



# Starbucks Corporation (SBUX)

Updated January 29<sup>th</sup>, 2020 by Eli Inkrot

## Key Metrics

<b>Current Price:</b>	\$87	<b>5 Year CAGR Estimate:</b>	6.1%	<b>Market Cap:</b>	\$99.7B
<b>Fair Value Price:</b>	\$66	<b>5 Year Growth Estimate:</b>	10.0%	<b>Ex-Dividend Date:</b>	02/05/20
<b>% Fair Value:</b>	131%	<b>5 Year Valuation Multiple Estimate:</b>	-5.3%	<b>Dividend Payment Date:</b>	02/21/20
<b>Dividend Yield:</b>	1.9%	<b>5 Year Price Target</b>	\$106	<b>Years Of Dividend Growth:</b>	10
<b>Dividend Risk Score:</b>	C	<b>Retirement Suitability Score:</b>	F	<b>Last Dividend Increase:</b>	13.9%

## Overview & Current Events

Starbucks, which began with a single store in Seattle's Pike Place Market in 1971, now has 31,795 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 \$100 billion market cap company is anticipated to generate over \$28 billion in revenue and earn \$3.5 billion in profit this year.

On January 28<sup>th</sup>, 2020 Starbucks announced Q1 fiscal year 2020 results for the period ending December 29<sup>th</sup>, 2019. (Starbucks fiscal year ends the Sunday closest to September 30<sup>th</sup>.) For the quarter the company generated net revenue of \$7.1 billion, which grew 7% over the same period a year ago, driven by global comparable store sales growth of 5%. The Americas segment showed 6% growth aided by a 3% increase in the average ticket and a 2% increase in comparable transactions. Adjusted earnings-per-share equaled \$0.79, up 5% year-over-year. Starbucks opened 539 net new stores during the quarter, bringing the total up to 31,795, a 6% increase over the prior year.

Starbucks also reiterated its fiscal 2020 guidance. The company expects to open approximately 2,000 net new stores, with 600 of those in the U.S. (3% to 4% growth) and 1,400 in International markets (with mid-teens growth in China). Global comparable store growth is expected to be between 3% and 4%, with adjusted EPS in the \$3.00 to \$3.05 range. In addition, Starbucks closed more than half of its stores in China in response to the outbreak of the coronavirus, which is expected to be temporary. Updated guidance will be provided once the company can reasonably estimate the impact.

## Growth on a Per-Share Basis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
<b>EPS</b>	\$0.64	\$0.76	\$0.90	\$1.13	\$1.36	\$1.58	\$1.91	\$2.06	\$2.42	\$2.83	<b>\$3.00</b>	<b>\$4.83</b>
<b>DPS</b>	\$0.12	\$0.26	\$0.34	\$0.42	\$0.52	\$0.64	\$0.80	\$1.00	\$1.26	\$1.44	<b>\$1.64</b>	<b>\$2.40</b>
<b>Shares<sup>1</sup></b>	1,485	1,490	1,499	1,506	1,499	1,485	1,461	1,432	1,309	1,185	<b>1,150</b>	<b>1,050</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 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. Not only is the U.S. store count still growing at a fair clip, there are also 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	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Now	2025
<b>Avg. P/E</b>	18.7	22.8	27.5	26.5	27.9	30.2	30.4	27.7	23.2	26.6	<b>28.9</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%	1.9%	<b>1.9%</b>	<b>2.3%</b>

<sup>1</sup> In millions.

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Over the past decade shares of Starbucks have traded hands with an average P/E ratio of about 26 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 near 29 times expected earnings, there is the possibility of a meaningful valuation headwind from this point. Meanwhile, the dividend component (non-existent just over a decade ago) is becoming a larger factor for investor returns.

## Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
Payout	19%	34%	38%	37%	38%	41%	42%	49%	52%	51%	55%	50%

