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Starbucks Corporation (SBUX) Q4 2025 Earnings Call Transcript

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Q4: 2025-10-29 Earnings Summary

Insights



EPS of \$0.52 **misses by \$0.04** | Revenue of \$9.57B (5.46% Y/Y) **beats by \$216.81M**

Starbucks Corporation (**SBUX**) Q4 2025 Earnings Call October 29, 2025 4:15 PM EDT

Company Participants

Catherine Park

Brian Niccol - Chairman & CEO

Catherine Smith - Executive VP, CFO & Principal Accounting Officer

Conference Call Participants

David Palmer - Evercore ISI Institutional Equities, Research Division
Danilo Gargiulo - Sanford C. Bernstein & Co., LLC., Research Division
David Tarantino - Robert W. Baird & Co. Incorporated, Research Division
John Ivankoe - JPMorgan Chase & Co, Research Division
Lauren Silberman - Deutsche Bank AG, Research Division
Brian Harbour - Morgan Stanley, Research Division
Sara Senatore - BofA Securities, Research Division
Jeffrey Bernstein - Barclays Bank PLC, Research Division
Andrew Charles - TD Cowen, Research Division
Hyun Jin Cho - Goldman Sachs Group, Inc., Research Division
Andrew Barish - Jefferies LLC, Research Division
Christopher O'Cull - Stifel, Nicolaus & Company, Incorporated, Research Division

Presentation

Operator

Good afternoon. My name is Diego, and I will be your conference operator today. I would like to welcome everyone to Starbucks' Fourth Quarter Fiscal Year 2025 Conference Call. [Operator Instructions]

I will now turn the call over to Catherine Park, Vice President of Investor Relations. Ms. Park, you may now begin your conference.

Catherine Park

Good afternoon and thank you for joining us today to discuss Starbucks' fourth quarter fiscal year 2025 results. Today's discussion will be led by Brian Niccol, Chairman and Chief Executive Officer; and Cathy Smith, Executive Vice President and Chief Financial Officer.

This conference call will include forward-looking statements, which are subject to various risks and uncertainties that could cause our actual results to differ from these statements. Any such statements should be considered in conjunction with cautionary statements in our earnings release and risk factors discussed in our filings with the SEC, including our latest annual report on Form 10-K and quarterly report on Form 10-Q. Starbucks assumes no obligation to update any of these forward-looking statements or information. GAAP results in the fourth quarter of fiscal year 2025 include restructuring and impairment charges, litigation settlements and transaction costs that are excluded from our non-GAAP results. Revenue, operating income, operating margin, EPS growth and G&A metrics on today's call are also measured in constant currency and represent non-GAAP measures. Please refer to the earnings release on our website at investor.starbucks.com to find reconciliations of these non-GAAP measures to the corresponding GAAP measures and supplemental financial information.

This conference call is being webcast, and an archive of the webcast will be available on our website through Friday, December 12, 2025. Also, for your calendar planning purposes, please note that our first quarter fiscal year 2026 earnings conference call has been tentatively scheduled for Wednesday, January 28, 2026. With that, I'll now turn the call over to Brian.

Brian Niccol

Chairman & CEO

Good afternoon and thank you for joining. A year ago, we launched our Back to Starbucks strategy to get us back to the exceptional craft, connection and welcoming coffeehouses that define the Starbucks Experience and set us apart. Since then, we've been focused on executing our plan and accelerating it where we've seen opportunity. We took the significant step of scaling several key pieces of work during the quarter, and it's clear from our results that our plan is working, and our turnaround is taking hold.

We finished the fiscal year strong with 5% global revenue growth and global comparable store sales growth of 1% in the fourth quarter, making it our first positive quarter in 7 quarters. Our North America company-operated comps improved to flat year-over-year, driven by flat U.S. comp and positive comp growth in Canada. And in both markets, transaction comps continued to improve sequentially from the third quarter.

Across our U.S. company-operated portfolio, we more than tripled the percentage of coffeehouses with positive transaction comps from a year ago with year-over-year transactions improving across all regions and dayparts. And we're getting back to winning the morning with flat morning daypart transactions that outpaced our overall recovery in Q4. Notably, our U.S. company-operated sales comp turned positive in September, driven by transactions, and it's remained positive through October, reflecting the momentum taking shape in our business.

Our International segment continued to demonstrate the resilience of our brand, delivering 3% comp sales growth in the fourth quarter, led by strength across our top markets, including Japan, which bounced back into positive comp territory in the quarter as well as China, the U.K. and Mexico. Earnings per share of \$0.52 in the fourth quarter continues to reflect the investments we're making in the business to execute our strategy. As I've said before, we expect to grow the top line first. and then earnings will follow.

These results demonstrate meaningful progress we've made on our Back to Starbucks plan as we bring our work to scale, and they show the early impact of investments we've made across 3 key areas in fiscal 2025 to deliver exceptional customer service, improve the look and feel of our community coffeehouses and get back into culture with an overhauled approach to marketing and menu innovation. First, we've continued to invest in and scale Green Apron Service as the new standard for our coffeehouse customer experience.

August was a milestone as we went live with the new standard across our full U.S. company-operated portfolio. We made much needed investments in staffing and hours to put more partners on the floor at the right times. We reassessed and extended hours of operations for about half of our U.S. company-operated portfolio so that nearly all are now open consistently at or before 5 a.m. We expanded rosters and maintained healthy hours per partner.

