



Starbucks Corporation (SBUX)

Updated November 3rd, 2018 by Ben Reynolds

Key Metrics

Current Price:	\$64	5 Year CAGR Estimate:	10.2%	Volatility Percentile:	17.1%
Fair Value Price:	\$58	5 Year Growth Estimate:	10.0%	Momentum Percentile:	62.8%
% Fair Value:	110%	5 Year Valuation Multiple Estimate:	-2.0%	Growth Percentile:	88.4%
Dividend Yield:	2.2%	5 Year Price Target	\$95	Valuation Percentile:	33.3%
Dividend Risk Score:	B	Retirement Suitability Score:	B	Total Return Percentile:	57.3%

Overview & Current Events

Starbucks is a global coffee retailer founded in 1971 with more than 29,000 stores in 78 countries. The company is the 2nd largest publicly traded 'restaurant' stock based on its \$88 billion market cap. Only McDonald's (MCD) is larger based on its \$139 billion market cap.

Several relevant events occurred since our last update. On August 1st, Starbucks announced a partnership with Alibaba (BABA) to create a 'seamless Starbucks experience' in China. Central to the announcement was a partnership with Alibaba's Ele.me for delivering Starbucks on-demand in more than 30 cities from more than 2,000 Starbucks locations.

On August 28th, Starbucks and Nestle closed a deal for Nestle to license Starbucks' consumer packaged goods and foodservice products globally, outside of the company's coffee shops. This brings together the Starbucks, Nespresso, and Nescafe brands. The agreement covers Starbucks' packaged coffee and tea brands. On a related note, on October 12th, Starbucks announced a special accelerated share repurchase program using proceeds from the aforementioned Nestle deal. Starbucks is repurchasing \$5 billion (5.7% of market cap at current prices) between October and the end of March.

Then, on October 8th, Starbucks announced Patrick Grismer will replace Scott Maw (who is retiring on November 30th) as the CFO of Starbucks. Grismer's previous roles include CFO of Yum! Brands (YUM) and CFO of Hyatt (H).

On October 18th, Starbucks announced plans to fully license its operations in France, The Netherlands, Belgium, and Luxembourg to Alsea (ALSEA), who is the largest independent chain operator in Latin America, and a long-time partner with Starbucks in operating licensed stores. The deal is meant to improve growth in the aforementioned countries.

Finally, on November 1st, Starbucks announced 4th quarter and fiscal 2018 results. Revenue for the 4th quarter grew 11% year-over-year, comparable stores growth was 3% overall and 4% in the United States, and adjusted earnings-per-share grew 13% year-over-year. For the full fiscal year, revenue grew 10% and adjusted earnings-per-share grew 17%.

Starbucks expects adjusted earnings-per-share for fiscal 2019 to be \$2.635 at the median, growth of 8.9% versus fiscal 2018. Starbucks' stock responded positively, gaining 9.7% the trading day after the earnings release.

Growth on a Per-Share Basis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
EPS	\$0.40	\$0.64	\$0.76	\$0.90	\$1.13	\$1.36	\$1.58	\$1.91	\$2.06	\$2.42	\$2.63	\$4.33
DPS	----	\$0.12	\$0.26	\$0.34	\$0.42	\$0.52	\$0.64	\$0.80	\$1.00	\$1.32	\$1.56	\$2.57
Shares	1486	1485	1490	1499	1506	1499	1485	1461	1432	1349	1300	1116

Starbucks closed fiscal 2018 with adjusted earnings-per-share of \$2.42, just ahead of our prior estimate of \$2.41. The company's guidance calls for adjusted earnings-per-share of \$2.635 in fiscal 2019, growth of 8.9% at the midpoint.

Starbucks' previously stated goal is 12% long-term adjusted earnings-per-share growth. This goal seems increasingly unlikely due to the sheer size of Starbucks. With that said, the company plans on opening more than 2,000 stores in fiscal 2019; there's still plenty of room for long-term growth for Starbucks internationally. In the United States, growth will be driven more by incremental improvements than new store openings. Share repurchases will also be a key growth driver in the future as Starbucks has been an avid repurchase recently. We believe growth of ~10% per year is more likely, resulting from sales growth (4% to 8%), share repurchases (2% to 3%), and margin improvements (0% to 3%).

