



# Starbucks Corporation (SBUX)

Updated July 26<sup>th</sup>, 2019 by Eli Inkrot

## Key Metrics

<b>Current Price:</b>	\$97	<b>5 Year CAGR Estimate:</b>	2.9%	<b>Volatility Percentile:</b>	34.1%
<b>Fair Value Price:</b>	\$62	<b>5 Year Growth Estimate:</b>	10.0%	<b>Momentum Percentile:</b>	99.6%
<b>% Fair Value:</b>	157%	<b>5 Year Valuation Multiple Estimate:</b>	-8.6%	<b>Growth Percentile:</b>	90.9%
<b>Dividend Yield:</b>	1.5%	<b>5 Year Price Target</b>	\$100	<b>Valuation Percentile:</b>	6.0%
<b>Dividend Risk Score:</b>	C	<b>Retirement Suitability Score:</b>	D	<b>Total Return Percentile:</b>	16.0%

## Overview & Current Events

Starbucks, which began with a single store in Seattle's Pike Place Market in 1971, now has 30,626 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 \$118 billion market cap company is anticipated to generate over \$26 billion in revenue and earn \$3.5 billion in profit this year.

On July 25<sup>th</sup>, 2019 Starbucks announced Q3 2019 fiscal year results for the period ending June 30<sup>th</sup>, 2019. The company generated consolidated net revenues of \$6.8 billion, which grew 8% over the same period a year ago, driven by comparable store sales growth of 6%. The domestic segment showed an impressive 7% improvement aided by a 4% increase in the average ticket and a 3% increase in transactions. Starbucks opened 442 net new stores in the third quarter, yielding a new store count of 30,626, which represents 7% year-over-year growth. Nearly one-third of net new stores openings were in China, and a full 48% of them were in international markets. On the bottom line, Starbucks generated adjusted earnings-per-share of \$0.78, which increased by 26% over the same period a year ago.

Starbucks also updated its fiscal 2019 guidance. The company now expects to open 2,000 net new stores globally (previously 2,100 stores), with revenue growth of 7% (previously 5% to 7%). GAAP earnings-per-share is anticipated to be in the \$2.86 to \$2.88 range (up from \$2.40 to \$2.44) and adjusted earnings-per-share is expected to total \$2.80 to \$2.82 (up from \$2.75 to \$2.79).

## Growth on a Per-Share Basis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
<b>EPS</b>	\$0.40	\$0.64	\$0.76	\$0.90	\$1.13	\$1.36	\$1.58	\$1.91	\$2.06	\$2.42	<b>\$2.81</b>	<b>\$4.53</b>
<b>DPS</b>	---	\$0.12	\$0.26	\$0.34	\$0.42	\$0.52	\$0.64	\$0.80	\$1.00	\$1.26	<b>\$1.48</b>	<b>\$2.24</b>
<b>Shares</b>	1,486	1,485	1,490	1,499	1,506	1,499	1,485	1,461	1,432	1,309	<b>1,220</b>	<b>1,100</b>

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. Moreover, Starbucks continues to supplement strong comparable store growth with new locations.

## Valuation Analysis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	Now	2024
<b>Avg. P/E</b>	16.0	18.7	22.8	27.5	26.5	27.9	30.2	30.4	27.7	23.2	<b>34.5</b>	<b>22.0</b>
<b>Avg. Yld.</b>	---	1.0%	1.5%	1.4%	1.4%	1.4%	1.3%	1.4%	1.8%	2.2%	<b>1.5%</b>	<b>2.2%</b>

*Disclosure: This analyst has no position in the security discussed in this research report, and no plans to initiate one in the next 72 hours.*



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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 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 34 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%	49%