And as a result, we had strong partner engagement, record low hourly partner turnover and improved customer experience scores in the fourth quarter. Even though we're only 2 months in, we're seeing the results we want from Green Apron Service, and we're encouraged by the future opportunity we expected to create as our partners adopt the standard and our customers experience the difference. We set throughput goals to ensure customers get their order on time every time, whether it's in cafe, mobile order or in the drive-thru.

As part of our Green Apron Service rollout, we launched our Smart Queue sequencing algorithm. Since implementation, more than 80% of our U.S. company-operated coffeehouses had cafe service times averaging 4 minutes or less, even with greater transaction volumes following our fall launch. Average drive-thru service times are still below our 4-minute target, and Mobile Order and Pay remains highly accurate and on time. Our delivery business in the U.S. has also continued to expand rapidly, growing nearly 30% year-over-year in the fourth quarter and surpassing \$1 billion in sales for the full fiscal year.

And we will be nearly complete with the rollout of our Clover Vertica brewer in our U.S. company-operated coffeehouses by the end of Q1, making it easier than ever for customers to get a fantastic and freshly brewed cup of coffee of their choice. Second, we're now delivering a great customer experience in coffeehouses that are more warm, welcoming and connected to their communities. Earlier this year, we shared that we were assessing -- reassessing our North American portfolio.

The reality, as we came to learn, was that we were operating some coffeehouses that didn't demonstrate a viable path to profitability or create a warm, welcoming space for our customers and partners. As a result, for the full year in fiscal 2025, our North America company-operated store counts declined by approximately 1% on a net basis. With a healthier base of coffeehouses, we see meaningful opportunity for growth. We're taking a disciplined approach to how, where and what we build to improve both the customer experience and unit economics.

We are piloting a new coffeehouse prototype with lower build costs and optimized space utilization that still deliver a full coffeehouse experience aligned to our brand. In fact, last month, we converted one of our pickup-only locations in New York into a small format version of this prototype. We're excited to test, learn and iterate. Our teams are also working at pace to ramp up our uplift renovation program, bringing warmth, texture and seating back into our coffeehouses.

As of the fourth quarter, we completed nearly 70 uplifts primarily across New York and Southern California. It's a small sample size, but we are encouraged by the improvements to sales and transactions we've seen to date. We are working to complete more than 1,000 of these uplifts by the end of fiscal 2026. Third, we've overhauled our marketing and our menu innovation, and it's driving stronger customer perception scores and market share growth in the U.S.

On the heels of a successful fall launch, we introduced Protein Cold Foam and Protein Lattes at the end of September. They taste great and they're made from premium ingredients, living up to the Starbucks standards, and they kick off a steady pace of disciplined stage-gated innovation in our menu pipeline. We're only about a month in, and we're learning a lot. Customer awareness continues to build, and it is bringing less frequent customers into our coffeehouses.

We're excited about the incremental nature of this platform and its long-term role. Our measure for brand affinity accelerated in the quarter, reaching its highest point since 2023, and Starbucks ranking as customers' first choice was a 5-year record high. We saw the biggest gains in service time, connection and care perceptions, demonstrating the power of Green Apron Service. Non-Starbucks Rewards customer transactions grew year-over-year for the second consecutive quarter across all dayparts, validating our approach to marketing.

And value perception strengthened across all generations in the fourth quarter and for the fiscal year, driven by our investment in Green Apron Service and our proactive moves to bring back the condiment bar, simplify our pricing architecture and remove the extra charge for non-dairy milks. We know our value equation extends beyond pricing. And when we provide great customer service alongside handcrafted personalized beverages made with high-quality ingredients, we provide unmatched value to our customers.

Turning to international. Our growth agenda and Back to Starbucks principles span well beyond North America. In the fourth quarter, our international business reached record revenues of \$2.1 billion and ended the year with an all-time high of \$7.8 billion. We continue to extend our global reach, opening 316 net new coffeehouses in the fourth quarter for a total of more than 900 in fiscal 2025. We also opened brand-building Starbucks flagship coffeehouses, including inside the legendary Santiago Bernabéu Stadium in Madrid with more flagship coffeehouses in store for 2026.

We'll bring one-of-a-kind experiences centered on coffee and craft to even more customers around the world. In China, the team continues to drive demand in a competitive marketplace, delivering 2% comp growth in Q4, its second consecutive quarter of positive comps, and our portfolio crossed 8,000 stores. On the strategic front, we've had very strong interest from multiple high-quality partners, all of whom see significant value in the Starbucks brand and team.

We expect to retain a meaningful stake in Starbucks China and remain confident in the long-term growth potential in the region. As I reflect on fiscal 2025, we did important work to rebuild our core and strengthen our foundation, and we're entering fiscal 2026 on stronger footing. Looking to Q1, the holiday season is a cherished moment for our customers and for our business. It's the first time we're bringing all our work together. Our coffeehouses will be more warm and welcoming.

They'll be better staffed. Orders will be better sequenced. We'll have a relevant menu with holiday classics like the Peppermint Mocha and Snowman Cookie alongside returning favorites like the Eggnog Latte, which customers have been asking us to bring back for years. We'll have engaging new ads and great new merchandise that's worth gifting, like our limited edition Bearista glass mugs and Hello Kitty collaboration. And we'll have newly designed gift cards, which have become a holiday staple.