Disclosure: This analyst is long SBUX.



Starbucks Corporation (SBUX)

Updated November 3rd, 2018 by Ben Reynolds

Valuation Analysis

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	Now	2024
Avg. P/E	26.4	16.0	18.7	22.8	27.5	26.5	27.9	30.2	30.4	27.7	24.3	22.0
Avg. Yld.	----	----	1.0%	1.5%	1.4%	1.4%	1.4%	1.3%	1.4%	1.8%	2.2%	2.7%

Starbucks has always enjoyed a premium valuation. As a result, its 10-year average P/E ratio is 25.4 (a time period that includes low price-to-earnings ratios in 2009 and 2010). Starbucks grew EPS from 2010 through 2017 at an 18% annualized rate. This level of growth is not likely to occur moving forward, meaning the valuation should contract.

We believe a P/E ratio of 22 makes sense for a high quality, recession resistant business with double-digit growth prospects in today's market environment. Starbucks is currently trading for a P/E ratio of 24.3, meaning it is a bit overvalued. We expect valuation multiple contraction to reduce annual total returns by 2.0% over the next 5 years.

Safety, Quality, Competitive Advantage, & Recession Resiliency

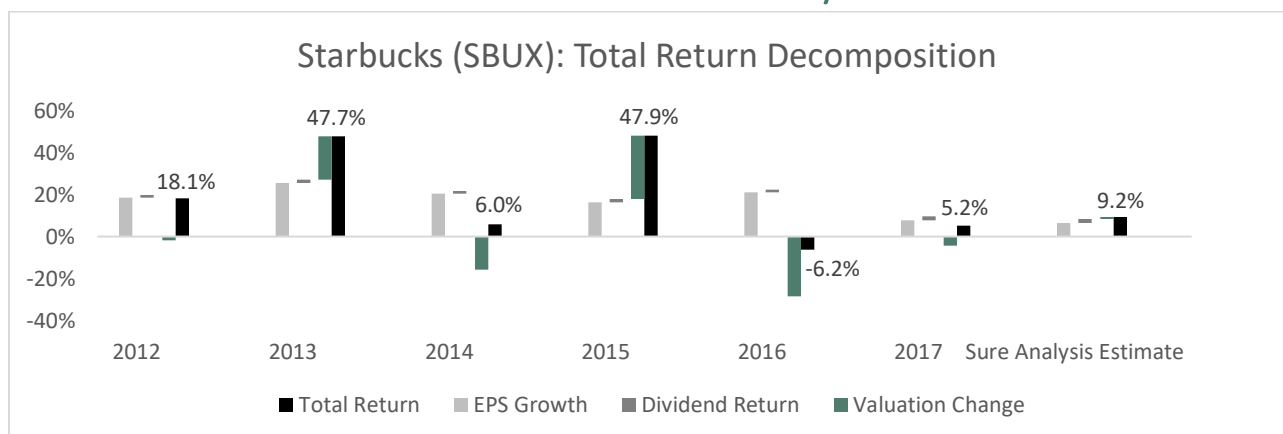
Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2023
GP/A	32.4%	33.4%	33.0%	31.8%	30.8%	34.9%	43.0%	44.6%	45.5%	43.3%	45.0%	45.0%
Debt/A	78.6%	71.9%	70.2%	72.9%	74.9%	74.3%	95.3%	101%	101%	95.8%	98.0%	100%
Int. Cov.	10.1	11.4	12.5	9.5	9.0	11.2	9.5	5.9	10.8	10.7	11.7	12.0
Payout	55.9%	52.7%	58.0%	69.2%	67.0%	58.6%	85.9%	127%	61.4%	62.2%	58.1%	55.0%
Std. Dev.	31.4%	21.1%	13.6%	14.9%	11.4%	16.3%	15.0%	18.1%	15.8%	14.2%	18.0%	16.0%

Starbucks sells an addicting product (caffeine, plus high amounts of fat and sugar in many of its beverages) combined with a well-respected brand. This allows Starbucks to sell its coffee at premium prices and generate repeat business from customers. Starbucks is by far the largest coffee shop business in the world and has a strong and durable competitive advantage. Moreover, the company is recession resistant. Starbucks earnings-per-share fell just 18% from 2007 to 2008, grew in 2009, and recovered to an all-time (at the time) high by 2010.

