products or trade down to Starbucks or competitors' lower priced products as a result of job losses, foreclosures, bankruptcies, increased fuel and energy costs, higher interest rates, higher taxes, reduced access to credit and economic uncertainty. These factors may also result in a general downturn in the restaurant industry. Decreases in customer traffic and/or average value per transaction will negatively impact our financial performance as reduced revenues without a corresponding decrease in expenses result in sales de-leveraging, which creates downward pressure on margins and also negatively impacts comparable store sales, net revenues, operating income and earnings per share. There is also a risk that if negative economic conditions or uncertainty persist for a long period of time or worsen, consumers may make long-lasting changes to their discretionary purchasing behavior, including less frequent discretionary purchases on a more permanent basis.

- Our success depends substantially on the value of our brands and failure to preserve their value, either through our actions or those of our business partners, could have a negative impact on our financial results.

We believe we have built an excellent reputation globally for the quality of our products, for delivery of a consistently positive consumer experience and for our corporate social responsibility programs. The Starbucks brand is recognized throughout the world and we have received high ratings in global brand value studies. To be successful in the future, particularly outside of the U.S., where the Starbucks brand and our other brands are less well-known, we believe we

must preserve, grow and leverage the value of our brands across all sales channels. Brand value is based in part on consumer perceptions on a variety of subjective qualities.

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Additionally, our business strategy, including our plans for new stores, foodservice, branded products and other initiatives, relies significantly on a variety of business partners, including licensee and joint venture relationships, particularly in our international markets, and third party manufacturers, distributors and retailers, particularly in our international Channel Development business. Licensees and foodservice operators are often authorized to use our logos and provide branded food, beverage and other products directly to customers. We provide training and support to, and monitor the operations of, certain of these business partners, but the product quality and service they deliver may be diminished by any number of factors beyond our control, including financial pressures they may face. We believe customers expect the same quality of products and service from our licensees as they do from us and we strive to ensure customers receive the same quality of products and service experience whether they visit a company-operated store or a licensed store. We also source our food, beverage and other products from a wide variety of domestic and international business partners in our supply chain operations, and in certain cases such products are produced or sourced by our licensees directly. And although foodservice operators are authorized to use our logos and provide branded products as part of their foodservice business, we do not monitor the quality of non-Starbucks products served in those locations.

Business incidents, whether isolated or recurring and whether originating from us or our business partners, that erode consumer trust, such as actual or perceived breaches of privacy or violations of domestic or international privacy laws, contaminated food, store employees or other food handlers infected with communicable diseases, product recalls or other potential incidents discussed in this risk factors section, particularly if the incidents receive considerable publicity, including rapidly through social or digital media, or result in litigation, and failure to respond appropriately to these incidents, can significantly reduce brand value, result in civil and criminal liability and have a negative impact on our financial results. Consumer demand for our products and our brand equity could diminish significantly if we or our licensees or other business partners fail to preserve the quality of our products, are perceived to act in an unethical or socially irresponsible manner, including with respect to the sourcing, content or sale of our products or the use of customer data, fail to comply with laws and regulations or fail to deliver a consistently positive consumer experience in each of our markets, including by failing to invest in the right balance of wages and benefits to attract and retain employees that represent the brand well. Additionally, inconsistent uses of our brand and other of our intellectual property assets, as well as failure to protect our intellectual property, including from unauthorized uses of our brand or other of our intellectual property assets, can erode consumer trust and our brand value and have a negative impact on our financial results.

- Incidents involving food or beverage-borne illnesses, tampering, adulteration, contamination or mislabeling, whether or not accurate, as well as adverse public or medical opinions about the health effects of consuming our products, could harm our business.

Instances or reports, whether true or not, of unclean water supply or food-safety issues, such as food or beverage-borne illnesses, tampering, adulteration, contamination or mislabeling, either during growing, manufacturing, packaging, storing or preparation, have in the past severely injured the reputations of companies in the food and beverage processing, grocery and quick-service restaurant sectors and could affect us as well. Any report linking us to the use of unclean water, food or beverage-borne illnesses, tampering, adulteration, contamination, mislabeling or other food or beverage-safety issues could damage our brand value and severely hurt sales of our food and beverage products and possibly lead to product liability claims, litigation (including class actions) or damages. Clean water is critical to the preparation of coffee, tea and other beverages and our ability to ensure a clean water supply to our stores can be limited, particularly in some international locations. We are also continuing to incorporate more products in our food and beverage lineup that require freezing or refrigeration, including produce (such as fruits and vegetables in our salads and juices), dairy products (such as milk and cheeses), non-dairy alternative products (such as soymilk and almondmilk) and meats. Additionally, we are evolving our product lineup to include more local or smaller suppliers for some of our products who may not have as rigorous quality and safety systems and protocols as larger or more national suppliers. If customers become ill from food or beverage-borne illnesses, tampering, adulteration, contamination, mislabeling or other food or beverage-safety issues, we could be forced to temporarily close some stores and/or supply chain facilities, as well as recall products. In addition, instances of food or

beverage-safety issues, even those involving solely the restaurants or stores of competitors or of suppliers or distributors (regardless of whether we use or have used those suppliers or distributors), could, by resulting in negative publicity about us or the foodservice industry in general, adversely affect our sales on a regional or global basis. A decrease in customer traffic as a result of food-safety concerns or negative publicity, or as a result of a temporary closure of any of our stores, product recalls or food or beverage-safety claims or litigation, could materially harm our business and results of operations.

Some of our products contain caffeine, dairy products, sugar and other compounds and allergens, the health effects of which are the subject of public and regulatory scrutiny, including the suggestion that excessive consumption of caffeine, dairy products, sugar and other compounds can lead to a variety of adverse health effects. Particularly in the U.S., there is increasing consumer awareness of health risks, including obesity, due in part to increased publicity and attention from health organizations, as well as increased consumer litigation based on alleged adverse health impacts of consumption of various food and beverage products. While we have a variety of beverage and food items, including items that are coffee-free and have reduced calories,

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an unfavorable report on the health effects of caffeine or other compounds present in our products, whether accurate or not, potential imposition of additional taxes on certain types of beverages, or negative publicity or litigation arising from certain health risks could significantly reduce the demand for our beverages and food products and could materially harm our business and results of operations.

- The unauthorized access, use, theft or destruction of customer or employee personal, financial or other data or of Starbucks proprietary or confidential information that is stored in our information systems or by third parties on our behalf could impact our reputation and brand and expose us to potential liability and loss of revenues.

Our information technology systems, such as those we use for our point-of-sale, web and mobile platforms, including online and mobile payment systems and rewards programs, and for administrative functions, including human resources, payroll, accounting and internal and external communications, as well as the information technology systems of our third party business partners and service providers, can contain personal, financial or other information that is entrusted to us by our customers and employees. Our information technology systems also contain Starbucks proprietary and other confidential information related to our business, such as business plans, product development initiatives and designs. Similar to many other retail companies and because of the prominence of our brand, we have experienced frequent attempts to compromise our information technology systems. To the extent we or a third party were to experience a material breach of our or such third party's information technology systems that result in the unauthorized access, theft, use or destruction of customers' or employees' data or that of the Company stored in such systems, including through cyber-attacks or other external or internal methods, it could result in a material loss of revenues from the potential adverse impact to our reputation and brand, our ability to retain or attract new customers and the potential disruption to our business and plans. Such security breaches also could result in a violation of applicable U.S. and international privacy and other laws, and subject us to private consumer or securities litigation and governmental investigations and proceedings, any of which could result in our exposure to material civil or criminal liability. For example, the European Union adopted a new regulation that becomes effective in May 2018, called the General Data Protection Regulation ("GDPR"), which requires companies to meet new requirements regarding the handling of personal data, including its use, protection and the ability of persons whose data is stored to correct or delete such data about themselves. Failure to meet GDPR requirements could result in penalties of up to 4% of worldwide revenue. Our reputation and brand and our ability to attract new customers could also be adversely impacted if we fail, or are perceived to have failed, to properly respond to these incidents. Such failure to properly respond could also result in similar exposure to liability.

Significant capital investments and other expenditures could be required to remedy the problem and prevent future breaches, including costs associated with additional security technologies, personnel, experts and credit monitoring services for those whose data has been breached. These costs, which could be material, could adversely impact our results of operations in the period in which they are incurred and may not meaningfully limit the success of future attempts to breach our information technology systems.

Media or other reports of existing or perceived security vulnerabilities in our systems or those of our third party business partners or service providers, even if no breach has been attempted or has occurred, can also adversely impact our brand and reputation and materially impact our business. Additionally, the techniques and sophistication used to conduct cyber-attacks and breaches of information technology systems, as well as the sources and targets of these attacks, change frequently and are often not recognized until such attacks are launched or have been in place for a period of time. We continue to make significant investments in technology, third party services and personnel to develop and implement systems and processes that are designed to anticipate cyber-attacks and to prevent or minimize breaches of our information technology systems or data loss, but these security measures cannot provide assurance that we will be successful in preventing such breaches or data loss.

- We rely heavily on information technology in our operations, and any material failure, inadequacy, interruption or security failure of that technology could harm our ability to effectively operate our business and could adversely affect our financial results.

We rely heavily on information technology systems across our operations, including for administrative functions, point-of-sale processing and payment in our stores and online, management of our supply chain, Starbucks Cards, online business, mobile technology, including mobile payments and ordering apps, reloads and loyalty functionality and various other processes and transactions, and many of these systems are interdependent on one another for their functionality. Additionally, the success of several of our initiatives to drive growth, including our priority to increase digital relationships with our customers to drive incremental traffic and spend, is highly dependent on our technology systems. Our ability to effectively manage our business, launch digital and other initiatives, and coordinate the production, distribution, administration and sale of our products depends significantly on the reliability, integrity and capacity of these systems. We also rely on third party providers and platforms for some of these information technology systems and support. Additionally, our systems hardware, software and services provided by third party service providers are not fully redundant within a market or across our markets. Although we have operational safeguards in place, they may not be effective in preventing the failure of these systems or platforms to operate effectively and be available. Such failures may be caused by various factors, including power outages, catastrophic events, inadequate or

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ineffective redundancy, problems with transitioning to upgraded or replacement systems or platforms, flaws in third party software or services, errors by our employees or third party service providers, or a breach in the security of these systems or platforms, including through cyber-attacks such as those that result in the blockage of our or our third-party business partners' or service providers' systems and platforms and those discussed in more detail in this risk factors section. If our incident response, disaster recovery and business continuity plans do not resolve these issues in an effective manner they could cause material negative impacts to our product availability and sales, the efficiency of our operations and our financial results.

- We may not be successful in implementing important strategic initiatives or effectively managing growth, which may have an adverse impact on our business and financial results.

There is no assurance that we will be able to implement important strategic initiatives in accordance with our expectations, which may result in an adverse impact on our business and financial results. These strategic initiatives are designed to create growth, improve our results of operations and drive long-term shareholder value, and include:

- being an employer of choice and investing in employees to deliver a superior customer experience;
- building our leadership position around coffee, including through the development of Starbucks Reserve™ Roasteries and Starbucks Reserve™ stores;
- driving convenience and brand engagement through our mobile, loyalty and digital capabilities;
- increasing the scale of the Starbucks store footprint with disciplined global expansion and introducing flexible and unique store formats;
- moving to a more licensed store model in some markets and a more company-owned model in other markets;
- creating new occasions in stores across all dayparts with new product offerings, including our growing lunch food and beverage product lineup;
- continuing the global growth of our Channel Development business; and
- delivering continued growth in our tea business through the Teavana brand in our Starbucks® retail stores and other channels and internationally.

In addition to other factors listed in this risk factors section, factors that may adversely affect the successful implementation of these initiatives, which could adversely impact our business and financial results, include the following:

- increases in labor costs, both domestically and internationally, such as general market and minimum wage levels and investing in competitive compensation, increased health care and workers' compensation insurance costs and other benefits to attract and retain high quality employees with the right skill sets, whether due to regulatory mandates, changing industry practices or our expansion into new channels or technology dependent operations;
- increasing competition in channels in which we operate or seek to operate from new and existing large competitors that sell high-quality specialty coffee beverages;
- continuing disruption in retail caused by on-line commerce, resulting in reduced foot traffic to "brick & mortar" retail stores;
- consumers shifting categories of where they spend their discretionary income away from outside-the-home food and beverage;
- construction cost increases associated with new store openings and remodeling of existing stores; delays in store openings for reasons beyond our control or a lack of desirable real estate locations available for lease at reasonable rates, either of which could keep us from meeting annual store opening targets in the U.S. and internationally;
- not successfully scaling our supply chain infrastructure as our product offerings increase and as we continue to expand, including our emphasis on a broad range of high-quality food offerings;
- the ability of our licensee partners to implement our growth platforms and product innovation;
- lack of customer acceptance of new products (including due to price increases necessary to cover the costs of new products or higher input costs), brands (such as the global expansion of the Teavana brand in our Starbucks® retail stores and other channels) and platforms (such as mobile technology), or customers reducing their demand for our current offerings as new products are introduced;
- the degree to which we enter into, maintain, develop and are able to negotiate appropriate terms and conditions of, and enforce, commercial and other agreements;

- not successfully consummating favorable strategic transactions or integrating acquired businesses; and
- the deterioration in our credit ratings, which could limit the availability of additional financing and increase the cost of obtaining financing to fund our initiatives.

Additionally, our Channel Development business is also in part dependent on the level of support our retail business partners provide our products, and in some markets there are only a few retailers. If our retail business partners do not provide sufficient

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levels of support for our products, which is at their discretion, it could limit our ability to grow our Channel Development business. Also, a relatively small number of licensee partners own a large number of licensed stores. If such licensee partners are not able to access sufficient funds or financing, or are otherwise unable to successfully operate and grow their businesses, including their licensed stores, it could adversely affect our results in the markets in which they operate their licensed stores.

Effectively managing growth can be challenging, particularly as we continue to expand into new channels outside the retail store model, increase our focus on our Channel Development business, grow our Teavana brand in our Starbucks® retail stores and other channels, and expand into new markets internationally where we must balance the need for flexibility and a degree of autonomy for local management against the need for consistency with our goals, philosophy and standards. Growth can make it increasingly difficult to ensure a consistent supply of high-quality raw materials, to locate and hire sufficient numbers of key employees, to maintain an effective system of internal controls for a globally dispersed enterprise and to train employees worldwide to deliver a consistently high quality product and customer experience. Furthermore, if we are not successful in implementing these strategic initiatives, such as large acquisitions and integrations, we may be required to evaluate whether certain assets, including goodwill and other intangibles, have become impaired. In the event we record an impairment charge, it could have a material impact on our financial results.

- We face intense competition in each of our channels and markets, which could lead to reduced profitability.

The specialty coffee market is intensely competitive, including with respect to product quality, innovation, service, convenience, and price, and we face significant and increasing competition in all these areas in each of our channels and markets. Accordingly, we do not have leadership positions in all channels and markets. In the U.S., the ongoing focus by large competitors in the quick-service restaurant sector on selling high-quality specialty coffee beverages could lead to decreases in customer traffic to Starbucks® stores and/or average value per transaction adversely affecting our sales and results of operations. Similarly, continued competition from well-established competitors in our international markets could hinder growth and adversely affect our sales and results of operations in those markets. Additionally, some of our competitors are also our suppliers, which may result in their ability to offer competing products at a lower price than we do. Increased competition in the U.S. packaged coffee and tea and single-serve and ready-to-drink coffee beverage markets, including from new and large entrants to this market could adversely affect the profitability of the Channel Development segment. Furthermore, declines in general consumer demand for specialty coffee products for any reason, including due to consumer preference for other products or flattening demand for our products, could have a negative effect on our business, including from price discounting we may have to undertake.

- We are highly dependent on the financial performance of our Americas operating segment.

Our financial performance is highly dependent on our Americas operating segment, as it comprised approximately 70% of consolidated total net revenues in fiscal 2017. If the Americas operating segment revenue trends slow or decline, especially in our U.S. and Canada markets, our other segments may be unable to make up any significant shortfall and our business and financial results could be adversely affected. And because the Americas segment is relatively mature and produces the large majority of our operating cash flows, such a slowdown or decline could result in reduced cash flows for funding the expansion of our international business and other initiatives and for returning cash to shareholders.

- We are increasingly dependent on the success of certain international markets in order to achieve our growth targets.