As we bring it all together, I'm confident the holiday season at Starbucks will be iconic, and our customers will see and feel the difference. Building on investments made in fiscal 2025, we're focused on executing with excellence and driving growth through innovation in fiscal 2026. Our intent is to become the world's best customer service company. To do this, we'll double down on Green Apron Service by empowering our leaders in and above the coffeehouse. We'll scale the assistant store manager role across more company-operated coffeehouses, and we'll dramatically simplify store-level reporting from nearly 2 dozen metrics down to a scorecard of just 5 KPIs that best correlate to comp growth. These are focused on the customer, the partner, transactions, inventory availability and food safety. We are giving our partners the tools, roster and processes to consistently deliver our standard.

And as we work to deliver a consistent customer experience across every coffeehouse, we're also improving how we work with our licensee partners to provide more tailored support, drive operational excellence and profitably grow together. Just last week, we hosted our North America licensee partners here at our support center, and we're excited for what's ahead. As we work to lead in culture, we're driving continued menu innovation that wins the morning and helps us earn the afternoon.

In 2026, we'll introduce an up-level bake case that features new artisanal bakery products and elevated service wares to mirror our coffeehouse vibe. And building on our recent matcha reformulation, we'll continue to optimize and up-level our matcha menu with more customizable offerings that meet customer needs and stay true to our brand. Work continues on our supply chain to support our pace of innovation and improve inventory availability. And through 2026, you'll see us announcing improvements to our rewards program and mobile app and new brand activations. Our strategy is only as good as the people who are executing, and over the past year we underwent significant change and fast. We asked a lot of our partners across the company, and they're delivering with excellence to build a stronger Starbucks.

I would like to take a moment to thank our Green Apron and support partners who are working hard to bring our strategy to life every day. You really can feel the energy and excitement in our coffeehouses and the change is real and our partners are leading it. Whether it's Melissa and her team in Austin that's built up such a strong community there, Jessica and [Maribeth] in Nashville who are clearly dialed in to what it takes to deliver great customer service or Oscar in New York and his commitment to coffeehouse excellence. Your focus on coffee, craft and connection is truly making a difference.

So as I conclude, let me put it simply. We set a plan, we're working the plan, and the plan is working. We have more work to do, but we're building momentum. Regardless of the headwinds and tailwinds we may encounter, I'm confident we have the right team and strategy to deliver long-term sustainable growth. I'll now turn it over to Cathy to share more detail on our financial results.

Catherine Smith

Executive VP, CFO & Principal Accounting Officer

Thank you, Brian. I'll start where Brian ended by also thanking our partners around the world for their focus and commitment to building back a better Starbucks. Their hard work helped us gain traction in the fourth quarter and deliver on some critical objectives that we believe will bring us back to sustainably growing both the top and bottom line. I'll now discuss our Q4 results.

Our Q4 consolidated revenue was \$9.6 billion, up 5% to the prior year, reflecting 2% net new company-operated store growth and a 1% increase in global comparable store sales, driven by international outperformance, positive comps in Canada and continued progress in our U.S. business. In the U.S., our comparable store sales were flat year-over-year, with ticket up 1%, reflecting fewer discount-driven offers in the current year.

While U.S. company-operated transaction comps were down 1%, we marked our fourth consecutive quarter of improvement. We are rebuilding our transaction base as we focus on improving the overall value proposition for our customers. We were especially pleased to deliver transaction-led comp sales growth approaching 1% in September as we benefited from the first full month of Green Apron Service across our U.S. company-operated coffeehouses as well as the timing shift of our fall launch.

Our 90-day active Starbucks Rewards member base grew 1% both quarter-over-quarter and year-over-year to 34.2 million members. This was led by higher reengagement and fueled by customers returning for their seasonal favorites and new offerings as part of our fall launch. Transactions among this cohort also continued to improve in the fourth quarter, and our intentional shift away from last year's discounting strategies drove a healthier mix of non-discounted transactions.

As Brian mentioned, non-Starbucks Rewards customer transactions in the fourth quarter grew year-over-year for the second consecutive quarter. Our U.S. licensed store portfolio revenue declined in Q4, primarily due to trends in the grocery and retail channels. Travel remains a bright spot, however, with airports delivering positive transaction and ticket growth in the quarter. The college and university segment also showcased year-over-year growth, supported by a good start to the fall semester.

Moving on to international. This segment reported 9% year-over-year net revenue growth in the fourth quarter, delivering another record of over \$2 billion. Many of our top international markets contributed to strong comp sales performance in the quarter with China, Japan, the U.K. and Mexico leading the way. China continues to grow and improve profitability. Starbucks China's comparable store sales grew 2% in the quarter, driven by a 9% improvement in comparable transactions. The market's comp growth was driven by continued product innovation, particularly in its tea latte lineup and a fast-growing delivery business.

The team remains nimble in optimizing its product and pricing architecture in a dynamic marketplace. Moreover, Starbucks China's healthy unit economics keep us motivated to capture the abundant white space we continue to see in the region. As Brian mentioned, we remain focused on our search for the right partner to help unlock our future growth potential in China. As a reminder, the value to Starbucks in a potential transaction includes 3 things: the upfront investment by our future partner, Starbucks retaining a meaningful stake in the China business and future royalty payments.

