



Starbucks Corporation (SBUX)

Updated April 26th, 2019 by Eli Inkrot

Key Metrics

Current Price:	\$76	5 Year CAGR Estimate:	7.6%	Volatility Percentile:	32.9%
Fair Value Price:	\$61	5 Year Growth Estimate:	10.0%	Momentum Percentile:	88.9%
% Fair Value:	125%	5 Year Valuation Multiple Estimate:	-4.3%	Growth Percentile:	91.5%
Dividend Yield:	1.9%	5 Year Price Target	\$98	Valuation Percentile:	20.7%
Dividend Risk Score:	C	Retirement Suitability Score:	D	Total Return Percentile:	41.1%

Overview & Current Events

Starbucks, which began with a single store in Seattle's Pike Place Market in 1971, now has 30,184 stores in 78 markets. The company operates under the namesake Starbucks brand, but also holds the Seattle's Best Coffee, Teavana, Evolution Fresh, and Ethos Water brands in its portfolio. The \$95 billion market cap company is anticipated to generate over \$26 billion in revenue and earn over \$3.3 billion in profit this year.

On April 25th, 2019 Starbucks announced Q2 2019 fiscal year results for the period ending March 31st, 2019. Global comparable sales increased 3%, driven by a 3% increase in the average ticket. Net revenues totaled \$6.3 billion, a 4.5% increase compared to Q2 2018, helped by 319 net new stores being opened – 94% of which were outside of the U.S. These new stores increased Starbucks' total store count to 30,184. Adjusted earnings-per-share came in at \$0.60, representing a 13% year-over-year increase.

Starbucks also updated its fiscal 2019 guidance. The company reiterated its expectation of opening 2,100 net new stores globally (roughly 600 each in the U.S. and China) and growing revenue in the 5% to 7% range. GAAP EPS is anticipated to be in the \$2.40 to \$2.44 range (up from \$2.32 to \$2.37 previously), while non-GAAP EPS is expected to total \$2.75 to \$2.79 (compared to previous guidance of \$2.68 to \$2.73). As such, we have increased our expectation slightly for this year as well.

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	\$2.77	\$4.46
DPS	---	\$0.12	\$0.26	\$0.34	\$0.42	\$0.52	\$0.64	\$0.80	\$1.00	\$1.26	\$1.48	\$2.40
Shares	1,486	1,485	1,490	1,499	1,506	1,499	1,485	1,461	1,432	1,309	1,250	1,100

Starbucks has put together a terrific operating record, growing earnings-per-share by roughly 18% per annum dating back to 2010. Of course this fantastic growth of the past makes future growth a bit harder to replicate. The company's operating margin has gone from 12% to 23% and the net profit margin has gone from 5% to 14%, while the company-owned store count has jumped from 9,200 to over 15,000. Somewhat paradoxically, it gets harder and harder to improve as the business becomes more and more impressive. Still, management has the expectation of non-GAAP earnings growing by at least 10% annually, which we believe is a reasonable starting point over the intermediate-term. Certainly there are a number of international expansion options that are still in the early innings for the business.

Valuation Analysis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	Now	2024
Avg. P/E	16.0	18.7	22.8	27.5	26.5	27.9	30.2	30.4	27.7	23.2	27.4	22.0
Avg. Yld.	---	1.0%	1.5%	1.4%	1.4%	1.4%	1.3%	1.4%	1.8%	2.2%	1.9%	2.4%

Over the past decade shares of Starbucks have traded hands with an average P/E ratio of about 25 times earnings. However, this was during a time when the company's growth rate was much faster. Moving forward we have presumed a multiple of 22 times earnings, which still implies a premium valuation – reflecting the company's solid growth

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prospects and overall quality – but note that growth will be more and more difficult to formulate over time. At the current valuation, now trading over 27 times expected earnings, there is the possibility of a meaningful valuation headwind from this point. Meanwhile, the dividend component (non-existent 10 years ago) is becoming a larger factor for investor returns.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
Payout	---	19%	34%	38%	37%	38%	41%	42%	49%	52%	53%	54%