Our future growth increasingly depends on the growth and sustained profitability of certain international markets. Some or all of our international market business units (“MBUs”), which we generally define by the countries in which they operate, may not be successful in their operations or in achieving expected growth, which ultimately requires achieving consistent, stable net revenues and earnings. The performance of these international operations may be adversely affected by economic downturns in one or more of the countries in which our large MBUs operate. The broader CAP market is now one of our two significant profit engines driving our global returns, along with our North

American business. In particular, both our China and Japan MBUs contribute meaningfully to both consolidated and CAP net revenues and earnings and China in particular is a significant market for our growth. A decline in performance of one or more of our significant international MBUs could have a material adverse impact on our consolidated results.

Additionally, some factors that will be critical to the success of our international operations are different than those affecting our U.S. stores and licensees. Tastes naturally vary by region, and consumers in some MBUs may not embrace our products to the same extent as consumers in the U.S. or other international markets. Occupancy costs and store operating expenses can be higher internationally than in the U.S. due to higher rents for prime store locations or costs of compliance with country-specific regulatory requirements. Because many of our international operations are in an early phase of development, operating expenses as a percentage of related revenues are often higher compared to more developed operations, such as in the U.S. Additionally, our international joint venture partners or licensees may face capital constraints or other factors that may limit the speed at which they are able to expand and develop in a certain market.

Our international operations are also subject to additional inherent risks of conducting business abroad, such as:

- foreign currency exchange rate fluctuations, or requirements to transact in specific currencies;
- changes or uncertainties in economic, legal, regulatory, social and political conditions in our markets, as well as negative effects on U.S. businesses due to increasing anti-American sentiment in certain markets;
- interpretation and application of laws and regulations, including tax, labor, merchandise, anti-bribery and privacy laws and regulations;
- restrictive actions of foreign or U.S. governmental authorities affecting trade and foreign investment, especially during periods of heightened tension between the U.S. and such foreign governmental authorities, including protective measures such as export and customs duties and tariffs, government intervention favoring local competitors, and restrictions on the level of foreign ownership;
- import or other business licensing requirements;
- the enforceability of intellectual property and contract rights;
- limitations on the repatriation of funds and foreign currency exchange restrictions due to current or new U.S. and international regulations;
- in developing economies, the growth rate in the portion of the population achieving sufficient levels of disposable income may not be as fast as we forecast;
- difficulty in staffing, developing and managing foreign operations and supply chain logistics, including ensuring the consistency of product quality and service, due to governmental actions affecting supply chain logistics, distance, language and cultural differences, as well as challenges in recruiting and retaining high quality employees in local markets;
- local laws that make it more expensive and complex to negotiate with, retain or terminate employees;
- delays in store openings for reasons beyond our control, competition with locally relevant competitors or a lack of desirable real estate locations available for lease at reasonable rates, any of which could keep us from meeting annual store opening targets and, in turn, negatively impact net revenues, operating income and earnings per share; and
- disruption in energy supplies affecting our markets.

Moreover, many of the foregoing risks are particularly acute in developing countries, which are important to our long-term growth prospects.

- Increases in the cost of high-quality arabica coffee beans or other commodities or decreases in the availability of high-quality arabica coffee beans or other commodities could have an adverse impact on our business and financial results.

We purchase, roast and sell high-quality whole bean arabica coffee beans and related coffee products. The price of coffee is subject to significant volatility and has and may again increase significantly due to one or more of the factors described below. The high-quality arabica coffee of the quality we seek tends to trade on a negotiated basis at a premium above the “C” price. This premium depends upon the supply and demand at the time of purchase and the amount of the premium can vary significantly. Increases in the “C” coffee commodity price do increase the price of high-quality arabica coffee and also impact our ability to enter into fixed-price purchase commitments. We frequently enter into supply contracts whereby the quality, quantity, delivery period, and other negotiated terms are agreed upon, but the date, and therefore price, at which the base “C” coffee commodity price component will be fixed has not yet been established. These are known as price-to-be-fixed contracts. The supply and price of coffee we purchase can also be affected by multiple factors in the producing countries, such as weather (including the potential effects of climate change), natural disasters, crop disease, general increase in farm inputs and costs of production, inventory levels and political and economic conditions, as well as the actions of certain organizations and associations that have historically attempted to influence prices of green coffee through agreements establishing export quotas or by restricting coffee supplies. Speculative trading in coffee commodities can also influence coffee prices. Because of the significance of coffee beans to our operations, combined with our ability to only partially mitigate future price risk through purchasing practices and hedging activities, increases in the cost of high-quality arabica coffee beans could have an adverse impact on our profitability. In addition, if we are not able to purchase sufficient quantities of green coffee due to any of the above factors or to a worldwide or regional shortage, we may not be able to fulfill the demand

for our coffee, which could have an adverse impact on our profitability.
We also purchase significant amounts of dairy products, particularly fluid milk, to support the needs of our company-operated retail stores. Additionally, and although less significant to our operations than coffee or dairy, other commodities, including but not limited to tea and those related to food and beverage inputs, such as cocoa, produce, baking ingredients, meats, eggs and energy, as well as the processing of these inputs, are important to our operations. Increases in the cost of dairy products and other commodities, or lack of availability, whether due to supply shortages, delays or interruptions in processing, or otherwise, especially in international markets, could have an adverse impact on our profitability.

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- Our financial condition and results of operations are sensitive to, and may be adversely affected by, a number of factors, many of which are largely outside our control.

Our operating results have been in the past and will continue to be subject to a number of factors, many of which are largely outside our control. Any one or more of the factors listed below or described elsewhere in this risk factors section could adversely impact our business, financial condition and/or results of operations:

- increases in real estate costs in certain domestic and international markets;
- adverse outcomes of litigation;
- severe weather or other natural or man-made disasters affecting a large market or several closely located markets that may temporarily but significantly affect our retail business in such markets; and
- especially in our larger or fast growing markets, labor discord or disruption, geopolitical events, war, terrorism (including incidents targeting us), political instability, boycotts, increasing anti-American sentiment in certain markets, social unrest, and natural disasters, including health pandemics that lead to avoidance of public places or restrictions on public gatherings such as in our stores.

- Interruption of our supply chain could affect our ability to produce or deliver our products and could negatively impact our business and profitability.

Any material interruption in our supply chain, such as material interruption of roasted coffee supply due to the casualty loss of any of our roasting plants, interruptions in service by our third party logistic service providers or common carriers that ship goods within our distribution channels, trade restrictions, such as increased tariffs or quotas, embargoes or customs restrictions, or natural disasters that cause a material disruption in our supply chain could negatively impact our business and our profitability.

Additionally, our food, beverage and other products are sourced from a wide variety of domestic and international business partners in our supply chain operations, and in certain cases are produced or sourced by our licensees directly. We rely on these suppliers and vendors to provide high quality products and to comply with applicable laws. Our ability to find qualified suppliers and vendors who meet our standards and supply products in a timely and efficient manner is a significant challenge, especially with respect to goods sourced from outside the U.S., especially countries or regions with diminished infrastructure, developing or failing economies or experiencing political instability or social unrest, and as we increase our fresh and prepared food offerings. For certain products, we may rely on one or very few suppliers or vendors. A vendor's or supplier's failure to meet our standards, provide products in a timely and efficient manner, or comply with applicable laws is beyond our control. These issues, especially for those products for which we rely on one or few suppliers or vendors, could negatively impact our business and profitability.

- Failure to meet market expectations for our financial performance and fluctuations in the stock market as a whole will likely adversely affect the market price and volatility of our stock.

Failure to meet market expectations going forward, particularly with respect to operating margins, earnings per share, comparable store sales, operating cash flows, and net revenues, will likely result in a decline and/or increased volatility in the market price of our stock. In addition, price and volume fluctuations in the stock market as a whole may affect the market price of our stock in ways that may be unrelated to our financial performance.

- The loss of key personnel or difficulties recruiting and retaining qualified personnel could adversely impact our business and financial results.

Much of our future success depends on the continued availability and service of senior management personnel. The loss of any of our executive officers or other key senior management personnel could harm our business. We must continue to recruit, retain and motivate management and other employees sufficiently, both to maintain our current business and to execute our strategic initiatives, some of which involve ongoing expansion in business channels outside of our traditional company-operated store model. Our success also depends substantially on the contributions and abilities of our retail store employees whom we rely on to give customers a superior in-store experience and elevate our brand. Accordingly, our performance depends on our ability to recruit and retain high quality employees to

work in and manage our stores, both domestically and internationally. Our ability to attract and retain both corporate and retail personnel is also acutely impacted in certain international and domestic markets where the competition for a relatively small number of qualified employees is intense or in markets where large high-tech companies are able to offer more competitive salaries and benefits. If we are unable to recruit, retain and motivate employees sufficiently to maintain our current business and support our projected growth, our business and financial performance may be adversely affected.



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- Failure to comply with applicable laws and changing legal and regulatory requirements could harm our business and financial results.

Our policies and procedures are designed to comply with all applicable laws, accounting and reporting requirements, tax rules and other regulations and requirements, including those imposed by the SEC, NASDAQ, and foreign countries, as well as applicable trade, labor, healthcare, privacy (including the European Union's GDPR discussed in more detail in this risk factors section), food and beverage, labeling, anti-bribery and corruption and merchandise laws. The complexity of the regulatory environment in which we operate and the related cost of compliance are both increasing due to additional or changing legal and regulatory requirements, our ongoing expansion into new markets and new channels, and the fact that foreign laws occasionally conflict with domestic laws. In addition to potential damage to our reputation and brand, failure by us or our business partners to comply with the various laws and regulations, as well as changes in laws and regulations or the manner in which they are interpreted or applied, may result in litigation, civil and criminal liability, damages, fines and penalties, increased cost of regulatory compliance and restatements of our financial statements and have an adverse impact on our business and financial results.

## Item 1B. Unresolved Staff Comments

None.

## Item 2. Properties

The significant properties used by Starbucks in connection with its roasting, manufacturing, warehousing, distribution and corporate administrative operations, serving all segments, are as follows:

| Location | Approximate Size in Square Feet | Purpose |
|---|---|---|
| Rancho Cucamonga, CA | 265,000 | Manufacturing |
| Washington, DC | 130,000 | Warehouse and distribution |
| Augusta, GA | 131,000 | Manufacturing |
| Minden, NV (Carson Valley) | 360,000 | Roasting and distribution |
| York, PA | 2,098,000 | Roasting, distribution and warehouse |
| Gaston, SC (Sandy Run) | 117,000 | Roasting and distribution |
| Lebanon, TN | 680,000 | Warehouse and distribution |
| Auburn, WA | 491,000 | Warehouse and distribution |
| Kent, WA | 510,000 | Roasting and distribution |
| Seattle, WA | 1,241,000 | Corporate administrative |
| Shanghai, China | 121,000 | Corporate administrative |
| Amsterdam, Netherlands | 97,000 | Roasting and distribution |
| Samutprakarn, Thailand | 81,000 | Warehouse and distribution |

We own most of our roasting facilities and lease the majority of our warehousing and distribution locations. As of October 1, 2017, Starbucks had 13,275 company-operated stores, almost all of which are leased. We also lease space in various locations worldwide for regional, district and other administrative offices, training facilities and storage. In addition to the locations listed above, we hold inventory at various locations managed by third-party warehouses.

## Item 3. Legal Proceedings

See Note 15, Commitments and Contingencies, to the consolidated financial statements included in Item 8 of Part II of this 10-K for information regarding certain legal proceedings in which we are involved.

## Item 4. Mine Safety Disclosures

Not applicable.

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PART II

Item 5. Market for the Registrant's Common Equity, Related Shareholder Matters and Issuer Purchases of Equity Securities

SHAREHOLDER INFORMATION

MARKET INFORMATION AND DIVIDEND POLICY

Starbucks common stock is traded on NASDAQ, under the symbol "SBUX."

The following table shows the quarterly high and low sale prices per share of Starbucks common stock as reported by NASDAQ for each quarter during the last two fiscal years and the quarterly cash dividend declared per share of our common stock during the periods indicated:

| | High | Low | Cash Dividends Declared |
|---|---|---|---|
| Fiscal 2017: | | | |
| Fourth Quarter | $59.66 | $52.58 | $ 0.30 |
| Third Quarter | 64.87 | 57.38 | 0.25 |
| Second Quarter | 59.00 | 53.81 | 0.25 |
| First Quarter | 59.54 | 50.84 | 0.25 |
| Fiscal 2016: | | | |
| Fourth Quarter | $58.84 | $52.90 | $ 0.25 |
| Third Quarter | 61.64 | 54.01 | 0.20 |
| Second Quarter | 61.79 | 52.63 | 0.20 |
| First Quarter | 64.00 | 54.81 | 0.20 |

As of November 10, 2017, we had approximately 18,100 shareholders of record. This does not include persons whose stock is in nominee or "street name" accounts through brokers.

Future decisions to pay cash dividends continue to be at the discretion of the Board of Directors and will be dependent on our operating performance, financial condition, capital expenditure requirements and other factors that the Board of Directors considers relevant.

ISSUER PURCHASES OF EQUITY SECURITIES

The following table provides information regarding repurchases of our common stock during the quarter ended October 1, 2017:

| Period[1] | Total Number of Shares Purchased | Average Price Paid per Share | Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs[2] | Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs[3] |
|---|---|---|---|---|
| July 3, 2017 — July 30, 2017 | 2,168,233 | $ 58.03 | 2,168,233 | 93,238,695 |
| July 31, 2017 — August 27, 2017 | 4,804,970 | 53.87 | 4,804,970 | 88,433,725 |
| August 28, 2017 — October 1, 2017 | 8,116,314 | 54.41 | 8,116,314 | 80,317,411 |
| Total | 15,089,517 | $ 54.76 | 15,089,517 | |

(1) Monthly information is presented by reference to our fiscal months during the fourth quarter of fiscal 2017.

(2) Share repurchases are conducted under our ongoing share repurchase program announced in September 2001, which has no expiration date.

(3) This column includes the total remaining number of shares authorized for repurchase under the Company's ongoing share repurchase program. Shares under our ongoing share repurchase program may be repurchased in open market transactions, including pursuant to a trading plan adopted in accordance with Rule 10b5-1 of the Securities Exchange Act of 1934, or through privately negotiated transactions. The timing, manner, price and amount of

repurchases will be

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determined at the Company's discretion, and the share repurchase program may be suspended, terminated or modified at any time for any reason.

Performance Comparison Graph

The following graph depicts the total return to shareholders from September 30, 2012 through October 1, 2017, relative to the performance of the Standard & Poor's 500 Index, the NASDAQ Composite Index and the Standard & Poor's 500 Consumer Discretionary Sector, a peer group that includes Starbucks. All indices shown in the graph have been reset to a base of 100 as of September 30, 2012, and assume an investment of $100 on that date and the reinvestment of dividends paid since that date. The stock price performance shown in the graph is not necessarily indicative of future price performance.

| | Sep 30, 2012 | Sep 29, 2013 | Sep 28, 2014 | Sep 27, 2015 | Oct 2, 2016 | Oct 1, 2017 |
|---|---|---|---|---|---|---|
| Starbucks Corporation | $100.00 | $154.67 | $152.47 | $238.48 | $225.70 | $227.92 |
| S&P 500 | 100.00 | 119.34 | 142.89 | 142.02 | 163.93 | 194.44 |
| NASDAQ Composite | 100.00 | 123.38 | 148.79 | 154.52 | 178.82 | 220.25 |
| S&P Consumer Discretionary | 100.00 | 131.84 | 147.36 | 166.78 | 182.85 | 209.40 |

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Item 6. Selected Financial Data

The following selected financial data is derived from the consolidated financial statements. All per-share data has been retroactively adjusted to give effect to the two-for-one stock split discussed in Note 1, Summary of Significant Accounting Policies, included in Item 8 of Part II of this 10-K. The data below should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations," "Risk Factors," and the consolidated financial statements and notes.