In our Channel Development segment, our Q4 net revenues grew 16% year-over-year due to higher revenue from the Global Coffee Alliance. We remain market share leaders in the North America at-home and ready-to-drink coffee categories amid a challenging coffee price environment. We continue to work with our partners to adapt and innovate to broaden our reach beyond our cafes. In fact, the 2024 launch of our protein drink in the U.K. has exceeded our expectations, resulting in growth into 8 additional markets in 2025. We have expectations to expand this further next year, including in the U.S. through our North American Coffee Partnership.

Shifting to margin. Our Q4 consolidated operating margin was 9.4%, contracting 500 basis points from the prior year. This was primarily driven by inflation, led by coffee prices and tariffs as well as investments in support of Back to Starbucks, largely in labor hours. Consolidated G&A in the quarter decreased by 2% versus the prior year to reach approximately 6.6% of revenues. And with our interest expense and effective tax rates generally coming in line with our expectations, Q4 EPS was \$0.52, down 34% from the prior year. In the fourth quarter, we took decisive action on multiple fronts to accelerate getting Back to Starbucks. This included the completion of our assessment of our coffeehouse portfolio and identified closures as well as a simplification of our broader support organization to one that is streamlined and more closely aligned to our future growth priorities.

Let me walk through some of the impacts to our financials. In the fourth quarter, we had 107 net store closures globally as part of the restructuring we announced in September. These coffeehouses were deemed unable to meet our standards for customer experience even through a potential uplift or for profitability. Many fell under both categories. As a result of these closures, we expect a reduction in our baseline North America company-operated revenues, partially offset by sales transfer to nearby coffeehouses that remain open. We also expect the impact to operating margins to be slightly accretive. As we look to the future, we are focused on disciplined capital deployment with work underway to reduce build costs and improve the profitability of new coffeehouses while continuing to deliver a warm, welcoming coffeehouse environment.

Given that our development pipelines naturally carry long lead times, we expect the benefits of these strategic changes to flow through our P&L gradually over a multiyear period. In the near term, however, we expect that the cost reduction related to streamlining our support structure will have more immediate impacts to our P&L. As such, we expect that our consolidated G&A in fiscal 2026 will run lower than fiscal 2023 levels, serving as a partial offset to our Back to Starbucks investments.

While we expect to provide our near- and longer-term outlook during our Investor Day in late January, the following are some initial considerations for our U.S. company-operated business for fiscal 2026. We're pleased with the progress we've made to date with our positive comps in September continuing through October. Our Green Apron Service standard is ramping, and we're no longer lapping heavy levels of promotion in fiscal 2026. We're excited about a strong holiday lineup, future menu innovation and our coffeehouse uplifts. We also recognize that we have more work to do as we continue to rebuild our transaction base. Turnarounds are difficult to forecast, and while we have good reason to believe that our U.S. company-operated comps should build through the year, we also know that recoveries are not always linear.

Moving to earnings. We remain disciplined on costs as we focus on allocating our resources to our Back to Starbucks priorities. Our investments in Green Apron Service will annualize through fiscal 2026. We'll also stay nimble in navigating the current environment where tariffs and coffee prices remain dynamic. As we continue to grow, our goal is that every transaction is higher quality and more profitable. We're on a multiyear turnaround. Q4 was a turning point, having delivered the first quarter of global comp growth in 7 quarters, and we're encouraged by our trends to date in Q1. We're focused on driving our top line and managing the costs that are within our control, giving us confidence in our path to sustainable, durable long-term growth. As a token of such confidence, we announced an increase to our quarterly dividend earlier this month, recognizing our 15th consecutive year of increase. We are clear-eyed about the work ahead of us, and we're excited about our future. And with that, we are now ready to take your questions. Thank you. Operator?

Question-and-Answer Session

Operator

[Operator Instructions] And our first question comes from David Palmer with Evercore ISI.

David Palmer*Evercore ISI Institutional Equities, Research Division*

Can you hear me okay?

Operator

There you go, sir.

David Palmer*Evercore ISI Institutional Equities, Research Division*

Okay. Good. I'll just try to -- I'll try to squeeze in a couple of parts to my one question. Brian, one of the things that we often find ourselves discussing with Starbucks is this Back to Starbucks often feels like back to the old Starbucks, which might have been much more of an in-café, coffee, espresso, hot beverage. And today, Starbucks is obviously many more channels than that, it's much more cold beverage in the competitive set itself, the way younger consumers are using the brand. So a lot that's different.

So getting Back to Starbucks, people wonder if that will bring the same sort of comp energy that the old Starbucks used to have, if perhaps that Back to Starbucks is addressing a fraction of the business. So maybe that's a general question that's worth discussing. But right now, some of the things you've done feel like it would be activating more of the cafe part of it. I wonder if you're seeing differences in your comps by part, by order type and maybe address that general concern about maybe activating part of the in-cafe may not be enough to drive the overall business as much.

Brian Niccol*Chairman & CEO*

Yes, David, thanks for the question. Yes. No, Back to Starbucks is comprehensive. I think the way to think about it is, I'm talking about the definition of the brand, which is the soul of the brand is around customer connection and our craft as it relates to every beverage. Now that's not to say we aren't going to continue to innovate across all the different access points. I think the place we got the most off strategy or off brand was with the cafe and the way that we handled mobile orders actually distracted us from executing really well in the drive-thru as well as the cafe and for the kind of the new emerging channel around delivery. So what I would actually say is the thing that I love about where we are with Back to Starbucks is we've now established a new Green Apron Service standard.