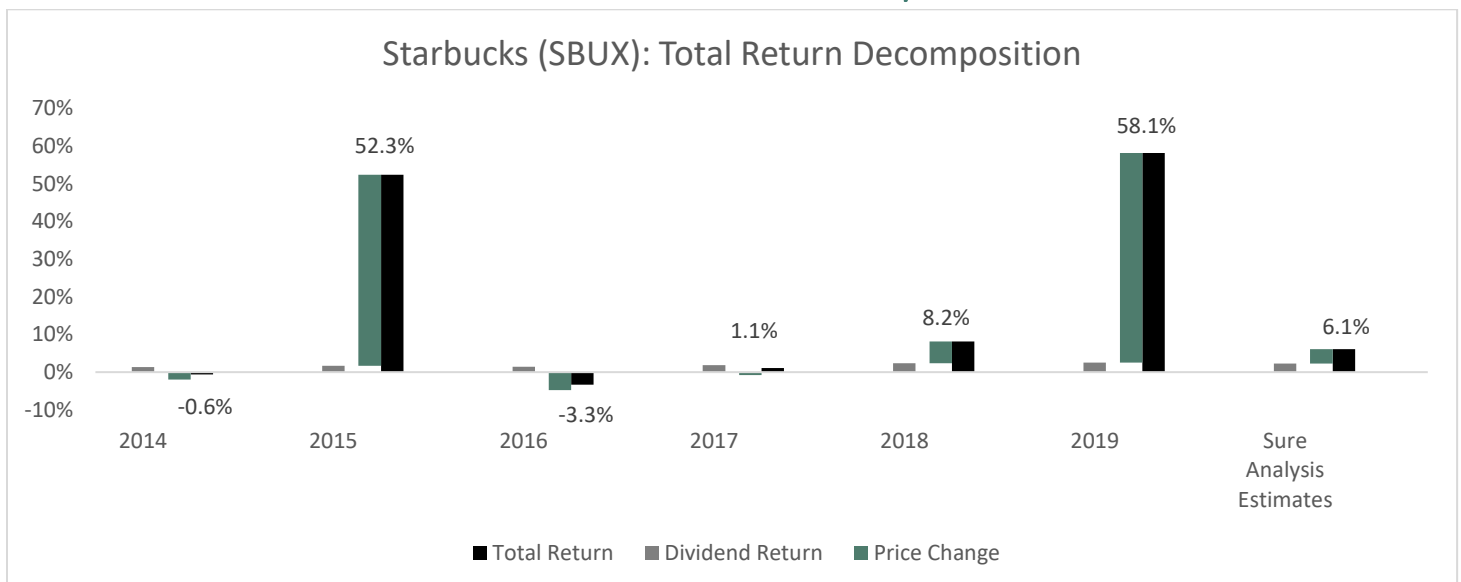
Starbucks sells an addicting product (caffeine, plus high amounts of fat and sugar in many of its beverages) combined with a well-respected brand. This allows Starbucks to sell its coffee at premium prices and generate repeat business from customers. Moreover, the company is recession resistant. From 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 Q1 2020, Starbucks held \$3.0 billion in cash and equivalents, \$5.9 billion in current assets and \$27.7 billion in total assets against \$8.7 billion in current liabilities and \$34.5 billion in total liabilities. Long-term debt stood at \$10.7 billion against underlying earnings power north of \$3 billion annually. While the dividend payout ratio has increased significantly (from 0% in 2009 to over half of earnings) Starbucks continues to maintain a reasonable financial position.

## Final Thoughts & Recommendation

Shares are up slightly since our last report. 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 investment thesis when it comes to anticipated returns. We forecast 6.1% annual returns, comprising of a 10% intermediate-term growth rate and the company's 1.9% dividend yield offset by a moderate valuation headwind. We are reiterating our hold rating.

## Total Return Breakdown by Year



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## Income Statement Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
<b>Revenue</b>	10707	11700	13277	14867	16448	19163	21316	22387	24720	
<b>Gross Profit</b>	6291	6785	7464	8485	9589	11375	12805	13349	14545	
<b>Gross Margin</b>	58.8%	58.0%	56.2%	57.1%	58.3%	59.4%	60.1%	59.6%	58.8%	
<b>SG&amp;A Exp.</b>	4177	749	801	938	991	1197	1361	1393	1759	
<b>D&amp;A Exp.</b>	541	550	581	656	748	934	1030	1067	1306	
<b>Operating Profit</b>	1324	1525	1787	2207	2793	3351	3854	3897	3807	
<b>Operating Margin</b>	12.4%	13.0%	13.5%	14.8%	17.0%	17.5%	18.1%	17.4%	15.4%	
<b>Net Profit</b>	946	1246	1384	8	2068	2757	2818	2885	4518	
<b>Net Margin</b>	8.8%	10.6%	10.4%	0.1%	12.6%	14.4%	13.2%	12.9%	18.3%	
<b>Free Cash Flow</b>	1259	1081	894	1757	-553	2445	3135	2655	9961	
<b>Income Tax</b>	489	563	674	-239	1092	1144	1380	1433	1262	

## Balance Sheet Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
<b>Total Assets</b>	6386	7360	8219	11517	10753	12416	14313	14366	24156	
<b>Cash &amp; Equivalents</b>	1164	1148	1189	2576	1708	1530	2129	2462	8756	
<b>Accounts Receivable</b>	303	387	486	561	631	719	769	870	693	
<b>Inventories</b>	543	966	1242	1111	1091	1306	1379	1364	1401	
<b>Goodwill &amp; Int. Ass.</b>	333	434	543	1138	1130	2096	2236	1981	4584	
<b>Total Liabilities</b>	2704	2973	3105	7034	5479	6597	8422	8909	22981	
<b>Accounts Payable</b>	283	540	398	492	534	684	731	783	1179	
<b>Long-Term Debt</b>	549	550	550	1299	2048	2348	3585	3933	9440	
<b>Shareholder's Equity</b>	3675	4385	5109	4480	5272	5818	5884	5450	1170	
<b>D/E Ratio</b>	0.15	0.13	0.11	0.29	0.39	0.40	0.61	0.72	8.07	

## Profitability & Per Share Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
<b>Return on Assets</b>	15.8%	18.1%	17.8%	0.1%	18.6%	23.8%	21.1%	20.1%	23.5%	
<b>Return on Equity</b>	28.1%	30.9%	29.2%	0.2%	42.4%	49.7%	48.2%	50.9%	137%	
<b>ROIC</b>	24.1%	27.2%	26.1%	0.1%	31.6%	35.6%	31.9%	30.6%	45.2%	
<b>Shares Out.</b>	1485	1490	1499	1506	1499	1485	1461	1432	1349	
<b>Revenue/Share</b>	7.01	7.60	8.59	9.75	10.78	12.66	14.34	15.32	17.73	
<b>FCF/Share</b>	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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