Financial Information (in millions, except per share data):

| As of and for the Fiscal Year Ended [1] | Oct 1, 2017 (52 Wks) | Oct 2, 2016 (53 Wks) | Sep 27, 2015 (52 Wks) | Sep 28, 2014 (52 Wks) | Sep 29, 2013 (52 Wks) |
|---|---|---|---|---|---|
| Results of Operations | | | | | |
| Net revenues: | | | | | |
| Company-operated stores | $17,650.7 | $16,844.1 | $15,197.3 | $12,977.9 | $11,793.2 |
| Licensed stores | 2,355.0 | 2,154.2 | 1,861.9 | 1,588.6 | 1,360.5 |
| CPG, foodservice and other | 2,381.1 | 2,317.6 | 2,103.5 | 1,881.3 | 1,713.1 |
| Total net revenues | $22,386.8 | $21,315.9 | $19,162.7 | $16,447.8 | $14,866.8 |
| Operating income/(loss)[2] | $4,134.7 | $4,171.9 | $3,601.0 | $3,081.1 | $(325.4) |
| Net earnings including noncontrolling interests[2] | 2,884.9 | 2,818.9 | 2,759.3 | 2,067.7 | 8.8 |
| Net earnings/(loss) attributable to noncontrolling interests | 0.2 | 1.2 | 1.9 | (0.4) | 0.5 |
| Net earnings attributable to Starbucks[2] | 2,884.7 | 2,817.7 | 2,757.4 | 2,068.1 | 8.3 |
| EPS — diluted[2] | 1.97 | 1.90 | 1.82 | 1.35 | 0.01 |
| Cash dividends declared per share | 1.050 | 0.850 | 0.680 | 0.550 | 0.445 |
| Net cash provided by operating activities | 4,174.3 | 4,575.1 | 3,749.1 | 607.8 | 2,908.3 |
| Capital expenditures (additions to property, plant and equipment) | 1,519.4 | 1,440.3 | 1,303.7 | 1,160.9 | 1,151.2 |
| Balance Sheet | | | | | |
| Total assets[3] | $14,365.6 | $14,312.5 | $12,404.1 | $10,745.0 | $11,509.8 |
| Long-term debt (including current portion) | 3,932.6 | 3,585.2 | 2,335.3 | 2,041.3 | 1,293.2 |
| Shareholders' equity | 5,450.1 | 5,884.0 | 5,818.0 | 5,272.0 | 4,480.2 |

(1) Our fiscal year ends on the Sunday closest to September 30. The fiscal year ended on October 2, 2016 included 53 weeks, with the 53rd week falling in our fourth fiscal quarter.

(2) Fiscal 2013 results include a pretax charge of $2,784.1 million resulting from the conclusion of our arbitration with Kraft Foods Global, Inc. The impact of this charge to net earnings attributable to Starbucks and diluted EPS, net of the related tax benefit, was $1,713.1 million and $1.12 per share, respectively.

(3) Total assets for fiscal 2013 through fiscal 2016 have been adjusted for the adoption of new accounting guidance related to the reclassification of debt issuance costs as discussed in Note 1, Summary of Significant Accounting Policies.

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Comparable Store Sales:

| Fiscal Year Ended | Oct 1, 2017 | Oct 2, 2016 | Sep 27, 2015 | Sep 28, 2014 | Sep 29, 2013 |
|---|---|---|---|---|---|
| Percentage change in comparable store sales[1] | | | | | |
| Americas | | | | | |
| Sales growth | 3 % | 6 % | 7 % | 6 % | 7 % |
| Change in transactions | — % | 1 % | 3 % | 2 % | 5 % |
| Change in ticket | 4 % | 5 % | 4 % | 3 % | 2 % |
| China/Asia Pacific[2] | | | | | |
| Sales growth | 3 % | 3 % | 9 % | 7 % | 9 % |
| Change in transactions | 1 % | 1 % | 8 % | 6 % | 7 % |
| Change in ticket | 1 % | 2 % | 1 % | —% | 2 % |
| EMEA[3] | | | | | |
| Sales growth | 1 % | —% | 4 % | 5 % | — % |
| Change in transactions | (1 )% | 1 % | 2 % | 3 % | 2 % |
| Change in ticket | 1 % | —% | 1 % | 2 % | (2)% |
| Consolidated | | | | | |
| Sales growth | 3 % | 5 % | 7 % | 6 % | 7 % |
| Change in transactions | — % | 1 % | 3 % | 3 % | 5 % |
| Change in ticket | 3 % | 4 % | 4 % | 3 % | 2 % |

(1) Includes only Starbucks® company-operated stores open 13 months or longer. Comparable store sales exclude the effect of fluctuations in foreign currency exchange rates. For fiscal year 2016, comparable store sales percentages were calculated excluding the 53rd week.

(2) Beginning in December of fiscal 2016, comparable store sales include the results of the 1,009 company-operated stores acquired as part of the acquisition of Starbucks Japan in the first quarter of fiscal 2015.

(3) Company-operated stores represent 17% of the EMEA segment store portfolio as of October 1, 2017.

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Store Count Data:

| As of and for the Fiscal Year Ended | Oct 1, 2017 (52 Wks) | Oct 2, 2016 (53 Wks) | Sep 27, 2015 (52 Wks) | Sep 28, 2014 (52 Wks) | Sep 29, 2013 (52 Wks) |
|---|---|---|---|---|---|
| Net stores opened/(closed) and transferred during the year: | | | | | |
| Americas[1] | | | | | |
| Company-operated stores | 394 | 348 | 276 | 317 | 276 |
| Licensed stores | 558 | 456 | 336 | 381 | 404 |
| China/Asia Pacific [2] | | | | | |
| Company-operated stores | 259 | 359 | 1,320 | 250 | 239 |
| Licensed stores | 777 | 622 | (482) | 492 | 349 |
| EMEA[3] | | | | | |
| Company-operated stores | (21) | (214) | (80) | (9) | (29) |
| Licensed stores | 353 | 494 | 302 | 180 | 129 |
| All Other Segments [4] | | | | | |
| Company-operated stores | (68) | (17) | 6 | 12 | 343 |
| Licensed stores | 2 | (6) | (1) | (24) | (10) |
| Total | 2,254 | 2,042 | 1,677 | 1,599 | 1,701 |
| Stores open at year end: | | | | | |
| Americas [1] | | | | | |
| Company-operated stores | 9,413 | 9,019 | 8,671 | 8,395 | 8,078 |
| Licensed stores | 7,146 | 6,588 | 6,132 | 5,796 | 5,415 |
| China/Asia Pacific[2] | | | | | |
| Company-operated stores | 3,070 | 2,811 | 2,452 | 1,132 | 882 |
| Licensed stores | 4,409 | 3,632 | 3,010 | 3,492 | 3,000 |
| EMEA[3] | | | | | |
| Company-operated stores | 502 | 523 | 737 | 817 | 826 |
| Licensed stores | 2,472 | 2,119 | 1,625 | 1,323 | 1,143 |
| All Other Segments[4] | | | | | |
| Company-operated stores | 290 | 358 | 375 | 369 | 357 |
| Licensed stores | 37 | 35 | 41 | 42 | 66 |
| Total | 27,339 | 25,085 | 23,043 | 21,366 | 19,767 |

(1) Americas store data includes the closure of 132 Target Canada licensed stores in the second quarter of fiscal 2015.

(2) China/Asia Pacific store data has been adjusted for the transfer of certain company-operated stores to licensed stores in the fourth quarter of fiscal 2014. China/Asia Pacific store data also includes the transfer of 1,009 Japan stores from licensed stores to company-operated as a result of the acquisition of Starbucks Japan in the first quarter of fiscal 2015 and the transfer of 133 Singapore stores from company-operated stores to licensed stores in the fourth quarter of fiscal 2017.

(3) EMEA store data has been adjusted for the transfer of certain company-operated stores to licensed stores in the second and fourth quarters of fiscal 2014. EMEA store data also includes the transfer of 144 Germany company-operated retail stores to licensed stores as a result of the sale to AmRest Holdings SE in the third quarter of fiscal 2016.

(4) All Others Segments data includes 337 Teavana™ stores acquired in the second quarter of fiscal 2013 and the net closure of 64 Teavana-branded stores in fiscal 2017.

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## Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

### General

Our fiscal year ends on the Sunday closest to September 30. The fiscal year ended on October 1, 2017 included 52 weeks. The fiscal year ended on October 2, 2016 included 53 weeks, with the extra week falling in our fourth fiscal quarter, and the fiscal year ended on September 27, 2015 included 52 weeks. Comparable store sales percentages below are calculated excluding the 53rd week. All references to store counts, including data for new store openings, are reported net of related store closures, unless otherwise noted.

### Financial Highlights

- Total net revenues increased 5% to $22.4 billion in fiscal 2017 compared to $21.3 billion in fiscal 2016. Excluding $412.4 million from extra week of fiscal 2016, net revenues grew 7%.
- Global comparable store sales grew 3% driven by a 3% increase in average ticket.
- Consolidated operating income decreased to $4.1 billion in fiscal 2017 compared to operating income of $4.2 billion in fiscal 2016. Fiscal 2017 operating margin was 18.5% compared to 19.6% in fiscal 2016. Operating margin compression in fiscal 2017 was primarily driven by increased partner (employee) and digital investments, largely in the Americas segment, restructuring and impairment charges and the absence of the 53rd week, partially offset by sales leverage.
- Restructuring and impairment charges for fiscal 2017 were $153.5 million and primarily related to our strategic changes in our Teavana business including a partial goodwill impairment, store asset impairments, costs associated with early closure of stores and severance. Additional amounts incurred related to an impairment of our Switzerland retail business and asset impairments of certain Starbucks® company-operated stores in Canada.
- Earnings per share ("EPS") for fiscal 2017 increased to $1.97, compared to EPS of $1.90 in fiscal 2016, which benefited $0.06 per share from the extra week in fiscal 2016. The increase was primarily driven by growth in comparable store sales, improved sales leverage and the gain on the sale of Singapore retail operations, partially offset by restructuring and impairment charges.
- Cash flows from operations were $4.2 billion in fiscal 2017 compared to $4.6 billion in fiscal 2016. The change was primarily due to the timing of our cash payments for income taxes.
- Capital expenditures were $1.5 billion in fiscal 2017 compared to $1.4 billion in fiscal 2016.
- We returned $3.5 billion to our shareholders in fiscal 2017 through share repurchases and dividends compared to $3.2 billion in fiscal 2016.

### Overview

Starbucks results for fiscal 2017 continued to demonstrate the strength of our global business model, and our ability to successfully make disciplined investments in our business and our partners. Consolidated total net revenues increased 5% to $22.4 billion, primarily driven by incremental revenues from 2,320 net new store openings over the past 12 months and a 3% growth in global comparable store sales, partially offset by the absence of the 53rd week. Consolidated operating income declined $37 million, or 1%, to $4.1 billion. Operating margin declined 110 basis points to 18.5%, primarily due to increased partner investments, largely in the Americas segment, restructuring and impairment charges and the absence of the 53rd week, partially offset by sales leverage. Earnings per share of $1.97 increased 4% over the prior year earnings per share of $1.90.

Americas revenue grew by 6% to $15.7 billion, primarily driven by incremental revenues from 952 net new store openings over the last 12 months and comparable store sales growth of 3%, partially offset by the absence of the 53rd week. The success of our premium food offerings coupled with innovation across our coffee and tea beverage platforms drove the increase in comparable store sales. Operating income declined $79 million to $3.7 billion and operating margin at 23.4% declined by 190 basis points from a year ago, primarily due to increased investments in our store partners, a product mix shift largely towards food, and the absence of the 53rd week. These were partially offset by sales leverage.

In our China/Asia Pacific segment, revenues grew by 10% to $3.2 billion, primarily driven by incremental revenues from the opening of 1,036 net new stores over the past 12 months and a 3% increase in comparable store sales, partially offset by the absence of the 53rd week and unfavorable foreign currency translation. Operating income grew 21% to $765 million, while operating margin expanded 210 basis points to 23.6%. The overall margin expansion was

primarily due to the transition to China's new value added tax structure in fiscal 2016 and higher income from our joint venture operations. We now operate 7,479 stores in 15 countries in our China/Asia Pacific segment making this the second largest reportable segment.

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We continue to execute on our strategy of repositioning the EMEA segment to a predominantly licensed model. As a result of this strategy, EMEA revenues declined $111 million to $1.0 billion, or 10%, primarily driven by the absence of revenue related to the sale of our Germany retail operations in the third quarter of fiscal 2016 and unfavorable foreign currency translation. Partially offsetting the decrease were incremental revenues from the opening of 339 net new licensed stores over the past 12 months. Operating margin declined 200 basis points to 11.5% primarily due to a partial impairment of goodwill related to our Switzerland retail business, sales deleverage in certain company-operated stores and unfavorable foreign currency exchange. These decreases were partially offset by sales leverage driven by the shift in the portfolio towards more licensed stores.

Channel Development segment revenues grew by 4% to $2.0 billion, primarily driven by increased sales through our international channels and sales of packaged coffee, foodservice and single-serve products. When excluding the revenue of the 53rd week in fiscal 2016, segment revenues grew by 6%. Operating income grew $86 million, or 11%, to $893 million. Operating margin increased 270 basis points to 44.5%, primarily driven by lower coffee costs, leverage on cost of sales and higher income from our North American Coffee Partnership joint venture.

Fiscal 2018 — The View Ahead

Turning to fiscal 2018, we expect continued growth through thoughtful long-term investments that create value and reward shareholders. These results are expected to be driven by our 6 operational priorities, which include:

- Accelerate U.S. Comparable Store Sales
- Drive Innovation in Food and Beverage
- Accelerate the Power and Momentum of our Digital Platform
- Enable Long-Term Growth in China
- Elevate the Starbucks Experience through Siren Retail
- Gain Share of At-Home Coffee

These priorities are our main focus to grow our core business with new customer acquisition through store growth, digital engagement and innovation, while we continue to foster long-term customer relationships. To successfully achieve these priorities, we will undertake a number of initiatives, including the pending transaction to acquire full ownership of our joint venture in East China and converting our Taiwan and Singapore markets to fully licensed operations. We are in the process of exiting certain activities including closing Teavana™ retail stores and certain Starbucks company-operated stores in Canada, the pending sale of our Tazo brand and related assets, and aggressively rationalizing merchandise in our U.S. retail stores. These strategic actions will enable us to focus on businesses and products with the highest growth potential and greatest prospect for returns. We expect revenue growth to be in the high single digits for the underlying business in fiscal 2018 driven by comparable store sales and the opening of approximately 2,300 net new Starbucks stores globally. An additional 2 to 3 points of revenue growth is expected related to the aforementioned strategic initiatives.

Diluted earnings per share for fiscal 2018 is expected to grow in excess of 40% when compared to fiscal 2017, largely due to the anticipated gain associated with the pending acquisition of East China.

Capital expenditures in fiscal 2018 are expected to be approximately $2.0 billion, primarily for investments in our new and existing stores, our developing Siren Retail business and our supply chain and corporate facilities.

During the fiscal year, our expected strong operational performance combined with the prudent leveraging of our balance sheet will enable us to return significant value to shareholders through share repurchases and dividends.

Acquisitions and Divestitures

See Note 2, Acquisitions and Divestitures, to the consolidated financial statements included in Item 8 of Part II of this 10-K for information regarding acquisitions and divestitures.

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RESULTS OF OPERATIONS — FISCAL 2017 COMPARED TO FISCAL 2016

Consolidated results of operations (in millions):

Revenues

| Fiscal Year Ended | Oct 1, 2017 (52 Weeks Ended) | Oct 2, 2016 (53 Weeks Ended) | % Change |
|---|---|---|---|
| Net revenues: | | | |
| Company-operated stores | $17,650.7 | $16,844.1 | 4.8 % |
| Licensed stores | 2,355.0 | 2,154.2 | 9.3 |
| CPG, foodservice and other | 2,381.1 | 2,317.6 | 2.7 |
| Total net revenues | $22,386.8 | $21,315.9 | 5.0 % |

Total net revenues increased $1.1 billion, or 5%, over fiscal 2016, primarily driven by increased revenues from company-operated stores ($807 million). The growth in company-operated store revenues was primarily driven by incremental revenues from 768 net new Starbucks® company-operated store openings over the past 12 months ($869 million) and a 3% increase in comparable store sales ($496 million), attributable to a 3% increase in average ticket. Partially offsetting these incremental revenues was the absence of the 53rd week ($324 million), the absence of sales from the conversion of certain company-operated stores to licensed stores ($121 million) and the impact of unfavorable foreign currency translation ($70 million).

Licensed store revenue growth also contributed to the increase in total net revenue ($201 million), primarily due to increased product sales to and royalty revenues from our licensees ($260 million), largely due to the opening of 1,552 net new Starbucks® licensed stores and improved comparable store sales, partially offset by the absence of the 53rd week ($41 million) and unfavorable foreign currency translation ($27 million).