And that standard, okay, is going to be able to support the simple idea of what makes Starbucks, Starbucks, which is great craft, great connection. And that craft and connection can happen in mobile order, it can happen in drive-thru, and it can happen in the cafe. And I think what we saw throughout the quarter is just that when we launched the Green Apron Service standard in the middle of August, we saw the business respond so much so that in September was the first month where we actually had comps -- positive comps driven by transactions, point of transaction comp growth.

So Back to Starbucks is a reference around the whole brand proposition, and it gets us, I think, centered on providing a great customer service experience, which separates this brand from everybody else. The foundation is this customer connection. I think the visible transformation you'll see in our uplifts, but I think you'll also experience it when you interact with our baristas and our coffeehouse leaders. With the Green Apron Service model, we've actually freed our partners up to get back to focusing on moving towards customers, providing that connection and providing that customization in the beverage that people want, whether it's hot, cold, coffee, refreshers, and you're going to continue to see us innovate across matcha, so it's holistic. And what I love about it is I see it really playing out nicely in transactions right now.

Operator

And your next question comes from Danilo Gargiulo with Bernstein.

Danilo Gargiulo

Sanford C. Bernstein & Co., LLC., Research Division

Brian, I wanted to ask you a question on the reception of the protein platform. And specifically, what has been the feedback on the pricing point of the protein platform? And in light of the increased ticket that this might be driving, what's your updated view on the pricing that you think would be sustainable to be taken in 2026 and beyond?

Brian Niccol

Chairman & CEO

So yes, Danilo, I want to make sure I got your question right. I think I heard you asking how is the protein platform performing? And what's been the response to, I guess, the pricing architecture on protein. If I missed it, chime in after I give you the answer. So first of all, the protein platform, I am really excited about how this has come out of the gates. Awareness is still building. And one of the things that's great about this platform is you can now have protein in over 90% of the drinks you get from Starbucks, okay?

So whether that's cold foam or that's through the protein milk. And the feedback from customers, whether it's been in matcha, in iced americano or a latte has been, you know what? This is really delicious. And that is what we need. And it also is able -- we're able to provide the protein into the customization of the way people want to have their drinks. We're not boxing them into a certain way that they have to execute it. And we also allow you to flavor it how you want.

Oddly enough, one of the top cold foams is our Pumpkin cold foam. So it's a protein pumpkin cold foam is one of our top ways that people are experiencing cold foam. I will also tell you, our value scores, and I think I mentioned this in my earlier remarks, as -- when we look at this both ways, is it worth it? And how are our value scores? They continue to increase. And the feedback we've heard on the protein specifically is it's a tremendous value with the customization, the amount of protein that you can get, so the macros associated with it.

So I'm very optimistic as the awareness builds, this platform will continue to build. And this is really just kind of the first step, I think, in continuing to drive health and wellness built on, frankly, arguably one of the greatest health and wellness drinks out there called coffee. So I'm very optimistic about where we are with this. I think the marketing team has done a great job. Our partners in store have done a great job, and the feedback from our customers, not surprisingly, has been really positive.

Operator

And your next question comes from David Tarantino with Baird.

David Tarantino*Robert W. Baird & Co. Incorporated, Research Division*

My question is on the Green Apron Service model. And Brian, I presume this takes some time to really get the full consumer response to the changes you've made. So I guess, can you talk about where you are in the journey after only maybe a couple months in place? And maybe you can sort of compare your current state of the ones that were upgraded to this service model in August to the ones you did earlier in the year and how that may or may not be different as you look at sort of the duration effect that this could have on the business?

Brian Niccol*Chairman & CEO*

Yes. Thanks, David. Great point. So you're right. We started Green Apron Service standard middle of August, and we really kind of rolled it out in 3 phases over the course of the last 2 or 3 weeks in August. So I would say we're really only like 8 or 9 weeks in on it. And the good news is it does appear that it continues to build week-to-week for couple reasons. One, our teams have to get used to operating with the additional hours and the bigger rosters. There's also an element of hiring. And then there's also an element of giving the customer the experience so that they realize like this isn't just a one-timer. This is now the new way they're going to experience Starbucks. And probably the best evidence I have for that is the initial 650 stores that we piloted on continue to outpace the rest of our company performance.

So I'm optimistic that what's going to happen is, over time, as our rosters get populated, our teams get more reps with the additional investment. They understand the 5 key moments, the coffeehouse walks, and then our customers experience it over and over again, I think we're going to continue to see us hopefully close the gap on those first 650 stores and build just like what we saw in those 650 stores. So I think it is a little bit of time and experience, both for our partners and our customers, but it's been great to see how it's been building. And frankly, Mike and the whole operating team has done a phenomenal job with the rollout and our coffeehouse leaders have done a phenomenal job getting their teams excited about the new way we're going to serve customers.

Operator

And your next question comes from John Ivankoe with JPMorgan.

John Ivankoe*JPMorgan Chase & Co, Research Division*

The question is also on Green Apron. And I'm wondering if Green Apron was done fairly defensively, in other words, to maybe fill some gaps that were in the system to really help traffic decline or if there is a more offensive element of Green Apron to actually drive traffic? And if that's the case that more hours, more staffing is leading to more transaction growth, if we have an opportunity to step up Green Apron even further? In other words, is there a 2.0 or a 3.0 have kind of taken this even further from a staffing perspective? That's really the first part. And secondly, other than just having customers come back into the store, how do we communicate to the customer base broadly in America, some of whom may have dropped out of Starbucks to come back in and experience a better Starbucks than maybe they might have remembered a few years ago?