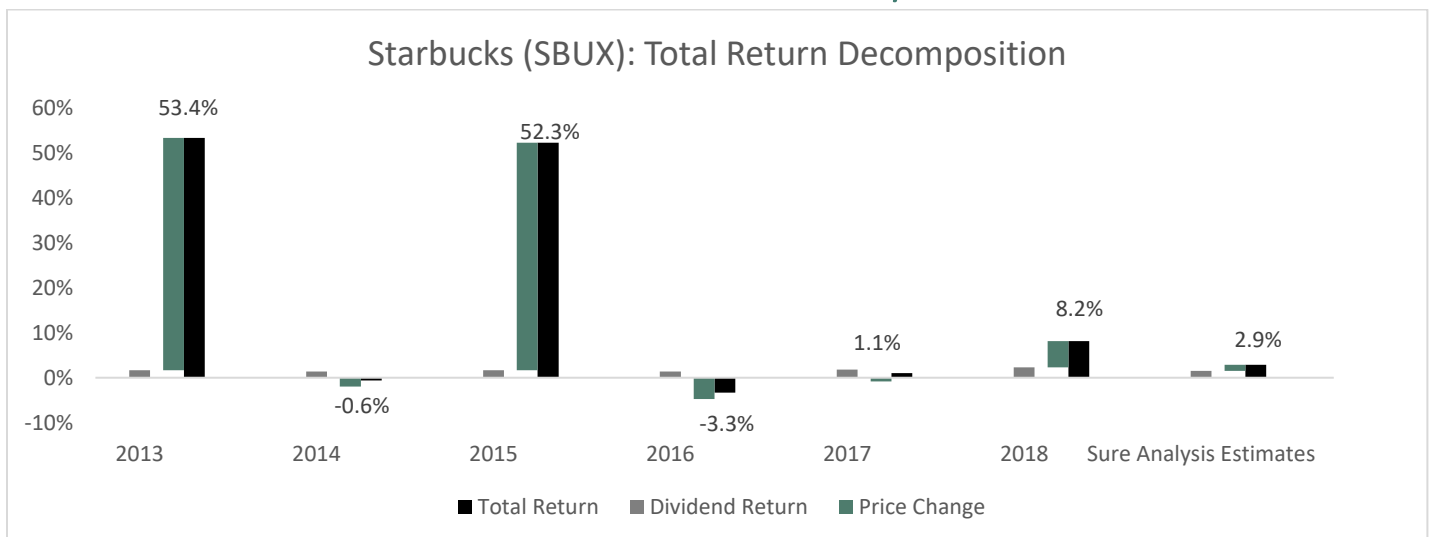
Starbucks sells an addicting product (caffeine, plus high amounts of fat and sugar in many of its beverages) combined with a well-respected brand. This allows Starbucks to sell its coffee at premium prices and generate repeat business from customers. Moreover, the company is recession resistant. From 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 Q2 2019, Starbucks held \$2.1 billion in cash and equivalents, \$4.9 billion in current assets and \$17.6 billion in total assets against \$5.2 billion in current liabilities and \$22.7 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 reasonable financial position.

## Final Thoughts & Recommendation

Shares are up an impressive 28% since our last update. 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 a mediocre or worse investment thesis when it comes to anticipated returns. We forecast just 2.9% annual returns, comprising of a 10% intermediate-term growth rate and the company's 1.5% dividend yield offset by an 8.6% annual valuation headwind. We view this high quality, recession resistant dividend growth stock as a sell 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
<b>Revenue</b>	9775	10707	11700	13277	14867	16448	19163	21316	22387	24720
<b>Gross Profit</b>	5450	6291	6785	7464	8485	9589	11375	12805	13349	14545
<b>Gross Margin</b>	55.8%	58.8%	58.0%	56.2%	57.1%	58.3%	59.4%	60.1%	59.6%	58.8%
<b>SG&amp;A Exp.</b>	3878	4177	749	801	938	991	1197	1361	1393	1759
<b>D&amp;A Exp.</b>	563	541	550	581	656	748	934	1030	1067	1306
<b>Operating Profit</b>	773	1324	1525	1787	2207	2793	3351	3854	3897	3807
<b>Operating Margin</b>	7.9%	12.4%	13.0%	13.5%	14.8%	17.0%	17.5%	18.1%	17.4%	15.4%
<b>Net Profit</b>	391	946	1246	1384	8	2068	2757	2818	2885	4518
<b>Net Margin</b>	4.0%	8.8%	10.6%	10.4%	0.1%	12.6%	14.4%	13.2%	12.9%	18.3%
<b>Free Cash Flow</b>	943	1259	1081	894	1757	-553	2445	3135	2655	9961
<b>Income Tax</b>	168	489	563	674	-239	1092	1144	1380	1433	1262

## Balance Sheet Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
<b>Total Assets</b>	5577	6386	7360	8219	11517	10753	12416	14313	14366	24156
<b>Cash &amp; Equivalents</b>	600	1164	1148	1189	2576	1708	1530	2129	2462	8756
<b>Accounts Receivable</b>	271	303	387	486	561	631	719	769	870	693
<b>Inventories</b>	665	543	966	1242	1111	1091	1306	1379	1364	1401
<b>Goodwill &amp; Int. Ass.</b>	327	333	434	543	1138	1130	2096	2236	1981	4584
<b>Total Liabilities</b>	2520	2704	2973	3105	7034	5479	6597	8422	8909	22981
<b>Accounts Payable</b>	267	283	540	398	492	534	684	731	783	1179
<b>Long-Term Debt</b>	549	549	550	550	1299	2048	2348	3585	3933	9440
<b>Shareholder's Equity</b>	3046	3675	4385	5109	4480	5272	5818	5884	5450	1170
<b>D/E Ratio</b>	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
<b>Return on Assets</b>	6.9%	15.8%	18.1%	17.8%	0.1%	18.6%	23.8%	21.1%	20.1%	23.5%
<b>Return on Equity</b>	14.1%	28.1%	30.9%	29.2%	0.2%	42.4%	49.7%	48.2%	50.9%	137%
<b>ROIC</b>	10.6%	24.1%	27.2%	26.1%	0.1%	31.6%	35.6%	31.9%	30.6%	45.2%
<b>Shares Out.</b>	1486	1485	1490	1499	1506	1499	1485	1461	1432	1349
<b>Revenue/Share</b>	6.55	7.01	7.60	8.59	9.75	10.78	12.66	14.34	15.32	17.73
<b>FCF/Share</b>	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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