CPG, foodservice and other revenues increased $64 million, driven by increased sales through our international channels, primarily associated with our European and North American regions ($35 million), increased sales of U.S. packaged coffee ($32 million), foodservice ($30 million) and premium single-serve products ($23 million). Increased sales were partially offset by the absence of the 53rd week ($47 million) and an unfavorable revenue deduction adjustment pertaining to periods prior to fiscal 2017 ($13 million).

Operating Expenses

| Fiscal Year Ended | Oct 1, 2017 (52 Weeks Ended) | Oct 2, 2016 (53 Weeks Ended) | Oct 1, 2017 | Oct 2, 2016 |
|---|---|---|---|---|
| | | | As a % of Total Net Revenues | |
| Cost of sales including occupancy costs | $9,038.2 | $8,511.1 | 40.4% | 39.9% |
| Store operating expenses | 6,493.3 | 6,064.3 | 29.0 | 28.4 |
| Other operating expenses | 553.8 | 545.4 | 2.5 | 2.6 |
| Depreciation and amortization expenses | 1,011.4 | 980.8 | 4.5 | 4.6 |
| General and administrative expenses | 1,393.3 | 1,360.6 | 6.2 | 6.4 |
| Restructuring and impairments | 153.5 | — | 0.7 | — |
| Total operating expenses | 18,643.5 | 17,462.2 | 83.3 | 81.9 |
| Income from equity investees | 391.4 | 318.2 | 1.7 | 1.5 |
| Operating income | $4,134.7 | $4,171.9 | 18.5% | 19.6% |
| Store operating expenses as a % of related revenues | | | 36.8% | 36.0% |

| | | |
|---|---|---|
| Other operating expenses as a % of non-company-operated store revenues | 11.7% | 12.2% |

Cost of sales including occupancy costs as a percentage of total net revenues increased 50 basis points, primarily driven by a product mix shift (approximately 70 basis points) largely towards premium food in the Americas segment, partially offset by leverage on cost of sales and occupancy costs (approximately 30 basis points).

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Store operating expenses as a percentage of total net revenues increased 60 basis points. Store operating expenses as a percentage of company-operated store revenues increased 80 basis points, primarily driven by higher partner and digital investments, largely in the Americas segment (approximately 150 basis points), partially offset by sales leverage (approximately 90 basis points).

Other operating expenses as a percentage of total net revenues decreased 10 basis points. Excluding the impact of company-operated store revenues, other operating expenses decreased 50 basis points, primarily due to lower performance-based compensation (approximately 20 basis points).

General and administrative expenses as a percentage of total net revenues decreased 20 basis points, primarily driven by lower performance-based compensation (approximately 30 basis points), and employment taxes, including the lapping of higher employment taxes resulting from a multiple year audit in the prior year (approximately 20 basis points). These were partially offset by increased salaries and benefits related to digital platforms, technology infrastructure and innovations.

Restructuring and impairments charges in fiscal 2017 were primarily the result of our strategic changes in Teavana. We recorded $130 million of restructuring–related costs, including a partial goodwill impairment of $69 million, store asset impairments, and costs related to early store closure obligations and severance. Additionally, we recorded $18 million of partial goodwill impairment relating to our Switzerland retail business.

Income from equity investees increased $73 million, due to higher income from our CAP joint venture operations, primarily China and South Korea, as well as our North American Coffee Partnership.

The combination of these changes resulted in an overall decrease in operating margin of 110 basis points in fiscal 2017 when compared to fiscal 2016.

Other Income and Expenses

| Fiscal Year Ended | Oct 1, 2017 (52 Weeks Ended) | Oct 2, 2016 (53 Weeks Ended) | Oct 1, 2017 | Oct 2, 2016 |
|---|---|---|---|---|
| | | | As a % of Total Net Revenues | |
| Operating income | $4,134.7 | $4,171.9 | 18.5 % | 19.6 % |
| Interest income and other, net | 275.3 | 108.0 | 1.2 | 0.5 |
| Interest expense | (92.5) | (81.3) | (0.4) | (0.4) |
| Earnings before income taxes | 4,317.5 | 4,198.6 | 19.3 | 19.7 |
| Income tax expense | 1,432.6 | 1,379.7 | 6.4 | 6.5 |
| Net earnings including noncontrolling interests | 2,884.9 | 2,818.9 | 12.9 | 13.2 |
| Net earnings attributable to noncontrolling interests | 0.2 | 1.2 | — | — |
| Net earnings attributable to Starbucks | $2,884.7 | $2,817.7 | 12.9 % | 13.2 % |
| Effective tax rate including noncontrolling interests | | | 33.2 % | 32.9 % |

Interest income and other, net increased $167 million, primarily driven by gains from the sale of our Singapore retail operations ($84 million) and our investment in Square, Inc. warrants ($41 million). Also contributing favorably was higher income recognized on unredeemed stored value card balances ($44 million).

Interest expense increased $11 million primarily related to additional interest incurred on long-term debt issued in February 2016, May 2016 and March 2017, partially offset by lower interest expense from the repayment of our December 2016 notes.

The effective tax rate for fiscal 2017 was 33.2% compared to 32.9% for fiscal 2016. The increase in the effective tax rate was primarily due to unfavorability from non-deductible goodwill impairment charges recorded in the third quarter of fiscal 2017 (approximately 70 basis points), and the lapping of the release of certain tax reserves in the third quarter of fiscal 2016, primarily related to statute closures (approximately 30 basis points). The increase was partially offset by the largely non-taxable gain on the sale of our Singapore retail operations in the fourth quarter of fiscal 2017 (approximately 70 basis points).

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Segment Information

Results of operations by segment (in millions):

Americas

| Fiscal Year Ended | Oct 1, 2017 (52 Weeks Ended) | Oct 2, 2016 (53 Weeks Ended) | Oct 1, 2017 | | Oct 2, 2016 | |
|---|---|---|---|---|---|---|
| | | | As a % of Americas Total Net Revenues | | | |
| Net revenues: | | | | | | |
| Company-operated stores | $13,996.4 | $13,247.4 | 89.4 | % | 89.5 | % |
| Licensed stores | 1,617.3 | 1,518.5 | 10.3 | | 10.3 | |
| Foodservice and other | 39.0 | 29.5 | 0.2 | | 0.2 | |
| Total net revenues | 15,652.7 | 14,795.4 | 100.0 | | 100.0 | |
| Cost of sales including occupancy costs | 5,720.3 | 5,271.9 | 36.5 | | 35.6 | |
| Store operating expenses | 5,320.2 | 4,909.3 | 34.0 | | 33.2 | |
| Other operating expenses | 128.5 | 96.0 | 0.8 | | 0.6 | |
| Depreciation and amortization expenses | 615.0 | 590.1 | 3.9 | | 4.0 | |
| General and administrative expenses | 201.4 | 186.1 | 1.3 | | 1.3 | |
| Restructuring and impairments | 4.1 | — | — | % | — | % |
| Total operating expenses | 11,989.5 | 11,053.4 | 76.6 | | 74.7 | |
| Operating income | $3,663.2 | $3,742.0 | 23.4 | % | 25.3 | % |
| Store operating expenses as a % of related revenues | | | 38.0 | % | 37.1 | % |
| Other operating expenses as a % of non-company-operated store revenues | | | 7.8 | % | 6.2 | % |

Revenues

Americas total net revenues for fiscal 2017 increased $857 million, or 6%, over fiscal 2016, primarily due to increased revenues from company-operated stores (contributing $749 million) and licensed stores (contributing $99 million).

The increase in company-operated store revenues was driven by incremental revenues from 383 net new Starbucks® company-operated store openings over the past 12 months ($585 million) and a 3% increase in comparable store sales ($426 million), attributable to a 4% increase in average ticket, partially offset by the absence of the 53rd week ($258 million)

The increase in licensed store revenues was primarily driven by increased product sales to and royalty revenues from our licensees ($127 million), primarily resulting from the opening of 569 net new Starbucks® licensed stores over the past 12 months and improved comparable store sales, partially offset by the absence of the 53rd week ($31 million).

Operating Expenses

Cost of sales including occupancy costs as a percentage of total net revenues increased 90 basis points, primarily due to a product mix shift (approximately 70 basis points) largely towards premium food.

Store operating expenses as a percentage of total net revenues increased 80 basis points. As a percentage of company-operated store revenues, store operating expenses increased 90 basis points, primarily driven by increased partner and digital investments (approximately 180 basis points), partially offset by sales leverage on salaries and benefits (approximately 80 basis points).

Other operating expenses as a percentage of total net revenues increased 20 basis points. Excluding the impact of company-operated store revenues, other operating expenses increased 160 basis points, primarily due to lapping a settlement received in the fourth quarter of fiscal 2016 related to the closure of Target Canada stores in fiscal 2015 (approximately 120 basis points).

General and administrative expenses as a percentage of total net revenues were flat, primarily driven by higher salaries and benefits (approximately 10 basis points), offset by sales leverage.

Restructuring and impairment charges of $4 million related to asset impairments of certain company-operated stores in Canada.

The combination of these changes resulted in an overall decrease in operating margin of 190 basis points in fiscal 2017 when compared to fiscal 2016.

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China/Asia Pacific

| Fiscal Year Ended | Oct 1, 2017 (52 Weeks Ended) | Oct 2, 2016 (53 Weeks Ended) | Oct 1, 2017 | Oct 2, 2016 |
|---|---|---|---|---|
| | | | As a % of China/Asia Pacific Total Net Revenues | |
| Net revenues: | | | | |
| Company-operated stores | $2,906.0 | $2,640.4 | 89.7 % | 89.8 % |
| Licensed stores | 327.4 | 292.3 | 10.1 | 9.9 |
| Foodservice and other | 6.8 | 6.1 | 0.2 | 0.2 |
| Total net revenues | 3,240.2 | 2,938.8 | 100.0 | 100.0 |
| Cost of sales including occupancy costs | 1,393.9 | 1,296.7 | 43.0 | 44.1 |
| Store operating expenses | 845.5 | 779.4 | 26.1 | 26.5 |
| Other operating expenses | 74.6 | 70.3 | 2.3 | 2.4 |
| Depreciation and amortization expenses | 202.2 | 180.6 | 6.2 | 6.1 |
| General and administrative expenses | 156.0 | 130.3 | 4.8 | 4.4 |
| Total operating expenses | 2,672.2 | 2,457.3 | 82.5 | 83.6 |
| Income from equity investees | 197.0 | 150.1 | 6.1 | 5.1 |
| Operating income | $765.0 | $631.6 | 23.6 % | 21.5 % |
| Store operating expenses as a % of related revenues | | | 29.1 % | 29.5 % |
| Other operating expenses as a % of non-company-operated store revenues | | | 22.3 % | 23.6 % |

Revenues

China/Asia Pacific total net revenues for fiscal 2017 increased $301 million, or 10%, over fiscal 2016, primarily from higher company-operated store revenues ($266 million), driven by incremental revenues from 392 net new company-operated store openings over the past 12 months ($293 million). Also contributing was a 3% increase in comparable store sales ($67 million), partially offset by the absence of the 53rd week ($52 million) and unfavorable foreign currency translation ($40 million).

Licensed store revenues increased $35 million, primarily driven by increased product sales to and royalty revenues from licensees ($39 million), primarily resulting from the opening of 644 net new licensed stores over the past 12 months, partially offset the absence of the 53rd week ($4 million).

Operating Expenses

Cost of sales including occupancy costs as a percentage of total net revenues decreased 110 basis points, primarily driven by favorability from the transition to China's new value added tax structure (approximately 120 basis points).

Store operating expenses as a percentage of total net revenues decreased 40 basis points. As a percentage of company-operated store revenues, store operating expenses decreased 40 basis points, primarily due to sales leverage on salaries and benefits (approximately 30 basis points) and lower performance-based compensation in Japan (approximately 10 basis points).

Other operating expenses as a percentage of total net revenues decreased 10 basis points. Excluding the impact of company-operated store revenues, other operating expenses decreased 130 basis points, primarily due to lower performance-based compensation (approximately 80 basis points) and lapping of investments in regional leadership and training conferences in the prior year (approximately 50 basis points).

General and administrative expenses as a percentage of total revenues increased 40 basis points, primarily due to continued focus and investment in product quality and innovation (approximately 40 basis points).

Income from equity investees increased $47 million, driven by higher income from our joint venture operations, primarily in East China and South Korea. Favorability in both regions was attributable to comparable store sales growth and the addition of net new licensed stores over the past 12 months. East China also benefited from the new value added tax structure.

The combination of these changes resulted in an overall increase in operating margin of 210 basis points in fiscal 2017 when compared to fiscal 2016.

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EMEA

| Fiscal Year Ended | Oct 1, 2017 (52 Weeks Ended) | Oct 2, 2016 (53 Weeks Ended) | Oct 1, 2017 | | Oct 2, 2016 | |
|---|---|---|---|---|---|---|
| | | | As a % of EMEA Total Net Revenues | | | |
| Net revenues: | | | | | | |
| Company-operated stores | $ 551.0 | $ 732.0 | 54.4 | % | 65.1 | % |
| Licensed stores | 407.7 | 339.5 | 40.2 | | 30.2 | |
| Foodservice | 55.0 | 53.4 | 5.4 | | 4.7 | |
| Total net revenues | 1,013.7 | 1,124.9 | 100.0 | | 100.0 | |
| Cost of sales including occupancy costs | 533.5 | 565.0 | 52.6 | | 50.2 | |
| Store operating expenses | 214.1 | 260.6 | 21.1 | | 23.2 | |
| Other operating expenses | 59.1 | 57.0 | 5.8 | | 5.1 | |
| Depreciation and amortization expenses | 31.3 | 40.8 | 3.1 | | 3.6 | |
| General and administrative expenses | 41.7 | 51.4 | 4.1 | | 4.6 | |
| Restructuring and impairments | 17.9 | — | 1.8 | | — | |
| Total operating expenses | 897.6 | 974.8 | 88.5 | | 86.7 | |
| Income from equity investees | — | 1.5 | — | | 0.1 | |
| Operating income | $ 116.1 | $ 151.6 | 11.5 | % | 13.5 | % |
| Store operating expenses as a % of related revenues | | | 38.9 | % | 35.6 | % |
| Other operating expenses as a % of non-company-operated store revenues | | | 12.8 | % | 14.5 | % |

Revenues

EMEA total net revenues for fiscal 2017 decreased $111 million, or 10%, over fiscal 2016. The decrease was primarily due to a decline in company-operated store revenues ($181 million), driven by the shift to more licensed stores in the region ($121 million), which includes the absence of revenues related to the sale of our Germany retail operations in the third quarter of fiscal 2016. Also contributing to the decline was unfavorable foreign currency translation ($43 million) and the absence of the 53rd week ($11 million).

Licensed store revenues increased $68 million, driven by higher product sales to and royalty revenues from our licensees ($95 million), resulting from the opening of 339 net new licensed stores and the transfer of 14 company-operated stores to licensed stores over the past 12 months. These increases were partially offset by unfavorable foreign currency translation ($24 million) and the absence of the 53rd week ($6 million).

Operating Expenses

Cost of sales including occupancy costs as a percentage of total net revenues increased 240 basis points, primarily due to unfavorable foreign currency transactions (approximately 140 basis points) and the shift in the composition of our store portfolio to more licensed stores, which have a lower gross margin (approximately 100 basis points).

Store operating expenses as a percentage of total net revenues decreased 210 basis points. As a percentage of company-operated store revenues, store operating expenses increased 330 basis points, primarily due to sales deleverage in certain company-operated stores (approximately 320 basis points) and the impact of a tax settlement (approximately 100 basis points), partially offset by the shift in the portfolio towards more licensed stores (approximately 140 basis points).

Other operating expenses as a percentage of total net revenues increased 70 basis points. Excluding the impact of company-operated store revenues, other operating expenses decreased 170 basis points, primarily due to sales leverage driven by the shift to more licensed stores (approximately 170 basis points).

Depreciation and amortization expenses as a percentage of total net revenues decreased 50 basis points, primarily due to the shift in portfolio towards more licensed stores (approximately 50 basis points).