Brian Niccol*Chairman & CEO*

Yes. So thanks, John. So what I would tell you is, look, obviously, we had an incoming hypothesis that our stores weren't staffed correctly and that we weren't, I guess, sorting orders correctly or sequencing orders correctly between the drive-thru, mobile order and the cafe. And I think as we learned, we figured out that, that hypothesis was correct and it required was both the Smart Queue technology to better sequence orders and then increase staffing so that our partners were able to either stay focused on the drive-thru, stay focused on their food station, stay focused on the customer, provide a great greeting when people came in or give them a great experience at the handoff. So I think it was a combination of fixing some missteps and then putting us on the offensive because I believe we're best positioned to provide the best customer experience in the industry.

And one thing that I've heard consistently from customer feedback since we've launched this out broadly is, wow, I notice the difference. I feel the difference. I see the difference. And it is as simple as just being greeted when you walk into our stores. And that has changed, I think, people's perceptions pretty quickly. The one thing that's great about our business, John, and you probably know this, is the frequency is so high, right? So I've never had the opportunity to work in a business with such high frequency that if we stay consistent with the Green Apron Service standard, our customers realize it quickly and we're also a very social brand. It gets shared pretty quickly as well.

Now obviously, it's really important we continue to provide innovation so that we bring people in. And one of the things I didn't mention on protein is one thing that's great about protein is we're seeing low-frequency rewards customers show up with more frequency. So it's going to be the combination of consistently great execution. It also -- what's nice, too, is, as we perform better at peak, we actually earn even more hours, which then allows us to open an hour earlier. And then it feeds itself where, call it, whatever Phase 2 is or Phase 3 is, we're kind of earning our way into those as opposed to having to do the course correct that we had to do initially with Green Apron Service. So I love how the flywheel, once it gets going on this, the experience builds for our partner and the experience builds for our customer. And then I think the transactions build in our results.

Operator

And your next question comes from Lauren Silberman with Deutsche Bank.

Lauren Silberman

Deutsche Bank AG, Research Division

You talked about flat morning transactions outperforming the overall business. What's driving the relative outperformance in the morning? And as it relates to the afternoon, do you think it's more reflective of the macro or competitive dynamics? I know there's a lot of discussion around energy and whether there's some shift to energy. So just how are you thinking about Starbucks' future in that category?

Brian Niccol

Chairman & CEO

Yes. So look, I think the reason why -- well, the reason -- the data would suggest, the reason why we're winning in the morning is because we're better staffed, we're providing better speed of service, while still providing that craft and that connection. And so we've just seen consistent improvement in the morning and specifically number of transactions that we are delivering per 15 minutes. And that's translating into in Q1 what was a flat transaction performance. We've also, though, seen sequential improvement in the midday and afternoon, not all the way to where we want it to be, but I think we have opportunity, frankly, on some of our drinks and food offerings in the afternoon that you're going to see us focused on going forward.

And the good news now, too, is our staffing levels are no longer at just minimum staffing once you get to around 11:00, 12:00. We now are staffed correctly where we can better service the business in the afternoon, too. And so I think just like what we saw in the morning, you get better staff in the morning, you get better throughput, you get better customer connection, we get better business results. The same thing is happening in the afternoon, and that was kind of the second and third phases of the Green Apron Service model was we first rolled out the additional staffing in the morning, then we brought it into the afternoon. And I think we're seeing the sequential improvement accordingly. But we've always said we want to win the morning and then we'll grow our way into afternoon. And that's exactly what I think you're seeing the business do.

Operator

And your next question comes from Brian Harbour with Morgan Stanley.

Brian Harbour

Morgan Stanley, Research Division

The investments associated with that, I guess I'm referring specifically to kind of added staffing, right? Is that in place by this point? Or I guess when you talk about leveling up Green Apron Service, could you talk about what that means from sort of an incremental investment perspective at this point? And then I guess just also on the product cost side of things as we go into '26, could you talk about -- I think you've targeted some savings here. Obviously, there's also sort of commodity inflation. Can you talk about how those things may balance each other out or not?

Brian Niccol

Chairman & CEO

Yes. So we've made kind of our initial investment into the Green Apron Service model. And now as it becomes our operating standard, we really will earn our way into the additional labor that comes with the growth. So we don't foresee additional investments, I would say, to be able to make the Green Apron Service standard come to life. And then on your second question in regard to commodity or coffee prices, obviously, coffee prices have not retreated. They still have stayed elevated, and we're dealing with that accordingly. We're trying to find offsets where we can in the business. But hopefully, we'll start to see that recede, but it hasn't happened yet. Cathy, I don't know if you want to add anything to that.

Catherine Smith*Executive VP, CFO & Principal Accounting Officer*

Yes, maybe just a little bit more on the investment in Green Apron Service. It started to roll out. We've been ramping it through our test program. And then it started to roll out more, obviously, earnestly in August. So you'll see that continue to annualize into the early parts of this year. We've got the full investment in the stores, but they will need to continue to annualize. So you'll see that. And then ASMs, or the assistant store managers, or coffeehouse leaders, we did say that those -- we would lag that investment a little bit. We started with our initial pilot. They're all hired, and we'll start to roll that. And there's a little bit of a differential there, which we talked about, too. On the product inflation, expect coffee to continue to be a headwind at least through half a year, all of our best thinking would say that we're going to start to see some relief at the back side of the year.