Final Thoughts & Recommendation

Starbucks has gone from undervalued, to fairly valued, and now to slightly overvalued after returning ~30% since lows in July. Starbucks is only slightly overvalued, and still has 10.2% expected total return potential from growth (10%), dividends (2.2%), and partially offset by valuation multiple contraction (-2.0%). We recommend this high quality, recession resistant dividend growth stock as a hold at current prices. If the price falls to fair value, it will be a buy.

Total Return Breakdown by Year



[Click here to rate and review this research report. Your feedback is important to us.](#)

Disclosure: This analyst is long SBUX.



Starbucks Corporation (SBUX)

Updated November 3rd, 2018 by Ben Reynolds

Income Statement Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Revenue	9775	10707	11700	13277	14867	16448	19163	21316	22387	24720
Gross Profit	5450	6291	6785	7464	8485	9589	11375	12805	13349	14545
Gross Margin	55.8%	58.8%	58.0%	56.2%	57.1%	58.3%	59.4%	60.1%	59.6%	58.8%
SG&A Exp.	3878	4177	749	801	938	991	1197	1361	1393	1759
D&A Exp.	563	541	550	581	656	748	934	1030	1067	1306
Operating Profit	773	1324	1525	1787	2207	2793	3351	3854	3897	3807
Operating Margin	7.9%	12.4%	13.0%	13.5%	14.8%	17.0%	17.5%	18.1%	17.4%	15.4%
Net Profit	391	946	1246	1384	8	2068	2757	2818	2885	4518
Net Margin	4.0%	8.8%	10.6%	10.4%	0.1%	12.6%	14.4%	13.2%	12.9%	18.3%
Free Cash Flow	943	1259	1081	894	1757	-553	2445	3135	2655	9961
Income Tax	168	489	563	674	-239	1092	1144	1380	1433	1262

Balance Sheet Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Total Assets	5577	6386	7360	8219	11517	10753	12416	14313	14366	24156
Cash & Equivalents	600	1164	1148	1189	2576	1708	1530	2129	2462	8756
Accounts Receivable	271	303	387	486	561	631	719	769	870	693
Inventories	665	543	966	1242	1111	1091	1306	1379	1364	1401
Goodwill & Int. Ass.	327	333	434	543	1138	1130	2096	2236	1981	4584
Total Liabilities	2520	2704	2973	3105	7034	5479	6597	8422	8909	22981
Accounts Payable	267	283	540	398	492	534	684	731	783	1179
Long-Term Debt	549	549	550	550	1299	2048	2348	3585	3933	9440
Shareholder's Equity	3046	3675	4385	5109	4480	5272	5818	5884	5450	1170
D/E Ratio	0.18	0.15	0.13	0.11	0.29	0.39	0.40	0.61	0.72	8.07

Profitability & Per Share Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Return on Assets	6.9%	15.8%	18.1%	17.8%	0.1%	18.6%	23.8%	21.1%	20.1%	23.5%
Return on Equity	14.1%	28.1%	30.9%	29.2%	0.2%	42.4%	49.7%	48.2%	50.9%	137%
ROIC	10.6%	24.1%	27.2%	26.1%	0.1%	31.6%	35.6%	31.9%	30.6%	45.2%
Shares Out.	1486	1485	1490	1499	1506	1499	1485	1461	1432	1349
Revenue/Share	6.55	7.01	7.60	8.59	9.75	10.78	12.66	14.34	15.32	17.73
FCF/Share	0.63	0.82	0.70	0.58	1.15	-0.36	1.62	2.11	1.82	7.14

Note: All figures in millions of U.S. Dollars unless per share or indicated otherwise.

Disclaimer

Nothing presented herein is, or is intended to constitute, specific investment advice. Nothing in this research report should be construed as a recommendation to follow any investment strategy or allocation. Any forward-looking statements or forecasts are based on assumptions and actual results are expected to vary from any such statements or forecasts. No reliance should be placed on any such statements or forecasts when making any investment decision. While Sure Dividend has used reasonable efforts to obtain information from reliable sources, we make no representations or warranties as to the accuracy, reliability or completeness of third-party information presented herein. No guarantee of investment performance is being provided and no inference to the contrary should be made. There is a risk of loss from an investment in marketable securities. Past performance is not a guarantee of future performance.