Restructuring and impairment charges in fiscal 2017 relate to a partial goodwill impairment recorded in our Switzerland company-operated retail reporting unit, which we fully acquired in the fourth quarter of fiscal 2011. The overall economic backdrop in Europe, coupled with the strengthening of the Swiss franc when compared to the relatively inexpensive euro in surrounding countries, caused ongoing unfavorable changes in consumer behavior and depressed tourism. Our latest mitigation

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efforts for our Switzerland retail business are not expected to fully recover the reporting unit's carrying value given the sustained nature of these and other external factors. As a result, we recorded a goodwill impairment charge of $18 million in the third quarter of fiscal 2017.

The combination of these changes resulted in an overall decrease in operating margin of 200 basis points in fiscal 2017 when compared to fiscal 2016.

Channel Development

| Fiscal Year Ended | Oct 1, 2017 (52 Weeks Ended) | Oct 2, 2016 (53 Weeks Ended) | Oct 1, 2017 | Oct 2, 2016 |
|---|---|---|---|---|
| | | | As a % of Channel Development Total Net Revenues | |
| Net revenues: | | | | |
| CPG | $1,543.7 | $1,488.2 | 76.9 % | 77.0 % |
| Foodservice | 464.9 | 444.3 | 23.1 | 23.0 |
| Total net revenues | 2,008.6 | 1,932.5 | 100.0 | 100.0 |
| Cost of sales | 1,074.3 | 1,042.6 | 53.5 | 54.0 |
| Other operating expenses | 222.2 | 228.5 | 11.1 | 11.8 |
| Depreciation and amortization expenses | 2.2 | 2.8 | 0.1 | 0.1 |
| General and administrative expenses | 10.9 | 17.9 | 0.5 | 0.9 |
| Total operating expenses | 1,309.6 | 1,291.8 | 65.2 | 66.8 |
| Income from equity investees | 194.4 | 166.6 | 9.7 | 8.6 |
| Operating income | $893.4 | $807.3 | 44.5 % | 41.8 % |

Discussion of our Channel Development segment results reflects the impact of an unfavorable revenue deduction adjustment recorded in the second quarter of fiscal 2017. While this adjustment was immaterial, the discussion below quantifies the impact to provide a better understanding of our results for fiscal 2017.

Revenues

Channel Development total net revenues for fiscal 2017 increased $76 million, or 4%, over fiscal 2016. CPG revenue growth was driven by increased sales through our international channels, primarily associated with our European and North American regions ($35 million), U.S. packaged coffee ($32 million) and premium single-serve products ($23 million). Higher foodservice sales were primarily the result of a change to a direct distribution model and recognizing the benefit of full revenue from premium single-serve product sales. Increased sales were partially offset by the absence of the 53rd week ($40 million) and an unfavorable revenue deduction adjustment pertaining to prior periods ($13 million).

Operating Expenses

Cost of sales as a percentage of total net revenues decreased 50 basis points, primarily driven by lower coffee costs (approximately 90 basis points) and leverage on cost of sales (approximately 60 basis points), partially offset by a shift toward lower margin products (approximately 100 basis points) and the revenue deduction adjustment pertaining to prior periods (approximately 30 basis points).

Other operating expenses as a percentage of total net revenues decreased 70 basis points, primarily driven by lower performance-based compensation (approximately 40 basis points).

General and administrative expenses as a percentage of total net revenues decreased 40 basis points, primarily driven by lower performance-based compensation (approximately 20 basis points) and salaries and benefits (approximately 10 basis points).

Income from equity investees increased $28 million for fiscal 2017, due to higher income from our North American Coffee Partnership joint venture, driven by increased sales of Frappuccino® and Starbucks Doubleshot® beverages as well as new product launches over the past 12 months.

The combination of these changes contributed to an overall increase in operating margin of 270 basis points in fiscal 2017 when compared to fiscal 2016.

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All Other Segments

| Fiscal Year Ended | Oct 1, 2017 (52 Weeks Ended) | Oct 2, 2016 (53 Weeks Ended) | % Change |
|---|---|---|---|
| Net revenues: | | | |
| Company-operated stores | $197.3 | $224.3 | (12.0 )% |
| Licensed stores | 2.6 | 3.9 | (33.3 ) |
| CPG, foodservice and other | 271.7 | 296.1 | (8.2 ) |
| Total net revenues | 471.6 | 524.3 | (10.1 ) |
| Cost of sales including occupancy costs | 308.0 | 316.5 | (2.7 ) |
| Store operating expenses | 113.5 | 115.0 | (1.3 ) |
| Other operating expenses | 68.2 | 91.4 | (25.4 ) |
| Depreciation and amortization expenses | 10.1 | 13.3 | (24.1 ) |
| General and administrative expenses | 14.6 | 26.5 | (44.9 ) |
| Restructuring and impairments | 131.5 | — | nm |
| Total operating expenses | 645.9 | 562.7 | 14.8 |
| Operating loss | $(174.3) | $(38.4 ) | 353.9 % |

All Other Segments primarily includes Teavana-branded stores, Seattle's Best Coffee, as well as certain developing businesses such as Siren Retail. The increase in the operating loss in the fourth quarter of fiscal 2017 compared to the fourth quarter of fiscal 2016 was primarily due to restructuring and impairment charges related to our strategy to close Teavana™ retail stores and focus on Teavana™ tea within Starbucks® stores. We recorded $69 million for the partial impairment of goodwill and $60 million in restructuring-related costs, including asset impairments, costs associated with the early closure of stores and their related obligations, and severance.

RESULTS OF OPERATIONS — FISCAL 2016 COMPARED TO FISCAL 2015

Consolidated results of operations (in millions):

Revenues

| Fiscal Year Ended | Oct 2, 2016 (53 Weeks Ended) | Sep 27, 2015 (52 Weeks Ended) | % Change |
|---|---|---|---|
| Net revenues: | | | |
| Company-operated stores | $16,844.1 | $15,197.3 | 10.8 % |
| Licensed stores | 2,154.2 | 1,861.9 | 15.7 |
| CPG, foodservice and other | 2,317.6 | 2,103.5 | 10.2 |
| Total net revenues | $21,315.9 | $19,162.7 | 11.2 % |

Total net revenues increased $2.2 billion, or 11%, over fiscal 2015, primarily due to increased revenues from company-operated stores (contributing $1.6 billion). The growth in company-operated store revenues was primarily driven by 5% growth in comparable store sales ($793 million), incremental revenues from 693 net new Starbucks® company-operated store openings over the past 12 months ($724 million), the impact of the extra week in fiscal 2016 ($324 million) and incremental revenues from the impact of our ownership change in Starbucks Japan ($105 million). Partially offsetting these increases was the absence of revenue from the conversion of certain company-operated stores to licensed stores ($151 million) and the impact of unfavorable foreign currency translation ($99 million).

Licensed store revenue growth contributed $292 million to the increase in total net revenues, primarily resulting from higher product sales to and royalty revenues from our licensees ($285 million), largely due to the opening of 1,372 net new Starbucks® licensed stores, the transfer of 200 company-operated stores to licensed stores over the past 12 months and improved comparable store sales, as well as the impact of the extra week in fiscal 2016 ($41 million). Partially offsetting these

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increases was the impact of unfavorable foreign currency translation ($33 million) and a decrease in licensed store revenues resulting from the impact of our ownership change in Starbucks Japan ($6 million).
CPG, foodservice and other revenues increased $214 million, primarily due to higher sales of premium single-serve products ($106 million), the impact of the extra week in fiscal 2016 ($47 million), and increased foodservice sales ($34 million) and U.S. packaged coffee ($32 million).
Operating Expenses

| Fiscal Year Ended | Oct 2, 2016 (53 Weeks Ended) | Sep 27, 2015 (52 Weeks Ended) | Oct 2, 2016 | Sep 27, 2015 |
|---|---|---|---|---|
| | | | As a % of Total Net Revenues | |
| Cost of sales including occupancy costs | $8,511.1 | $7,787.5 | 39.9% | 40.6 % |
| Store operating expenses | 6,064.3 | 5,411.1 | 28.4 | 28.2 |
| Other operating expenses | 545.4 | 522.4 | 2.6 | 2.7 |
| Depreciation and amortization expenses | 980.8 | 893.9 | 4.6 | 4.7 |
| General and administrative expenses | 1,360.6 | 1,196.7 | 6.4 | 6.2 |
| Total operating expenses | 17,462.2 | 15,811.6 | 81.9 | 82.5 |
| Income from equity investees | 318.2 | 249.9 | 1.5 | 1.3 |
| Operating income | $4,171.9 | $3,601.0 | 19.6% | 18.8 % |
| Store operating expenses as a % of related revenues | | | 36.0% | 35.6 % |
| Other operating expenses as a % of non-company-operated store revenues | | | 12.2% | 13.2 % |

Cost of sales including occupancy costs as a percentage of total net revenues decreased 70 basis points, primarily driven by leverage on cost of sales and occupancy costs (approximately 70 basis points) and lower commodity costs (approximately 50 basis points).
Store operating expenses as a percentage of total net revenues increased 20 basis points. Store operating expenses as a percentage of company-operated store revenues increased 40 basis points, primarily driven by increased investments in partners (employees) and digital platforms (approximately 80 basis points), partially offset by sales leverage (approximately 30 basis points).
Other operating expenses as a percentage of total net revenues decreased 10 basis points. Excluding the impact of company-operated store revenues, other operating expenses decreased 100 basis points, primarily due to a settlement in the fourth quarter of fiscal 2016 related to the closure of Target Canada stores in the prior year (approximately 50 basis points), the lapping of impairment of certain assets in the Americas segment in the prior year (approximately 20 basis points) and improved collection results (approximately 20 basis points).
General and administrative expenses as a percentage of total net revenues increased 20 basis points, primarily driven by higher salaries and benefits (approximately 30 basis points).
Income from equity investees as a percentage of total net revenues increased 20 basis points due to higher income from our joint venture operations, primarily from our North American Coffee Partnership and our joint ventures in China and South Korea.
The combination of these changes resulted in an overall increase in operating margin of 80 basis points over fiscal 2015.

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Other Income and Expenses

| Fiscal Year Ended | Oct 2, 2016 (53 Weeks Ended) | Sep 27, 2015 (52 Weeks Ended) | Oct 2, 2016 | Sep 27, 2015 |
|---|---|---|---|---|
| | | | As a % of Total Net Revenues | |
| Operating income | $4,171.9 | $3,601.0 | 19.6 % | 18.8 % |
| Gain resulting from acquisition of joint venture | — | 390.6 | — | 2.0 |
| Loss on extinguishment of debt | — | (61.1 ) | — | (0.3 ) |
| Interest income and other, net | 108.0 | 43.0 | 0.5 | 0.2 |
| Interest expense | (81.3 ) | (70.5 ) | (0.4 ) | (0.4 ) |
| Earnings before income taxes | 4,198.6 | 3,903.0 | 19.7 | 20.4 |
| Income tax expense | 1,379.7 | 1,143.7 | 6.5 | 6.0 |
| Net earnings including noncontrolling interests | 2,818.9 | 2,759.3 | 13.2 | 14.4 |
| Net earnings attributable to noncontrolling interests | 1.2 | 1.9 | — | — |
| Net earnings attributable to Starbucks | $2,817.7 | $2,757.4 | 13.2 % | 14.4 % |
| Effective tax rate including noncontrolling interests | | | 32.9 % | 29.3 % |

During the first quarter of fiscal 2015, we recorded a gain of $391 million as a result of remeasuring our preexisting 39.5% ownership interest in Starbucks Japan to fair value upon acquisition.

During the fourth quarter of fiscal 2015, we recorded a loss of $61 million related to the redemption of our $550 million of 6.250% Senior Notes (the “2017 notes”), which were originally scheduled to mature in August 2017. The loss primarily relates to the optional redemption premium outlined in the 2017 notes indenture, as well as the derecognition of the capitalized issuance costs and unamortized discount.

Interest income and other, net increased $65 million, primarily due to higher income recognized on unredeemed stored value card balances ($21 million), net favorable foreign exchange fluctuations ($11 million) and gains on our trading securities portfolio ($8 million).

Interest expense increased $11 million primarily due to interest on the long-term debt we issued in February and May 2016.

Our tax rate is affected by recurring items, such as tax rates in foreign jurisdictions and the relative amounts of income we earn in those jurisdictions, as well as discrete items that may occur in any given year, but are not consistent from year to year. The effective tax rate for fiscal 2016 was 32.9% compared to 29.3% for fiscal 2015. The increase in the rate for fiscal 2016 was primarily due to the 3.7% impact of the gain in the prior year associated with the remeasurement of our preexisting 39.5% ownership interest in Starbucks Japan upon acquisition, which was almost entirely non-taxable.

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Segment Information
Results of operations by segment (in millions):
Americas

| Fiscal Year Ended | Oct 2, 2016 (53 Weeks Ended) | Sep 27, 2015 (52 Weeks Ended) | Oct 2, 2016 | | Sep 27, 2015 | |
|---|---|---|---|---|---|---|
| | | | As a % of Americas Total Net Revenues | | | |
| Net revenues: | | | | | | |
| Company-operated stores | $13,247.4 | $11,925.6 | 89.5 | % | 89.7 | % |
| Licensed stores | 1,518.5 | 1,334.4 | 10.3 | | 10.0 | |
| Foodservice and other | 29.5 | 33.4 | 0.2 | | 0.3 | |
| Total net revenues | 14,795.4 | 13,293.4 | 100.0 | | 100.0 | |
| Cost of sales including occupancy costs | 5,271.9 | 4,845.0 | 35.6 | | 36.4 | |
| Store operating expenses | 4,909.3 | 4,387.9 | 33.2 | | 33.0 | |
| Other operating expenses | 96.0 | 122.8 | 0.6 | | 0.9 | |
| Depreciation and amortization expenses | 590.1 | 522.3 | 4.0 | | 3.9 | |
| General and administrative expenses | 186.1 | 192.1 | 1.3 | | 1.4 | |
| Total operating expenses | 11,053.4 | 10,070.1 | 74.7 | | 75.8 | |
| Operating income | $3,742.0 | $3,223.3 | 25.3 | % | 24.2 | % |
| Store operating expenses as a % of related revenues | | | 37.1 | % | 36.8 | % |
| Other operating expenses as a % of non-company-operated store revenues | | | 6.2 | % | 9.0 | % |

Revenues
Americas total net revenues for fiscal 2016 increased $1.5 billion, or 11%, primarily due to increased revenues from company-operated stores (contributing $1.3 billion) and licensed stores (contributing $184 million).
The increase in company-operated store revenues was driven by a 6% increase in comparable store sales ($730 million), incremental revenues from 348 net new Starbucks® company-operated store openings over the past 12 months ($481 million) and the impact of the extra week in fiscal 2016 ($258 million). Partially offsetting these increases was unfavorable foreign currency translation ($91 million), primarily driven by the strengthening of the U.S. dollar against the Canadian dollar.
The increase in licensed store revenues was primarily due to higher product sales to and royalty revenues from our licensees ($150 million), resulting from the opening of 456 net new licensed stores over the past 12 months and improved comparable store sales, as well as the impact of the extra week in fiscal 2016 ($31 million).
Operating Expenses
Cost of sales including occupancy costs as a percentage of total net revenues decreased 80 basis points, primarily driven by leverage on cost of sales and occupancy costs (approximately 50 basis points) and lower commodity costs (approximately 40 basis points).
Store operating expenses as a percentage of total net revenues increased 20 basis points. As a percentage of company-operated store revenues, store operating expenses increased 30 basis points, primarily driven by increased investments in store partners and digital platforms (approximately 100 basis points), partially offset by sales leverage on salaries and benefits (approximately 80 basis points).
Other operating expenses as a percentage of total net revenues decreased 30 basis points. Excluding the impact of company-operated store revenues, other operating expenses decreased 280 basis points, primarily due to a settlement in the fourth quarter of fiscal 2016 related to the closure of Target Canada stores in the prior year (approximately 140 basis points), the lapping of impairment of certain assets in the region (approximately 60 basis points) and improved collection results (approximately 40 basis points).

The combination of these changes resulted in an overall increase in operating margin of 110 basis points over fiscal 2015.

