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Starbucks Net Climbs; Annual Profit Forecast Raised

By Courtney Dentch

Nov. 5 (Bloomberg) -- [Starbucks Corp.](#), the world's largest coffee-shop operator, increased its 2010 profit forecast and said fourth-quarter profit jumped as cost cuts expanded margins. The shares rose 3.6 percent in late U.S. trading.

[Net income](#) rose to \$150 million, or 20 cents a share, from \$5.4 million, or 1 cent, a year earlier, the Seattle-based company said today in a statement. Earnings excluding some items beat analysts' estimates by 3 cents. Sales fell 3.7 percent to \$2.42 billion in the quarter ended Sept. 27.

Starbucks cut \$580 million in costs this year by closing about 900 stores, eliminating jobs and reducing leftover food and coffee. The company increased its operating [margin](#) 7.6 percentage points to 8.2 percent in the quarter. Sales at U.S. stores open at least a year fell 1 percent, less than analysts estimated following promotions including \$1.95 iced coffee.

"They've found religion as far as expense management, and they've taken great strides to right-size their domestic store base," [Tom Forte](#), a restaurant analyst with Telsey Advisory Group in New York, said in a telephone interview. "If we see a continued period of weakness in consumer spending, I wouldn't be surprised to see additional cost-cutting moves."

The company forecast earnings per share will rise as much as 20 percent, implying adjusted per-share profit of as much as 96 cents. In July, the chain projected a gain of as much as 18 percent. Starbucks expects revenue to climb in the "low to mid- single digits" on a percentage basis as it adds 100 cafes in the U.S. and 200 overseas.

Shares Advance

[Starbucks](#) climbed 70 cents to \$20.40 at 6:07 p.m. after the close of regular trading on the Nasdaq Stock Market. It rose 49 cents, or 2.6 percent, to \$19.70 today before the earnings release. The shares have more than doubled this year.

Earnings excluding restructuring charges totaled 24 cents a share. The average of 15 analysts' estimates compiled by [Bloomberg](#) was 21 cents. Analysts projected sales of \$2.38 billion. For fiscal 2010, they estimated profit of 92 cents and sales of \$9.95 billion.

Analysts predicted the drop in fourth-quarter comparable- store sales in the U.S. would slow to 2.9 percent, the average of five estimates compiled by Bloomberg. This is the third consecutive quarter that Starbucks has slowed decreases in sales at domestic stores open at least a year, after a drop of 10 percent in the first quarter.

International comparable-store sales were unchanged. Analysts predicted they would drop 2 percent.

Subway will start serving the chain's Seattle's Best Coffee as part of its breakfast menu, Starbucks Chairman and Chief Executive Officer [Howard Schultz](#) said on a conference call.

About 9,000 Subway restaurants will sell Seattle's Best Coffee by the end of 2009, and more of the sandwich chain's stores will probably offer it in 2010, he said. Seattle's Best Coffee will also be served at more than 800 Subway restaurants in Canada by the end of this year, he said.