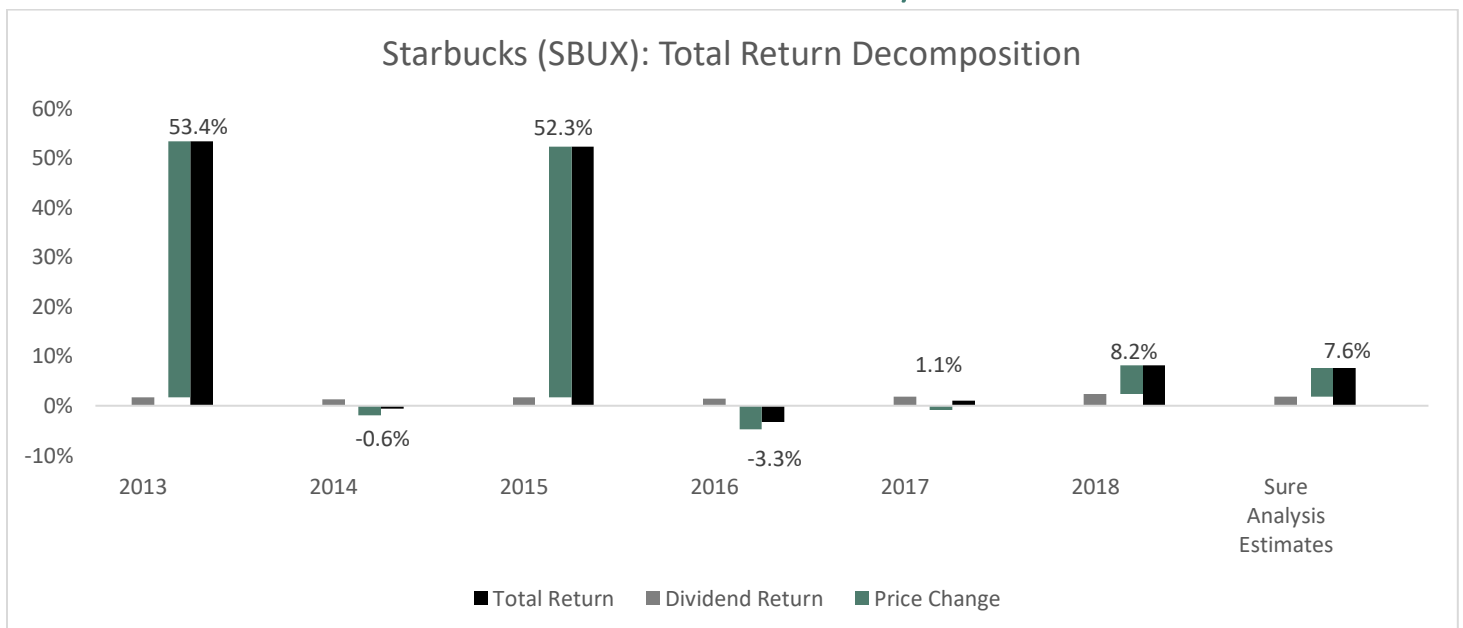
Starbucks sells an addicting product (caffeine, plus high amounts of fat and sugar in many of its beverages) combined with a well-respected brand. This allows Starbucks to sell its coffee at premium prices and generate repeat business from customers. Moreover, the company is recession resistant. From fiscal year 2007 to 2008, earnings-per-share fell 18%, before increasing by 11% and 60% in the next two years; earnings have climbed higher every year since.

At the end of 2018, Starbucks held \$8.8 billion in cash and equivalents and \$24.2 billion in total assets against \$5.7 billion in current liabilities and \$23.0 billion in total liabilities. Long-term debt stood at \$9.1 billion against underlying earnings power north of \$3 billion annually. While the dividend payout ratio has increased significantly (from nothing to now over half of earnings) Starbucks continues to maintain a solid financial position.

Final Thoughts & Recommendation

Shares are up 13% since our last update, while earnings expectations have improved a bit. Starbucks is one of those companies that you would love to own, with a terrific past, strong financial position, excellent brand and clear growth path ahead. Of course the problem is that everyone knows about these great attributes, resulting in a share price that has been bid up accordingly. This really equalizes the value proposition and turns a standout business into an average investment thesis when it comes to anticipated returns. We forecast 7.6% annual returns, comprising of a 10% intermediate-term growth rate and the company's 1.9% dividend yield offset by a 4.3% annual valuation headwind. We view this high quality, recession resistant dividend growth stock as a hold as a result of its valuation.

Total Return Breakdown by Year



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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.

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