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China/Asia Pacific

| Fiscal Year Ended | Oct 2, 2016 (53 Weeks Ended) | Sep 27, 2015 (52 Weeks Ended) | Oct 2, 2016 | Sep 27, 2015 |
|---|---|---|---|---|
| | | | As a % of China/Asia Pacific Total Net Revenues | |
| Net revenues: | | | | |
| Company-operated stores | $2,640.4 | $2,127.3 | 89.8 % | 88.8 % |
| Licensed stores | 292.3 | 264.4 | 9.9 | 11.0 |
| Foodservice and other | 6.1 | 4.2 | 0.2 | 0.2 |
| Total net revenues | 2,938.8 | 2,395.9 | 100.0 | 100.0 |
| Cost of sales including occupancy costs | 1,296.7 | 1,071.5 | 44.1 | 44.7 |
| Store operating expenses | 779.4 | 609.8 | 26.5 | 25.5 |
| Other operating expenses | 70.3 | 62.2 | 2.4 | 2.6 |
| Depreciation and amortization expenses | 180.6 | 150.7 | 6.1 | 6.3 |
| General and administrative expenses | 130.3 | 120.8 | 4.4 | 5.0 |
| Total operating expenses | 2,457.3 | 2,015.0 | 83.6 | 84.1 |
| Income from equity investees | 150.1 | 119.6 | 5.1 | 5.0 |
| Operating income | $631.6 | $500.5 | 21.5 % | 20.9 % |
| Store operating expenses as a % of related revenues | | | 29.5 % | 28.7 % |
| Other operating expenses as a % of non-company-operated store revenues | | | 23.6 % | 23.2 % |

Revenues

China/Asia Pacific total net revenues for fiscal 2016 increased $543 million, or 23%, largely due to increased revenues from company-operated stores (contributing $513 million). The increase in company-operated store revenues was primarily due to the opening of 359 net new company-operated stores over the past 12 months ($246 million) and incremental revenues from the impact of our ownership in Starbucks Japan ($105 million). Also contributing was a 3% increase in comparable store sales ($61 million), the impact of the extra week in fiscal 2016 ($52 million) and favorable foreign currency translation ($49 million).

Licensed store revenues increased $28 million, primarily due to increased product sales to and royalty revenues from licensees ($47 million), resulting from the opening of 622 net new licensed store openings over the past 12 months, partially offset by unfavorable foreign currency translation ($15 million) and a decrease in licensed store revenues resulting from the impact of our ownership change in Starbucks Japan ($6 million).

Operating Expenses

Cost of sales including occupancy costs as a percentage of total net revenues decreased 60 basis points, primarily due to the impact of our ownership change in Starbucks Japan (approximately 30 basis points) and favorability from changes to certain business tax structures in China (30 basis points).

Store operating expenses as a percentage of total net revenues increased 100 basis points. As a percentage of company-operated store revenues, store operating expenses increased 80 basis points, primarily driven by higher partner and digital investments and payroll-related expenditures (approximately 90 basis points) and the impact of our ownership change in Starbucks Japan (approximately 40 basis points), partially offset by sales leverage on salaries and benefits (approximately 60 basis points).

Other operating expenses as a percentage of total net revenues decreased 20 basis points. Excluding the impact of company-operated store revenues, other operating expenses increased 40 basis points, primarily due to higher

payroll-related expenditures (approximately 140 basis points), investments in digital platforms (approximately 80 basis points) and the impact of our ownership change in Starbucks Japan (approximately 60 basis points), partially offset by sales leverage (approximately 220 basis points).

General and administrative expenses as a percentage of total revenues decreased 60 basis points, primarily due to sales leverage on salaries and benefits (approximately 40 basis points).

Income from equity investees as a percentage of total net revenues increased 10 basis points, primarily due to higher income from our joint venture operations, primarily in China and South Korea (approximately 70 basis points and 60 basis points,

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respectively), partially offset by the shift in composition of our store portfolio to more company-operated stores (approximately 50 basis points) and the impact of our ownership change in Starbucks Japan (approximately 50 basis points).

The combination of these changes resulted in an overall increase in operating margin of 60 basis points over fiscal 2015.

EMEA

| Fiscal Year Ended | Oct 2, 2016 (53 Weeks Ended) | Sep 27, 2015 (52 Weeks Ended) | Oct 2, 2016 | Sep 27, 2015 |
|---|---|---|---|---|
| | | | As a % of EMEA Total Net Revenues | |
| Net revenues: | | | | |
| Company-operated stores | $ 732.0 | $ 911.2 | 65.1 % | 74.9 % |
| Licensed stores | 339.5 | 257.2 | 30.2 | 21.1 |
| Foodservice | 53.4 | 48.3 | 4.7 | 4.0 |
| Total net revenues | 1,124.9 | 1,216.7 | 100.0 | 100.0 |
| Cost of sales including occupancy costs | 565.0 | 582.5 | 50.2 | 47.9 |
| Store operating expenses | 260.6 | 308.7 | 23.2 | 25.4 |
| Other operating expenses | 57.0 | 51.8 | 5.1 | 4.3 |
| Depreciation and amortization expenses | 40.8 | 52.0 | 3.6 | 4.3 |
| General and administrative expenses | 51.4 | 56.6 | 4.6 | 4.7 |
| Total operating expenses | 974.8 | 1,051.6 | 86.7 | 86.4 |
| Income from equity investees | 1.5 | 3.1 | 0.1 | 0.3 |
| Operating income | $ 151.6 | $ 168.2 | 13.5 % | 13.8 % |
| Store operating expenses as a % of related revenues | | | 35.6 % | 33.9 % |
| Other operating expenses as a % of non-company-operated store revenues | | | 14.5 % | 17.0 % |

Revenues

EMEA total net revenues for fiscal 2016 decreased $92 million, or 8%. The decrease was primarily due to a decline in company-operated store revenues ($179 million), which was largely due to the shift to more licensed stores in the region ($132 million) and includes the absence of revenues related to the sale of our Germany retail operations, and unfavorable foreign currency translation ($69 million). These decreases were partially offset by the impact of the extra week in fiscal 2016 ($18 million).

Licensed store revenues increased $82 million, or 32%, primarily due to higher product sales to and royalty revenues from our licensees ($89 million), resulting from the opening of 294 net new licensed stores and the transfer of 200 company-operated stores to licensed stores over the past 12 months. Also contributing was the impact of the extra week in fiscal 2016 ($6 million). These increases were partially offset by unfavorable foreign currency translation ($12 million).

Operating Expenses

Cost of sales including occupancy costs as a percentage of total net revenues increased 230 basis points, primarily due to the shift in composition of our store portfolio in the region to more licensed stores (approximately 140 basis points), sales deleverage at certain company-owned stores (approximately 80 basis points) and foreign currency transactions (approximately 50 basis points).

Store operating expenses as a percentage of total net revenues decreased 220 basis points. As a percentage of company-operated store revenues, store operating expenses increased 170 basis points, primarily due to costs

associated with the sale of our Germany retail operations and a decrease in company-operated store sales as a result of the shift to more licensed stores in the region (approximately 70 basis points). Sales deleverage at certain company-owned stores, largely related to salaries and benefits, also contributed unfavorably (approximately 70 basis points).

Other operating expenses as a percentage of total net revenues increased 80 basis points. Excluding the impact of company-operated store revenues, other operating expenses decreased 250 basis points, primarily due to sales leverage driven by the shift to more licensed stores in the region (approximately 250 basis points).

Depreciation and amortization expenses as a percentage of total net revenues decreased 70 basis points, primarily due to the shift in the composition of our store portfolio in the region to more licensed stores (approximately 40 basis points).



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Income from equity investees as a percentage of total net revenues decreased 20 basis points as a result of the sale of our ownership interest in our Spanish joint venture, Starbucks Coffee España, S.L., in the first quarter of fiscal 2016 (approximately 20 basis points).

The combination of these changes resulted in an overall decrease in operating margin of 30 basis points over fiscal 2015.

Channel Development

| Fiscal Year Ended | Oct 2, 2016 (53 Weeks Ended) | Sep 27, 2015 (52 Weeks Ended) | Oct 2, 2016 | Sep 27, 2015 |
|---|---|---|---|---|
| | | | As a % of Channel Development Total Net Revenues | |
| Net revenues: | | | | |
| CPG | $1,488.2 | $1,329.0 | 77.0 % | 76.8 % |
| Foodservice | 444.3 | 401.9 | 23.0 | 23.2 |
| Total net revenues | 1,932.5 | 1,730.9 | 100.0 | 100.0 |
| Cost of sales | 1,042.6 | 974.8 | 54.0 | 56.3 |
| Other operating expenses | 228.5 | 210.5 | 11.8 | 12.2 |
| Depreciation and amortization expenses | 2.8 | 2.7 | 0.1 | 0.2 |
| General and administrative expenses | 17.9 | 16.2 | 0.9 | 0.9 |
| Total operating expenses | 1,291.8 | 1,204.2 | 66.8 | 69.6 |
| Income from equity investees | 166.6 | 127.2 | 8.6 | 7.3 |
| Operating income | $807.3 | $653.9 | 41.8 % | 37.8 % |

Revenues

Channel Development total net revenues for fiscal 2016 increased $202 million, or 12%, over the prior year, primarily driven by higher sales of premium single-serve products ($101 million). The impact of the extra week in fiscal 2016 ($40 million), increased foodservice sales ($33 million) and U.S. packaged coffee sales ($28 million) also contributed.

Operating Expenses

Cost of sales as a percentage of total net revenues decreased 230 basis points, primarily due to lower coffee costs (approximately 140 basis points) and leverage on cost of sales (approximately 100 basis points).

Other operating expenses as a percentage of total net revenues decreased 40 basis points, primarily driven by sales leverage on marketing expenses and salaries and benefits (approximately 30 basis points).

Income from equity investees as a percentage of total revenues increased 130 basis points, driven by higher income from our North American Coffee Partnership joint venture, primarily due to increased sales volume of Starbucks Doubleshot® and bottled Frappuccino® beverages and new product launches, partially offset by increased marketing costs (approximately 150 basis points).

The combination of these changes contributed to an overall increase in operating margin of 400 basis points over fiscal 2015.

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All Other Segments

| Fiscal Year Ended | Oct 2, 2016 (53 Weeks Ended) | Sep 27, 2015 (52 Weeks Ended) | % Change |
|---|---|---|---|
| Net revenues: | | | |
| Company-operated stores | $224.3 | $233.2 | (3.8 )% |
| Licensed stores | 3.9 | 5.9 | (33.9)% |
| CPG, foodservice and other | 296.1 | 286.7 | 3.3 |
| Total net revenues | 524.3 | 525.8 | (0.3 ) |
| Cost of sales including occupancy costs | 316.5 | 316.5 | — |
| Store operating expenses | 115.0 | 104.7 | 9.8 |
| Other operating expenses | 91.4 | 76.5 | 19.5 |
| Depreciation and amortization expenses | 13.3 | 16.3 | (18.4) |
| General and administrative expenses | 26.5 | 36.6 | (27.6) |
| Total operating expenses | 562.7 | 550.6 | 2.2 |
| Operating loss | $(38.4 ) | $(24.8 ) | 54.8 % |

All Other Segments primarily includes Teavana, Seattle's Best Coffee, Evolution Fresh, as well as certain developing businesses such as Siren Retail.

FINANCIAL CONDITION, LIQUIDITY AND CAPITAL RESOURCES

Cash and Investment Overview

Our cash and investments were $3.2 billion and $3.4 billion as of October 1, 2017 and October 2, 2016, respectively. We actively manage our cash and investments in order to internally fund operating needs, make scheduled interest and principal payments on our borrowings, make acquisitions, and return cash to shareholders through common stock cash dividend payments and share repurchases. Our investment portfolio primarily includes highly liquid available-for-sale securities, including corporate debt securities, government treasury securities (domestic and foreign), mortgage and asset-backed securities, agency obligations, and state and local government obligations. As of October 1, 2017, approximately $2.1 billion of cash and investments were held in foreign subsidiaries.

Borrowing capacity

During the first quarter of fiscal 2018, we replaced our $1.5 billion 2016 credit facility with a new $2.0 billion unsecured 5-year revolving credit facility (the "2018 credit facility") and a $1.0 billion unsecured 364-Day credit facility (the "364-day credit facility"), which are available for working capital, capital expenditures and other corporate purposes, including acquisitions and share repurchases.

The 2018 credit facility, of which $150 million may be used for issuances of letters of credit, is currently set to mature on October 25, 2022. We have the option, subject to negotiation and agreement with the related banks, to increase the maximum commitment amount by an additional $500 million. Borrowings under the credit facility will bear interest at a variable rate based on LIBOR, and, for U.S. dollar-denominated loans under certain circumstances, a Base Rate (as defined in the credit facility), in each case plus an applicable margin. The applicable margin is based on the better of (i) the Company's long-term credit ratings assigned by Moody's and Standard & Poor's rating agencies and (ii) the Company's fixed charge coverage ratio, pursuant to a pricing grid set forth in the five-year credit agreement. The current applicable margin is 0.565% for Eurocurrency Rate Loans and 0.00% (nil) for Base Rate Loans.

The 364-day credit facility, of which no amount may be used for issuances of letters of credit, is currently set to mature on October 24, 2018. We have the option, subject to negotiation and agreement with the related banks, to increase the maximum commitment amount by an additional $500 million. Borrowings under the credit facility will bear interest at a variable rate based on LIBOR, and, for U.S. dollar-denominated loans under certain circumstances, a Base Rate (as defined in the credit facility), in each case plus an applicable margin. The applicable margin is 0.585% for Eurocurrency Rate Loans and 0.00% (nil) for Base Rate Loans.

Both credit facilities contain provisions requiring us to maintain compliance with certain covenants, including a minimum fixed charge coverage ratio, which measures our ability to cover financing expenses. As of October 1, 2017, we were in compliance

with all applicable 2016 credit facility covenants. No amounts were outstanding under our 2016 credit facility as of October 1, 2017.

During the first quarter of fiscal 2018, we increased our commercial paper program from $1 billion to $3 billion, allowing us to issue unsecured commercial paper notes up to this maximum aggregate amount outstanding at any time. Individual maturities may vary but cannot exceed 397 days from the date of issue. Amounts outstanding under the commercial paper program are required to be backstopped by available commitments under our credit facilities discussed above. The proceeds from borrowings under our commercial paper program may be used for working capital needs, capital expenditures and other corporate purposes, including, but not limited to, business expansion, payment of cash dividends on our common stock and share repurchases. As of October 1, 2017, we had no borrowings under our former commercial paper program.

In March 2017, we issued Japanese yen-denominated long-term debt in an underwritten registered public offering. The 7-year 0.372% Senior Notes (the "2024 notes") due March 2024 were issued with a face value of ¥85 billion, or $758.3 million, as of July 2, 2017. We will use the net proceeds from the offering to enhance our sustainability programs around coffee supply chain management through eligible sustainability projects. Interest on the 2024 notes is payable semi-annually on March 15 and September 15 of each year, commencing on September 15, 2017.

Additionally, in the first quarter of fiscal 2017, our $400 million of 0.875% Senior Notes (the "2016 notes") were repaid. See Note 9, Debt, to the consolidated financial statements included in Item 8 of Part II of this 10-K for details of the components of our long-term debt.

The indentures under which all of our Senior Notes were issued require us to maintain compliance with certain covenants, including limits on future liens and sale and leaseback transactions on certain material properties. As of October 1, 2017, we were in compliance with all applicable covenants.

Use of Cash

We expect to use our available cash and investments, including, but not limited to, additional potential future borrowings under the credit facilities, commercial paper program and the issuance of debt, to invest in our core businesses, including capital expenditures, new product innovations, related marketing support and partner and digital investments, return cash to shareholders through common stock cash dividend payments and share repurchases, as well as other new business opportunities related to our core and developing businesses such as Siren Retail. Further, we may use our available cash resources to make proportionate capital contributions to our investees. We may also seek strategic acquisitions to leverage existing capabilities and further build our business in support of our growth agenda. Acquisitions may include increasing our ownership interests in our investees. Any decisions to increase such ownership interests will be driven by valuation and fit with our ownership strategy. As discussed in Note 15, Commitments and Contingencies, to the consolidated financial statements included in Item 8 of Part II of this 10-K, we committed to purchase the remaining 50% ownership interest in our East China joint venture for approximately $1.3 billion. This transaction is expected to close by early calendar year 2018, primarily through the use of cash and investments held in foreign subsidiaries.

We believe that future cash flows generated from operations, existing cash and investments both domestically and internationally combined with our ability to leverage our balance sheet through the issuance of debt will be sufficient to finance capital requirements for our core businesses as well as shareholder distributions for the foreseeable future. Significant new joint ventures, acquisitions and/or other new business opportunities may require additional outside funding. We have borrowed funds and continue to believe we have the ability to do so at reasonable interest rates; however, additional borrowings would result in increased interest expense in the future.