Operator

Your next question comes from Sara Senatore with Bank of America.

Sara Senatore*BofA Securities, Research Division*

I wanted to ask about the coffeehouses that you're closing, you said they didn't demonstrate a viable path to profitability, but I wasn't sure if that's because AUVs are lower, or the costs are higher. Just trying to think through like sales transfer. And in that context, Cathy, as you think through the margin for the business over time, should I be thinking about like lower restaurant level margins but also lower G&A to get back to kind of operating margins that look similar to where they were maybe pre-COVID? So just sort of the impact of store closures on top line and margins and then margin over time.

Catherine Smith*Executive VP, CFO & Principal Accounting Officer*

Yes. So first off, we looked at, obviously, our entire portfolio to say, can it first represent the customer experience we want going forward? That was the most important criteria. Then we also ran a financial filter, as you would expect on, can it also give us a return that we would be proud of? And the combination of those got us to the closures, which we don't take lightly. And to your point, as we said in the prepared remarks, it's going to be slightly accretive to our profitability going forward because they were unprofitable.

To answer your question on why is that? It's a combination. But at the end of the day, what makes a coffeehouse a great coffeehouse is that you have to grow top line. So you've got to have a great top line. Generally, when we stood up those coffeehouses, they had a good -- they were a good investment. They had a good occupancy. We expected the right labor. So it really starts with the top line. And if we can't get the top line or the revenue where it should be, that typically makes the coffeehouse not viable. So I'm not saying there aren't some nuances in occupancy and labor and all that, but the biggest one is top line. So then to answer your question -- and by the way, on transfer, we do see some transfer. We've been pleased it's been a little higher than we expected which is great. And we kept great density wherever we could. So we are seeing some sales transfer.

Going forward though to your question, first off, I'll put a plug to our Investor Day. We're excited to see everyone at the end of January for our Investor Day, where we will lay out a more complete financial algorithm and picture. But to think about what do we need to be true going forward for our coffeehouses, they've got to be a great return. So we've got to get an AUV. By the way, there's a pretty big spread in average unit volumes that we can make in a viable coffeehouse, but we have to get a good top line store, and then we'll make sure that we sign up that pro forma with a great P&L coming through it. So I say that because I wouldn't expect holistically big differences in the future. We've got to have great coffeehouses, and that'll drive the sales.

Operator

And your next question comes from Jeffrey Bernstein with Barclays.

Jeffrey Bernstein

Barclays Bank PLC, Research Division

Great. Cathy, I appreciate the qualitative color in your prepared remarks, and I think you actually just alluded to more of an update in late January at Investor Day seemingly around earnings. But I'm just wondering if you can share any thoughts on fiscal '26 and longer term, whether there's any guardrails you can share today, top or bottom line as we think about the comps maybe returning modestly positive and the profitability that comes from that.

And just as a tie-in to that, I mean, I know there was often talk about cost savings in the past. I don't know if there's any kind of ballpark range as you've had more time to think about it of potential savings or maybe the greatest buckets of opportunity. I know former leadership used to talk a lot about the dollar opportunity per year or whatnot, but any early thoughts on either the top and bottom line and the cost savings surrounding that?

Catherine Smith

Executive VP, CFO & Principal Accounting Officer

I'm going to, I'm sure, completely disappoint you in my response. First off, we'll give you 2026 and longer-term guidance at our Investor Day. We hope to see you there. But as you can imagine, Brian already shared, we're really excited that we've now gone from 6 quarters of negative comps to a positive in our seventh quarter, and we hope to build from here. And so it starts with top line. We hope to continue to see those transactions grow, and we are optimistic there. We've got the right plan in place that Brian has outlined. So I would say that. And then over time, earnings are going to lag. So we've said that you grow top line first and then the earnings will follow. We are taking all the necessary actions now, though, to make sure that every single transaction is more profitable going forward. And that's where I would leave it for now.

Operator

And your next question comes from Andrew Charles with TD Cowen.

Andrew Charles

TD Cowen, Research Division

I'm curious how the improved value perceptions play into your 2026 pricing plans and if pricing is contemplating your belief that '26 same-store sales should build through the year. And then, Cathy, just separately, the past 2 calls, you've helped set the stage on the current quarter outlook, not guidance, but more outlook for North America same-store sales. And I'm wondering if you could provide some help just on how to model that for 1Q.

Brian Niccol

Chairman & CEO

So to answer your first question on value and worth it, obviously, it's great to see our value scores moving up and is the brand worth paying for also moving up. We always are keeping an eye on our value proposition. As we think about pricing going forward, we're going to be very strategic, very targeted with and when we use it. I don't envision us just doing broad-scale pricing across our menu. So obviously, we'll continue to monitor what happens with the inflation that we have to deal with, both wage and commodities. And then we'll be smart about the growth that we get. And if we need to use that lever of pricing, obviously, we'll always keep an eye on what happens with our value rating scores as we -- if we have to move on pricing going forward. Maybe second part of the question I'll give to Cathy.

