Starbucks decline eases after coffee chain updates outlook

STARBUCKS Corp. shares pared an earlier loss in late trading after the company released an updated forecast that only projects a slight impact on profits despite a surge in costs related to labor and the ongoing pandemic.

The company now sees earnings per share falling 4% to 6% in its current fiscal year, versus a prior view that it would decline 4% or less. The change to its guidance on operating margin — a gauge of profitability — was also modest. Starbucks reiterated its earlier projection for revenue and comparable-store sales.

"With the cost pressures we're being proactive," Chief Executive Officer Kevin Johnson said in a call with analysts following the release of quarterly results. The company will continue increasing menu prices this year, after already hiking them on Oct. 1 and Jan. 1. It's also working to automate certain in-store tasks while adding more drive-thru and smaller locations, which have proved to be more cost-effective.

The shares fell less than 1% at 6:09 p.m. in extended trading in New York. The stock dropped 16% in January, three times the decline of the S&P 500 Index.

Starbucks faces a barrage of higher expenses, including higher-than-anticipated isolation pay and training for workers. The Seattle-based company has already said it's raising wages this year across the US to $17 an hour on average in a bid to retain employees. And like companies around the world, Starbucks is also fighting off supply-chain disruptions that have added complexity to its operations.

Earnings per share for the company's fiscal first quarter were 72 cents, after excluding some items. That's below the estimate of 80 cents compiled by Bloomberg. Operating margin also came in below expectations.

In the report, Mr. Johnson noted that inflationary pressure was higher than expected, while adding that demand remained strong. Revenue of nearly $8.1 billion outpaced analysts' estimate of just under $8 billion. Both the number of transactions and the size in average checks increased in North America.

In China — Starbucks's other key market — government restrictions and virus resurgences hurt results, with comparable sales declining 14%, compared to an expected 9.3% drop. The company said value-added tax exemptions in China a year earlier trimmed the number by about 4 percentage points. It now has more than 5,500 total stores in the country.

LETTER TO EMPLOYEES

Separately, Mr. Johnson sent a letter to employees reassuring them that the company will assume whatever costs are needed to ensure their safety.

"We're not wavering on our commitment of prioritizing the health and safety of our partners and customers, even when the costs of doing so might put short-term pressure on our margins and earnings," Mr. Johnson said in the letter. To achieve this, he said Starbucks "is hiring more and more partners" while adapting its store protocols and offering pay for workers who were forced to isolate after exposure to the virus.

Starbucks is facing an unprecedented unionization drive at its restaurants as elections that started in a handful of locations in the Buffalo, New York, area have spread around the nation. — ***Bloomberg***

GOP opposition in House puts US-China competition bill at risk

GROWING Republican criticism risks complicating passage of a once-bipartisan bill intended to make the US economy more competitive, saying it goes too easy on China even as it aims to aid the domestic semiconductor industry.

House Democrats are planning a vote this week on their version of the legislation, which would then be merged with a bipartisan $250-billion Senate version that passed last June.

While Democrats have the votes to push the legislation through the House, GOP opposition in that chamber is likely to spill over into the Senate, where Republican support is needed for passage, as the two chambers try to merge the two bills into one piece of legislation.

Both bills are meant to address a widely agreed-upon need to bolster US manufacturing, research and development and ease the dependence on China for semiconductors.

The House legislation includes $52 billion to support domestic chip research and production amid a global semiconductor shortage, as well as authority for $45 billion to improve the nation's supply chains to prevent shortages of critical goods. It also would set up programs to increase science, technology, engineering, and mathematics education and training.

But provisions on trade in the House version have led to GOP complaints that the legislation doesn't do enough to rein in China. They also object to some climate provisions.

"This bill is an attempt to look tough on China without taking any real action," said GOP Representative Steve Chabot of Ohio. "This is a desperate political ploy in anticipation of the mid-term" elections later this year.

Chabot, Representative Michael McCaul and others also oppose some of the climate spending in the bill. Mr. McCaul, a Texas Republican who sponsored the provision to provide $52 billion in assistance to the chip industry, said the House bill doesn't include any meaningful curbs on intellectual property theft attempts or address China's record on human rights.

The Biden administration backs passage of the House legislation. If a deal is struck between the House and Senate, the resulting legislation would mark a significant victory for President Joseph R. Biden as his party is facing the potential of losing control of Congress in the November midterm elections.

The bill set for a procedural vote on the House floor on Wednesday with a vote on passage likely on Friday, according to a Democratic aide.

The House bill has some significant differences with the Senate version. While the Senate bill has GOP support, Republican leaders in the House were urging their members to vote against it when it comes to the floor.

Commerce Secretary Gina Raimondo has been lobbying GOP lawmakers. Her message to Republicans has been, while they may not like every part of the bill, it's important to pass it and get to negotiations with the Senate, where they can make changes.

Representative Pramila Jayapal of Washington State, the leader of the Congressional Progressive Caucus, said Tuesday that the caucus has priorities for the bill, including "making sure that we get money out to minority and disadvantaged business owners" and prohibiting the use of assistance money for stock buybacks and executive compensation.

"Things look pretty good for those so I think it should be O.K.," she said.

Senator Todd Young, an Indiana Republican, who was a main sponsor of the Senate bill with Majority Leader Chuck Schumer, said he had "qualified optimism" that the issues could be worked out in negotiations between the two chambers.

"I've spoken to a number of my former colleagues in the House and though they are publicly — and I think privately — disappointed in the House's work product, they understand that the reason it was done in that fashion was to expedite its completion," he said. "And they're hopeful that we can produce something they can vote for in the end." — ***Bloomberg***

Thailand poised to join global rush for virtual banks

THAILAND is preparing rules for the setting up of virtual banks, set to join countries from Singapore to Malaysia in promoting financial technology to spur competition and wider access to banking services.

The Bank of Thailand (BoT) plans to issue the guidelines for digital banks by June and may allow existing lender and new applicants to seek licenses, Assistant Governor Roong Mallikamas said at a virtual briefing Tuesday. The central bank also plans to scrap a limit on investment by commercial banks in financial technology, except digital assets, she said.

Thailand is the latest country in Asia to embrace the concept of virtual lenders as companies like Ant Financial Services Group and Grab Holdings, Inc. scour the region for investment opportunities. While Thailand lacks independent virtual banks, local and foreign lenders do offer various digital services in the country, including payments. The BoT will also expand the business scope and flexibility of existing banks, it said.

"We expect to see more competition and innovations by allowing virtual banking and it will benefit depositors," Ms. Roong said. "No one will stay still. Existing players will also adjust."

Under a public consultation titled "Repositioning Thailand's Financial Sector for a Sustainable Digital Economy," BoT said it proposes to provide more players access to key financial infrastructure such as the payment system and credit guarantee mechanism at more fair and reasonable costs. The central bank will also finalize guidelines to steer the financial sector to incorporate environmental risk assessment into business operations and support the transition of companies away from unsustainable activities. — ***Bloomberg***