We consider the majority of undistributed earnings of our foreign subsidiaries and equity investees as of October 1, 2017 to be indefinitely reinvested, and, accordingly, no U.S. income and foreign withholding taxes have been provided on such earnings. We have not, nor do we anticipate the need to, repatriate funds to the U.S. to satisfy domestic liquidity needs; however, in the event that we need to repatriate all or a portion of our foreign cash to the U.S., we would be subject to additional U.S. income taxes, which could be material. We do not believe it is practicable to calculate the potential tax impact of repatriation, as there is a significant amount of uncertainty around the calculation, including the availability and amount of foreign tax credits at the time of repatriation, tax rates in effect and other indirect tax consequences associated with repatriation.

During each of the first three quarters of fiscal 2016, we declared and paid a cash dividend to shareholders of $0.20 per share. In the fourth quarter of fiscal 2016 and each of the first three quarters of fiscal 2017 we declared and paid a cash dividend of $0.25 per share. Cash returned to shareholders through dividends in fiscal 2017 and 2016 totaled $1,450.4 million and $1,178.0 million, respectively. In the fourth quarter of fiscal 2017, we declared a cash dividend of $0.30 per share to be paid on December 1, 2017 with an expected payout of approximately $429.5 million.
During fiscal years 2017 and 2016, we repurchased 37.5 million and 34.9 million shares of common stock, respectively, or $2.1 billion and $2.0 billion, respectively, under our ongoing share repurchase program. At October 1, 2017, the number of remaining shares authorized for repurchase under our ongoing share repurchase program totaled 80.3 million.

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Other than normal operating expenses, cash requirements for fiscal 2018 are expected to consist primarily of capital expenditures for investments in our new and existing stores, our developing Siren Retail business and our supply chain and corporate facilities. Total capital expenditures for fiscal 2018 are expected to be approximately $2 billion.

Cash Flows

Cash provided by operating activities was $4.2 billion for fiscal 2017, compared to $4.6 billion for fiscal 2016. The change was primarily due to the timing of our cash payments for income taxes.

Cash used by investing activities totaled $0.9 billion for fiscal 2017, compared to $2.2 billion for fiscal 2016. The change was primarily due to the liquidation of a significant portion of our offshore investment portfolio in anticipation of the acquisition of the remaining 50% ownership share of our East China joint venture.

Cash used by financing activities for fiscal 2017 totaled $3.0 billion, compared to $1.8 billion for fiscal 2016. The change was primarily due to lower proceeds from the issuance of long-term debt, the repayment of the 2016 notes and an increase in cash returned to shareholders through dividend payments and share repurchases.

Contractual Obligations

The following table summarizes our contractual obligations and borrowings as of October 1, 2017, and the timing and effect that such commitments are expected to have on our liquidity and capital requirements in future periods (in millions):

| | Payments Due by Period | | | | |
|---|---|---|---|---|---|
| Contractual Obligations [1] | Total | Less than 1 Year | 1 - 3 Years | 3 - 5 Years | More than 5 Years |
| Operating lease obligations[2] | $8,613.5 | $ 1,213.1 | $2,210.2 | $1,875.0 | $ 3,315.2 |
| Financing lease obligations | 59.1 | 4.1 | 8.2 | 7.9 | 38.9 |
| Debt obligations | | | | | |
| Principal payments | 3,955.3 | — | 350.0 | 1,250.0 | 2,355.3 |
| Interest payments | 868.9 | 83.6 | 185.6 | 172.9 | 426.8 |
| Purchase obligations[3] | 1,310.1 | 848.1 | 380.1 | 73.6 | 8.3 |
| Other obligations[4] | 134.7 | 20.3 | 28.1 | 18.8 | 67.5 |
| Total | $14,941.6 | $ 2,169.2 | $3,162.2 | $3,398.2 | $ 6,212.0 |

(1) Income tax liabilities for uncertain tax positions for which we are not able to make a reasonably reliable estimate of the amount and period of related future payments were excluded. As of October 1, 2017, we excluded $207.3 million of gross unrecognized tax benefits for uncertain tax positions, which includes accrued interest and penalties.

(2) Amounts include direct lease obligations, excluding any taxes, insurance and other related expenses.

(3) Purchase obligations include agreements to purchase goods or services that are enforceable and legally binding on Starbucks and that specify all significant terms. Green coffee purchase commitments comprise 91% of total purchase obligations.

(4) Other obligations include other long-term liabilities primarily consisting of asset retirement obligations and hedging instruments.

Starbucks currently expects to fund these commitments primarily with operating cash flows generated in the normal course of business.

Off-Balance Sheet Arrangements

Off-balance sheet arrangements relate to operating lease and purchase commitments detailed in the footnotes to the consolidated financial statements included in Item 8 of Part II of this 10-K.

COMMODITY PRICES, AVAILABILITY AND GENERAL RISK CONDITIONS

Commodity price risk represents Starbucks primary market risk, generated by our purchases of green coffee and dairy products, among other items. We purchase, roast and sell high-quality arabica coffee and related products and risk arises from the price volatility of green coffee. In addition to coffee, we also purchase significant amounts of dairy products to support the needs of our company-operated stores. The price and availability of these commodities directly impacts our results of operations, and we expect commodity prices, particularly coffee, to impact future results of operations. For additional details see Product Supply in Item 1, as well as Risk Factors in Item 1A of this 10-K.

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FINANCIAL RISK MANAGEMENT

Market risk is defined as the risk of losses due to changes in commodity prices, foreign currency exchange rates, equity security prices and interest rates. We manage our exposure to various market-based risks according to a market price risk management policy. Under this policy, market-based risks are quantified and evaluated for potential mitigation strategies, such as entering into hedging transactions. The market price risk management policy governs how hedging instruments may be used to mitigate risk. Risk limits are set annually and prohibit speculative trading activity. We also monitor and limit the amount of associated counterparty credit risk, which we consider to be low. Excluding interest rate swaps, hedging instruments generally do not have maturities in excess of three years. Refer to Note 1, Summary of Significant Accounting Policies, and Note 3, Derivative Financial Instruments, to the consolidated financial statements included in Item 8 of Part II of this 10-K for further discussion of our hedging instruments.

The sensitivity analyses disclosed below provide only a limited, point-in-time view of the market risk of the financial instruments discussed. The actual impact of the respective underlying rates and price changes on the financial instruments may differ significantly from those shown in the sensitivity analyses.

Commodity Price Risk

We purchase commodity inputs, primarily coffee, dairy products, diesel, cocoa, sugar and other commodities, that are used in our operations and are subject to price fluctuations that impact our financial results. We use a combination of pricing features embedded within supply contracts, such as fixed-price and price-to-be-fixed contracts for coffee purchases, and financial derivatives to manage our commodity price risk exposure.

The following table summarizes the potential impact as of October 1, 2017 to Starbucks future net earnings and other comprehensive income ("OCI") from changes in commodity prices. The information provided below relates only to the hedging instruments and does not represent the corresponding changes in the underlying hedged items (in millions):

| | Increase/(Decrease) to Net Earnings | | Increase/(Decrease) to OCI | |
|---|---|---|---|---|
| | 10% Increase in Underlying Rate | 10% Decrease in Underlying Rate | 10% Increase in Underlying Rate | 10% Decrease in Underlying Rate |
| Commodity hedges | $ 6 | $ (6) | $ — | $ — |

Foreign Currency Exchange Risk

The majority of our revenue, expense and capital purchasing activities are transacted in U.S. dollars. However, because a portion of our operations consists of activities outside of the U.S., we have transactions in other currencies, primarily the Japanese yen, Canadian dollar, Chinese renminbi, British pound, South Korean won and euro. To reduce cash flow volatility from foreign currency fluctuations, we enter into derivative instruments to hedge portions of cash flows of anticipated intercompany royalty payments, inventory purchases, intercompany borrowing and lending activities and certain other transactions in currencies other than the functional currency of the entity that enters into the arrangements, as well as the translation risk of certain balance sheet items. See Note 3, Derivative Financial Instruments, to the consolidated financial statements included in Item 8 of Part II of this 10-K for further discussion.

The following table summarizes the potential impact as of October 1, 2017 to Starbucks future net earnings and other comprehensive income from changes in the fair value of these derivative financial instruments due to a change in the value of the U.S. dollar as compared to foreign exchange rates. The information provided below relates only to the hedging instruments and does not represent the corresponding changes in the underlying hedged items (in millions):

| | Increase/(Decrease) to Net Earnings | | Increase/(Decrease) to OCI | |
|---|---|---|---|---|
| | 10% Increase in Underlying Rate | 10% Decrease in Underlying Rate | 10% Increase in Underlying Rate | 10% Decrease in Underlying Rate |
| Foreign currency hedges | $ 23 | $ (23) | $ 119 | $ (119) |

Equity Security Price Risk

We have minimal exposure to price fluctuations on equity mutual funds and equity exchange-traded funds within our trading securities portfolio. Trading securities are recorded at fair value and approximates a portion of our liability under our Management Deferred Compensation Plan ("MDCP"). Gains and losses from the portfolio and the change in our MDCP liability are recorded in our consolidated statements of earnings.

We performed a sensitivity analysis based on a 10% change in the underlying equity prices of our investments as of October 1, 2017 and determined that such a change would not have a significant impact on the fair value of these instruments.

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Interest Rate Risk

Long-term Debt

We utilize short-term and long-term financing and may use interest rate hedges to manage our overall interest expense related to our existing fixed-rate debt, as well as to hedge the variability in cash flows due to changes in benchmark interest rates related to anticipated debt issuances. See Note 3, Derivative Financial Instruments and Note 9, Debt, to the consolidated financial statements included in Item 8 of Part II of this 10-K for further discussion of our interest rate hedge agreements and details of the components of our long-term debt, respectively, as of October 1, 2017.

The following table summarizes the impact of a change in interest rates as of October 1, 2017 on the fair value of Starbucks debt (in millions):

| | | | Change in Fair Value | |
|---|---|---|---|---|
| | Stated Interest Rate | Fair Value | 100 Basis Point Increase in Underlying Rate | 100 Basis Point Decrease in Underlying Rate |
| 2018 notes | 2.000 % | $ 352 | $ (4) | $ 4 |
| 2021 notes | 2.100 % | $ 751 | $ (24) | $ 24 |
| 2022 notes | 2.700 % | $ 508 | $ (22) | $ 22 |
| 2023 notes[1] | 3.850 % | $ 806 | $ — | $ — |
| 2024 notes | 0.372 % | $ 760 | $ (47) | $ 47 |
| 2026 notes | 2.450 % | $ 481 | $ (37) | $ 37 |
| 2045 notes | 4.300 % | $ 381 | $ (63) | $ 63 |

(1) Amount disclosed is net of ($42 million) change in the fair value of our designated interest rate swap. Refer to Note 3, Derivative Financial Instruments, for additional information on our interest rate swap designated as a fair value hedge.

Available-for-Sale Securities

Our available-for-sale securities comprise a diversified portfolio consisting mainly of investment-grade debt securities. The primary objective of these investments is to preserve capital and liquidity. Available-for-sale securities are recorded on the consolidated balance sheets at fair value with unrealized gains and losses reported as a component of accumulated other comprehensive income. We do not hedge the interest rate exposure on our available-for-sale securities. We performed a sensitivity analysis based on a 100 basis point change in the underlying interest rate of our available-for-sale securities as of October 1, 2017 and determined that such a change would not have a significant impact on the fair value of these instruments.

APPLICATION OF CRITICAL ACCOUNTING POLICIES

Critical accounting policies are those that management believes are both most important to the portrayal of our financial condition and results and require the most difficult, subjective or complex judgments, often as a result of the need to make estimates about the effect of matters that are inherently uncertain. Judgments and uncertainties affecting the application of those policies may result in materially different amounts being reported under different conditions or using different assumptions.

Our significant accounting policies are discussed in Note 1, Summary of Significant Accounting Policies, to the consolidated financial statements included in Item 8 of Part II of this 10-K. We believe that of our significant accounting policies, the following policies involve a higher degree of judgment and/or complexity.

We consider financial reporting and disclosure practices and accounting policies quarterly to ensure that they provide accurate and transparent information relative to the current economic and business environment. During the past four fiscal years, we have not made any material changes to the accounting methodologies used to assess the areas discussed below, unless noted otherwise.

Property, Plant and Equipment and Other Finite-Lived Assets

We evaluate property, plant and equipment and other finite-lived assets for impairment when facts and circumstances indicate that the carrying values of such assets may not be recoverable. When evaluating for impairment, we first compare the carrying value of the asset to the asset’s estimated future undiscounted cash flows. If the estimated undiscounted future cash flows are less than the carrying value of the asset, we determine if we have an impairment loss by comparing the carrying value of the asset to the asset's estimated fair value and recognize an impairment charge when the asset’s carrying value exceeds its estimated fair value. The adjusted carrying amount of the asset becomes its new cost basis and is depreciated over the asset's remaining useful life.

Long-lived assets are grouped with other assets and liabilities at the lowest level for which identifiable cash flows are largely independent of the cash flows of other assets and liabilities. For company-operated store assets, the impairment test is performed at the individual store asset group level. The fair value of a store’s assets is estimated using a discounted cash flow model. For other long-lived assets, fair value is determined using an approach that is appropriate based on the relevant facts and circumstances, which may include discounted cash flows, comparable transactions, or comparable company analyses.

Our impairment calculations contain uncertainties because they require management to make assumptions and to apply judgment to estimate future cash flows and asset fair values. Key assumptions used in estimating future cash flows and asset fair values include projected revenue growth and operating expenses, as well as forecasting asset useful lives and selecting an appropriate discount rate. For company-operated stores, estimates of revenue growth and operating expenses are based on internal projections and consider the store’s historical performance, the local market economics and the business environment impacting the store’s performance. The discount rate is selected based on what we believe a buyer would assume when determining a purchase price for the store. These estimates are subjective and our ability to realize future cash flows and asset fair values is affected by factors such as ongoing maintenance and improvement of the assets, changes in economic conditions, and changes in operating performance. During fiscal 2017, there were no significant changes in any of our estimates or assumptions, aside from those related to the long-term strategy assumptions of our Teavana-branded retail stores, which had a significant impact on the outcome of our impairment calculations. However, as we periodically reassess estimated future cash flows and asset fair values, changes in our estimates and assumptions may cause us to realize material impairment charges in the future.

Goodwill and Indefinite-Lived Intangible Assets

We evaluate goodwill and indefinite-lived intangible assets for impairment annually during our third fiscal quarter, or more frequently if an event occurs or circumstances change that would indicate that impairment may exist. When evaluating these assets for impairment, we may first perform a qualitative assessment to determine whether it is more likely than not that a reporting unit is impaired. If we do not perform a qualitative assessment, or if we determine that it is not more likely than not that the fair value of the reporting unit exceeds its carrying amount, we calculate the estimated fair value of the reporting unit using discounted cash flows or a combination of discounted cash flow and market approaches.

When assessing goodwill for impairment, our decision to perform a qualitative impairment assessment for an individual reporting unit in a given year is influenced by a number of factors, inclusive of the size of the reporting unit's goodwill, the significance of the excess of the reporting unit's estimated fair value over carrying value at the last quantitative assessment date, the amount of time in between quantitative fair value assessments and the date of acquisition. If we perform a quantitative assessment of an individual reporting unit’s goodwill, our impairment calculations contain uncertainties because they require management to make assumptions and to apply judgment when estimating future cash flows and asset fair values, including projected revenue growth and operating expenses related to existing businesses, product innovation and new store concepts, as well as utilizing valuation multiples of similar publicly traded companies and selecting an appropriate discount rate. Estimates of revenue growth and operating expenses are based on internal projections considering the reporting unit’s past performance and forecasted growth, strategic initiatives, local market economics and the local business environment impacting the reporting unit’s performance. The discount rate is selected based on the estimated cost of capital for a market participant to operate the reporting unit in the region. These estimates, as well as the selection of comparable companies and valuation multiples

used in the market approaches are highly subjective, and our ability to realize the future cash flows used in our fair value calculations is affected by factors such as the success of strategic initiatives, changes in economic conditions, changes in our operating performance and changes in our business strategies, including retail initiatives and international expansion.