Catherine Smith

Executive VP, CFO & Principal Accounting Officer

Yes. On Q1, Andrew, so we did share in the prepared remarks, we were pleased that September had turned positive, and that trend had continued through October. So that's a good way to start thinking about the quarter. And so we would expect the quarter to be led by positive transaction comps. And as I have shared before, obviously, earnings are going to lag as we continue to annualize now that Green Apron Service investment that we've been making. We will start to see some of the offset coming through in some of the cost structure work we've done. But just it's premature to give guidance, but I would say top line growth led, and earnings will lag even versus -- obviously, not to the extent we have in the past.

Operator

Your next question comes from Christine Cho with Goldman Sachs.

Hyun Jin Cho

Goldman Sachs Group, Inc., Research Division

You mentioned that the college and campuses are doing well in the quarter, but there are some broad concerns about the macro pressures on the younger consumers. Are you able to comment on how the consumer spending behavior evolved with that younger consumer cohort under age 35 over the last few months and how that informs kind of your go-forward strategy? Do you view this as kind of an increasing headwind for the coffee industry in the near term?

Brian Niccol

Chairman & CEO

I would just say, as we look at every kind of generational cohort, we have seen a really nice response, both in transactions and sales over this most recent quarter. And what we know we have to do is we have to deliver a great experience for these customers because I think they are going to be more choiceful with where they choose to spend their dollars. But that's why I think it's so important that when they do choose to spend their dollar with Starbucks, they walk away feeling like that was worth it, and they got a good value. And that's what we're continuing to see happen. Definitely in the morning daypart and then as throughout the balance of the day goes, we continue to strive to make sure we give them a great experience. So they say, you know what, that was a good way to spend my dollar. And that's what we saw over the quarter, and I think it was reflected in kind of the movement we saw in transaction growth.

Operator

Your next question comes from Andy Barish with Jefferies.

Andrew Barish

Jefferies LLC, Research Division

You mentioned some work on the last call and then reiterated the license business. Can you kind of give us a sense coming out of your meetings with them, what's going on there? And is there an opportunity maybe to sort of streamline that business to help the company-owned stores?

Brian Niccol

Chairman & CEO

Yes. Well, as you would expect, we took a hard look at both our strategy and structure. And what we've realized is there's a real opportunity for continued growth in our license business. And we also think there is a different way of working with our license partners that will set us up for success. So that's why we also had to do some of the restructuring work in how we support that business. But we do believe there's the opportunity for us to grow from a unit standpoint.

And we've got some terrific partners, some that are at small scale and others that are big scale. And we're focused on making sure that we build the right next kind of set of units and that they get operated up to the Green Apron Service standard going forward. So that was really what this whole license summit was about. We have to provide some tailoring to the execution for the certain channels. But for the most part, I think the licensor and the licensee in this case, both believe there's tremendous growth to be had in our license business.

Operator

The last question comes from Chris O'Cull with Stifel.

Christopher O'Cull

Stifel, Nicolaus & Company, Incorporated, Research Division

Brian, how is Starbucks impacted by just increased competition from all the emerging beverage brands, especially maybe in the markets where you do have a significant amount of overlap? I'm just trying to understand how you guys are thinking about this new group of beverage concepts.

Brian Niccol

Chairman & CEO

Yes. Look, I think the way I have been approaching it is we got to be on our best offense and our best offense is to make sure that we stand for the craft around our coffee and drinks and food and then the customer connection and experience that we provide. The good news is we provide all the access modes that all these new emerging concepts provide. Now I already have the biggest drive-thru coffee chain in America. I already have the biggest mobile order and digital coffee business in America. And I also have the biggest cafe coffee business in America. And one thing I learned early in my career is scale matters, and we have scale in all those access points. And then we also, I believe, have a unique positioning around the craft and connection and the customer experience that we provide. So what I believe is we got to be on our best offense, and I think competition will make us better. And I've asked our organization to be focused that way where we need to be better than we were yesterday, and that's how I know we're on our best offense.

Operator

That was our last question. I will now turn the call over to Brian Niccol for closing remarks.

Brian Niccol*Chairman & CEO*

All right. Well, thank you for all the questions. And look, I want to -- I appreciate everybody joining because I know this is a busy day of earnings. So thank you for joining. But as we wrap up, I want to leave you with 3 things. First, we made real progress in fiscal 2025. Okay. We worked really quickly to execute the Back to Starbucks strategy. We accelerated things we knew were working like Green Apron Service, and we've seen momentum build across our U.S. business. And I think we have a clear line of sight on the growth that's in front of us in our U.S. business. It's also nice to see that our China business is back to growth. And you know what, we're seeing tremendous opportunities for growth around the globe.

Second, I do want to point out because this is kind of David Palmer's initial question. Back to Starbucks is not a slogan. It is -- it's an enduring model for growth that frankly is centered on customers and it's going to be driven by our partners in our stores and it's for every access mode that people want to experience Starbucks. And it really is getting us back to what we do best, which is exceptional craft, genuine connection and welcoming community coffeehouses.

And third, I think on our fourth quarter results, it gives us confidence that we really have turned the page to a new chapter in our turnaround. Our work is to be the world's best customer service company, and we want to have the best job in retail. And I think the fourth quarter marked kind of a turn for us in our U.S. operations. So clearly not declaring any victory. We still have a lot of work in front of us, but it's clear we're moving in the right direction. And I believe we're in the process of building the best Starbucks yet. So have a great day. Thanks for joining. And obviously, we'll be talking to you in January. Take care.

Operator

This concludes Starbucks' Fourth Quarter Fiscal Year 2025 Conference Call. You may now disconnect.

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