When assessing indefinite-lived intangible assets for impairment, where we perform a qualitative assessment, we evaluate if changes in events or circumstances have occurred that indicate that impairment may exist. If we do not perform a qualitative impairment assessment or if changes in events and circumstances indicate that a quantitative assessment should be performed, management is required to calculate the fair value of the intangible asset group. The fair value calculation includes estimates of revenue growth, which are based on past performance and internal projections for the intangible asset group's forecasted growth, and royalty rates, which are adjusted for our particular facts and circumstances. The discount rate is selected based on the estimated cost of capital that reflects the risk profile of the related business. These estimates are highly subjective, and our

ability to achieve the forecasted cash flows used in our fair value calculations is affected by factors such as the success of strategic initiatives, changes in economic conditions, changes in our operating performance and changes in our business strategies, including retail initiatives and international expansion.

The partial goodwill impairments of the Teavana and Switzerland reporting units are discussed in Note 8, Other Intangible Assets and Goodwill, to the consolidated financial statements included in Item 8 of Part II of this 10-K.

Income Taxes

We recognize deferred tax assets and liabilities based on the differences between the financial statement carrying amounts and the respective tax bases of our assets and liabilities. Deferred tax assets and liabilities are measured using current enacted tax rates expected to apply to taxable income in the years in which we expect the temporary differences to reverse. We routinely evaluate the likelihood of realizing the benefit of our deferred tax assets and may record a valuation allowance if, based on all available evidence, we determine that some portion of the tax benefit will not be realized. Changes in tax laws and rates may affect recorded deferred tax assets and liabilities and our effective tax rate in the future; however, we do not expect changes from recently enacted tax laws to be material to the consolidated financial statements.

In evaluating our ability to recover our deferred tax assets within the jurisdiction from which they arise, we consider all available positive and negative evidence, including scheduled reversals of deferred tax liabilities, projected future taxable income, tax-planning strategies, and results of operations. In projecting future taxable income, we consider historical results and incorporate assumptions about the amount of future state, federal and foreign pretax operating income adjusted for items that do not have tax consequences. Our assumptions regarding future taxable income are consistent with the plans and estimates we use to manage our underlying businesses. In evaluating the objective evidence that historical results provide, we consider three years of cumulative operating income/(loss).

In addition, our income tax returns are periodically audited by domestic and foreign tax authorities. These audits include review of our tax filing positions, including the timing and amount of deductions taken and the allocation of income between tax jurisdictions. We evaluate our exposures associated with our various tax filing positions and recognize a tax benefit only if it is more likely than not that the tax position will be sustained upon examination by the relevant taxing authorities, including resolutions of any related appeals or litigation processes, based on the technical merits of our position. For uncertain tax positions that do not meet this threshold, we record a related liability. We adjust our unrecognized tax benefit liability and income tax expense in the period in which the uncertain tax position is effectively settled, the statute of limitations expires for the relevant taxing authority to examine the tax position or when new information becomes available. As discussed in Note 13, Income Taxes, to the consolidated financial statements included in Item 8 of Part II of this 10-K, there is a reasonable possibility that our unrecognized tax benefit liability will be adjusted within 12 months due to the expiration of a statute of limitations and/or resolution of examinations with taxing authorities.

We have generated income in certain foreign jurisdictions that has not been subject to U.S. income taxes. We intend to reinvest these earnings for the foreseeable future. While we do not expect to repatriate cash to the U.S. to satisfy domestic liquidity needs, if these amounts were distributed to the U.S., in the form of dividends or otherwise, we would be subject to additional U.S. income taxes, which could be material. Determination of the amount of unrecognized deferred income tax liabilities on these earnings is not practicable because such liability, if any, is dependent on circumstances existing if and when remittance occurs.

Our income tax expense, deferred tax assets and liabilities and liabilities for unrecognized tax benefits reflect management’s best assessment of estimated current and future taxes to be paid. Deferred tax asset valuation allowances and our liabilities for unrecognized tax benefits require significant management judgment regarding applicable statutes and their related interpretation, the status of various income tax audits and our particular facts and circumstances. Although we believe that the judgments and estimates discussed herein are reasonable, actual results could differ, and we may be exposed to losses or gains that could be material. To the extent we prevail in matters for which a liability has been established or are required to pay amounts in excess of our established liability, our effective income tax rate in a given financial statement period could be materially affected.

RECENT ACCOUNTING PRONOUNCEMENTS

See Note 1, Summary of Significant Accounting Policies, to the consolidated financial statements included in Item 8 of Part II of this 10-K for a detailed description of recent accounting pronouncements.

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Item 7A. Quantitative and Qualitative Disclosures About Market Risk

The information required by this item is incorporated by reference to the section entitled "Management's Discussion and Analysis of Financial Condition and Results of Operations — Commodity Prices, Availability and General Risk Conditions" and "Management's Discussion and Analysis of Financial Condition and Results of Operations — Financial Risk Management" in Item 7 of this Report.

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Item 8. Financial Statements and Supplementary Data
STARBUCKS CORPORATION
CONSOLIDATED STATEMENTS OF EARNINGS
(in millions, except per share data)

| Fiscal Year Ended | Oct 1, 2017 | Oct 2, 2016 | Sep 27, 2015 |
|---|---|---|---|
| Net revenues: | | | |
| Company-operated stores | $17,650.7 | $16,844.1 | $15,197.3 |
| Licensed stores | 2,355.0 | 2,154.2 | 1,861.9 |
| CPG, foodservice and other | 2,381.1 | 2,317.6 | 2,103.5 |
| Total net revenues | 22,386.8 | 21,315.9 | 19,162.7 |
| Cost of sales including occupancy costs | 9,038.2 | 8,511.1 | 7,787.5 |
| Store operating expenses | 6,493.3 | 6,064.3 | 5,411.1 |
| Other operating expenses | 553.8 | 545.4 | 522.4 |
| Depreciation and amortization expenses | 1,011.4 | 980.8 | 893.9 |
| General and administrative expenses | 1,393.3 | 1,360.6 | 1,196.7 |
| Restructuring and impairments | 153.5 | — | — |
| Total operating expenses | 18,643.5 | 17,462.2 | 15,811.6 |
| Income from equity investees | 391.4 | 318.2 | 249.9 |
| Operating income | 4,134.7 | 4,171.9 | 3,601.0 |
| Gain resulting from acquisition of joint venture | — | — | 390.6 |
| Loss on extinguishment of debt | — | — | (61.1) |
| Interest income and other, net | 275.3 | 108.0 | 43.0 |
| Interest expense | (92.5) | (81.3) | (70.5) |
| Earnings before income taxes | 4,317.5 | 4,198.6 | 3,903.0 |
| Income tax expense | 1,432.6 | 1,379.7 | 1,143.7 |
| Net earnings including noncontrolling interests | 2,884.9 | 2,818.9 | 2,759.3 |
| Net earnings attributable to noncontrolling interests | 0.2 | 1.2 | 1.9 |
| Net earnings attributable to Starbucks | $2,884.7 | $2,817.7 | $2,757.4 |
| Earnings per share — basic | $1.99 | $1.91 | $1.84 |
| Earnings per share — diluted | $1.97 | $1.90 | $1.82 |
| Weighted average shares outstanding: | | | |
| Basic | 1,449.5 | 1,471.6 | 1,495.9 |
| Diluted | 1,461.5 | 1,486.7 | 1,513.4 |

See Notes to Consolidated Financial Statements.

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STARBUCKS CORPORATION
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(in millions)

| Fiscal Year Ended | Oct 1, 2017 | Oct 2, 2016 | Sep 27, 2015 |
|---|---|---|---|
| Net earnings including noncontrolling interests | $2,884.9 | $2,818.9 | $2,759.3 |
| Other comprehensive income/(loss), net of tax: | | | |
| Unrealized holding gains/(losses) on available-for-sale securities | (9.5) | 3.5 | 1.4 |
| Tax (expense)/benefit | 2.9 | (1.3) | (0.5) |
| Unrealized gains/(losses) on cash flow hedging instruments | 53.2 | (109.6) | 47.6 |
| Tax (expense)/benefit | (12.6) | 27.5 | (16.8) |
| Unrealized gains/(losses) on net investment hedging instruments | 20.1 | — | 4.3 |
| Tax (expense)/benefit | (7.4) | — | (1.6) |
| Translation adjustment and other | (38.3) | 85.5 | (222.7) |
| Tax (expense)/benefit | (2.4) | 19.0 | 6.0 |
| Reclassification adjustment for net (gains)/losses realized in net earnings for available-for-sale securities, hedging instruments, and translation adjustment | (67.2) | 78.2 | (65.9) |
| Tax expense/(benefit) | 14.0 | (11.8) | 23.5 |
| Other comprehensive income/(loss) | (47.2) | 91.0 | (224.7) |
| Comprehensive income including noncontrolling interests | 2,837.7 | 2,909.9 | 2,534.6 |
| Comprehensive income/(loss) attributable to noncontrolling interests | 0.2 | 1.2 | (29.2) |
| Comprehensive income attributable to Starbucks | $2,837.5 | $2,908.7 | $2,563.8 |

See Notes to Consolidated Financial Statements.

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STARBUCKS CORPORATION
CONSOLIDATED BALANCE SHEETS
(in millions, except per share data)

| | Oct 1, 2017 | Oct 2, 2016 |
|---|---|---|
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | $2,462.3 | $2,128.8 |
| Short-term investments | 228.6 | 134.4 |
| Accounts receivable, net | 870.4 | 768.8 |
| Inventories | 1,364.0 | 1,378.5 |
| Prepaid expenses and other current assets | 358.1 | 347.4 |
| Total current assets | 5,283.4 | 4,757.9 |
| Long-term investments | 542.3 | 1,141.7 |
| Equity and cost investments | 481.6 | 354.5 |
| Property, plant and equipment, net | 4,919.5 | 4,533.8 |
| Deferred income taxes, net | 795.4 | 885.4 |
| Other long-term assets | 362.8 | 403.3 |
| Other intangible assets | 441.4 | 516.3 |
| Goodwill | 1,539.2 | 1,719.6 |
| TOTAL ASSETS | $14,365.6 | $14,312.5 |
| LIABILITIES AND EQUITY | | |
| Current liabilities: | | |
| Accounts payable | $782.5 | $730.6 |
| Accrued liabilities | 1,934.5 | 1,999.1 |
| Insurance reserves | 215.2 | 246.0 |
| Stored value card liability | 1,288.5 | 1,171.2 |
| Current portion of long-term debt | — | 399.9 |
| Total current liabilities | 4,220.7 | 4,546.8 |
| Long-term debt | 3,932.6 | 3,185.3 |
| Other long-term liabilities | 755.3 | 689.7 |
| Total liabilities | 8,908.6 | 8,421.8 |
| Shareholders' equity: | | |
| Common stock ($0.001 par value) — authorized, 2,400.0 shares; issued and outstanding, 1,431.6 and 1,460.5 shares, respectively | 1.4 | 1.5 |
| Additional paid-in capital | 41.1 | 41.1 |
| Retained earnings | 5,563.2 | 5,949.8 |
| Accumulated other comprehensive loss | (155.6) | (108.4) |
| Total shareholders' equity | 5,450.1 | 5,884.0 |
| Noncontrolling interests | 6.9 | 6.7 |
| Total equity | 5,457.0 | 5,890.7 |
| TOTAL LIABILITIES AND EQUITY | $14,365.6 | $14,312.5 |

See Notes to Consolidated Financial Statements.

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STARBUCKS CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
(in millions)

| Fiscal Year Ended | Oct 1, 2017 | Oct 2, 2016 | Sep 27, 2015 |
|---|---|---|---|
| OPERATING ACTIVITIES: | | | |
| Net earnings including noncontrolling interests | $2,884.9 | $2,818.9 | $2,759.3 |
| Adjustments to reconcile net earnings to net cash provided by operating activities: | | | |
| Depreciation and amortization | 1,067.1 | 1,030.1 | 933.8 |
| Deferred income taxes, net | 95.1 | 265.7 | 21.2 |
| Income earned from equity method investees | (310.2 ) | (250.2 ) | (190.2 ) |
| Distributions received from equity method investees | 186.6 | 223.3 | 148.2 |
| Gain resulting from acquisition/sale of equity in joint ventures and certain retail operations | (93.5 ) | (6.1 ) | (394.3 ) |
| Loss on extinguishment of debt | — | — | 61.1 |
| Stock-based compensation | 176.0 | 218.1 | 209.8 |
| Excess tax benefit on share-based awards | (77.5 ) | (122.8 ) | (132.4 ) |
| Goodwill Impairments | 87.2 | — | — |
| Other | 68.9 | 45.1 | 53.8 |
| Cash provided by changes in operating assets and liabilities: | | | |
| Accounts receivable | (96.8 ) | (55.6 ) | (82.8 ) |
| Inventories | 14.0 | (67.5 ) | (207.9 ) |
| Accounts payable | 46.4 | 46.9 | 137.7 |
| Stored value card liability | 130.8 | 180.4 | 170.3 |
| Other operating assets and liabilities | (4.7 ) | 248.8 | 261.5 |
| Net cash provided by operating activities | 4,174.3 | 4,575.1 | 3,749.1 |
| INVESTING ACTIVITIES: | | | |
| Purchases of investments | (674.4 ) | (1,585.7 ) | (567.4 ) |
| Sales of investments | 1,054.5 | 680.7 | 600.6 |
| Maturities and calls of investments | 149.6 | 27.9 | 18.8 |
| Acquisitions, net of cash acquired | — | — | (284.3 ) |
| Additions to property, plant and equipment | (1,519.4 ) | (1,440.3 ) | (1,303.7 ) |
| Net proceeds from sale of equity in joint ventures and certain retail operations | 85.4 | 69.6 | 8.9 |
| Other | 54.3 | 24.9 | 6.8 |
| Net cash used by investing activities | (850.0 ) | (2,222.9 ) | (1,520.3 ) |
| FINANCING ACTIVITIES: | | | |
| Proceeds from issuance of long-term debt | 750.2 | 1,254.5 | 848.5 |
| Repayments of long-term debt | (400.0 ) | — | (610.1 ) |
| Cash used for purchase of non-controlling interest | — | — | (360.8 ) |
| Proceeds from issuance of common stock | 150.8 | 160.7 | 191.8 |
| Excess tax benefit on share-based awards | 77.5 | 122.8 | 132.4 |
| Cash dividends paid | (1,450.4 ) | (1,178.0 ) | (928.6 ) |
| Repurchase of common stock | (2,042.5 ) | (1,995.6 ) | (1,436.1 ) |
| Minimum tax withholdings on share-based awards | (82.8 ) | (106.0 ) | (75.5 ) |
| Other | (4.4 ) | (8.4 ) | (18.1 ) |
| Net cash used by financing activities | (3,001.6 ) | (1,750.0 ) | (2,256.5 ) |
| Effect of exchange rate changes on cash and cash equivalents | 10.8 | (3.5 ) | (150.6 ) |
| Net increase/(decrease) in cash and cash equivalents | 333.5 | 598.7 | (178.3 ) |
| CASH AND CASH EQUIVALENTS: | | | |

| | | | |
|---|---|---|---|
| Beginning of period | 2,128.8 | 1,530.1 | 1,708.4 |
| End of period | $2,462.3 | $2,128.8 | $1,530.1 |
| SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION: | | | |
| Cash paid during the period for: | | | |
| Interest, net of capitalized interest | $96.6 | $74.7 | $69.5 |
| Income taxes, net of refunds | $1,389.1 | $878.7 | $1,072.2 |

See Notes to Consolidated Financial Statements.

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STARBUCKS CORPORATION
CONSOLIDATED STATEMENTS OF EQUITY
(in millions, except per share data)

| | Common Stock | | Additional Paid-in Capital | Retained Earnings | Accumulated Other Comprehensive Income/(Loss) | Shareholders' Equity | Noncontrolling Interests | Total |
|---|---|---|---|---|---|---|---|---|
| | Shares | Amount | | | | | | |
| Balance, September 28, 2014 | 749.5 | $ 0.7 | $ 39.4 | $5,206.6 | $ 25.3 | $ 5,272.0 | $ 1.7 | $5,273.7 |
| Net earnings/(loss) | — | — | — | 2,757.4 | — | 2,757.4 | 1.9 | 2,759.3 |
| Other comprehensive income/(loss) | — | | | | | | | |