



Starbucks Corporation (SBUX)

Updated October 30th, 2020 by Eli Inkrot

Key Metrics

Current Price:	\$87	5 Year CAGR Estimate:	4.9%	Market Cap:	\$102 B
Fair Value Price:	\$62	5 Year Growth Estimate:	10.0%	Ex-Dividend Date:	11/10/20
% Fair Value:	141%	5 Year Valuation Multiple Estimate:	-6.7%	Dividend Payment Date:	11/27/20
Dividend Yield:	2.1%	5 Year Price Target	\$99	Years Of Dividend Growth:	10
Dividend Risk Score:	C	Retirement Suitability Score:	D	Last Dividend Increase:	9.8%

Overview & Current Events

Starbucks, which began with a single store in Seattle's Pike Place Market in 1971, now has over 32,000 stores around the world. 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 \$102 billion market cap company generates over \$20 billion in annual revenue.

On September 30th, 2020 Starbucks increased its dividend 9.8% from \$0.41 to \$0.45 per quarter.

On October 29th, 2020 Starbucks announced Q4 and full year fiscal 2020 results for the period ending September 27th, 2020. (Starbucks fiscal year ends the Sunday closest to September 30th.) For the quarter the company generated net revenue of \$6.2 billion, representing an 8% decline from Q4 2019, primarily due to lost sales related to the COVID-19 pandemic. Global comparable store sales declined 9%, driven by a 23% decline in comparable transactions, partially offset by a 17% increase in the average ticket. Adjusted earnings-per-share equaled \$0.51 compared to \$0.70 prior.

Starbucks opened 480 net new stores in Q4, bringing the total store count up to 32,660.

For the year the company generated \$23.5 billion in revenue, an 11.3% decline compared to fiscal 2019, again due to the COVID-19 pandemic. Global comparable sales declined 14%, driven by a 22% decline in comparable transactions, partially offset by a 10% increase in the average ticket. Adjusted EPS equaled \$1.17 compared to \$2.83 last year.

Earlier in the year more than half of Starbucks' stores were closed at some point. At the end of Q4 2020, approximately 98% of company-operated stores and 93% of licensed stores are open.

Starbucks also provided fiscal 2021 guidance. The company anticipates global comparable sales growth of 18% to 23%, \$28 billion to \$29 billion in revenue, approximately 2,150 new store openings and adjusted EPS of \$2.70 to \$2.90.

Growth on a Per-Share Basis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
EPS	\$0.76	\$0.90	\$1.13	\$1.36	\$1.58	\$1.91	\$2.06	\$2.42	\$2.83	\$1.17	\$2.80	\$4.51
DPS	\$0.26	\$0.34	\$0.42	\$0.52	\$0.64	\$0.80	\$1.00	\$1.26	\$1.44	\$1.64	\$1.80	\$2.64
Shares¹	1,490	1,499	1,506	1,499	1,485	1,461	1,432	1,309	1,185	1,182	1,170	1,160

Starbucks had put together an excellent operating record, growing earnings-per-share by 18% per annum in the 2010 to 2019 period. During that time the company's net profit margin went from 5% to 13%, while the company-owned store count nearly doubled. Of course, this fantastic growth of the past makes future growth a bit harder to replicate.

Today the company is facing tremendous challenges from the COVID-19 pandemic, as 2020 results clearly demonstrate. Demand is down significantly, and financial results could continue to be pressured in the short-term. However, we are encouraged by recent guidance, suggesting that the company can get back to "normal" after a yearlong decline.

Looking further out, Starbucks has a strong growth trajectory available over the long-term in the way of a growing U.S. and International store count, where the company is still in the early innings of expansion, coupled with pricing power. We are forecasting 10% annual growth over the intermediate term as the company looks to get back to growth.

¹ In millions.

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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Valuation Analysis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Now	2026
Avg. P/E	22.8	27.5	26.5	27.9	30.2	30.4	27.7	23.2	26.6	---	31.1	22.0
Avg. Yld.	1.5%	1.4%	1.4%	1.4%	1.3%	1.4%	1.8%	2.2%	1.9%	2.3%	2.1%	2.4%

Excluding 2020, Starbucks has traded hands with an average P/E ratio of about 27 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 31 times earnings, there is the possibility of a meaningful valuation headwind. Meanwhile, the dividend component is becoming a larger factor for investor returns.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
Payout	34%	38%	37%	38%	41%	42%	49%	52%	51%	140%	64%	59%

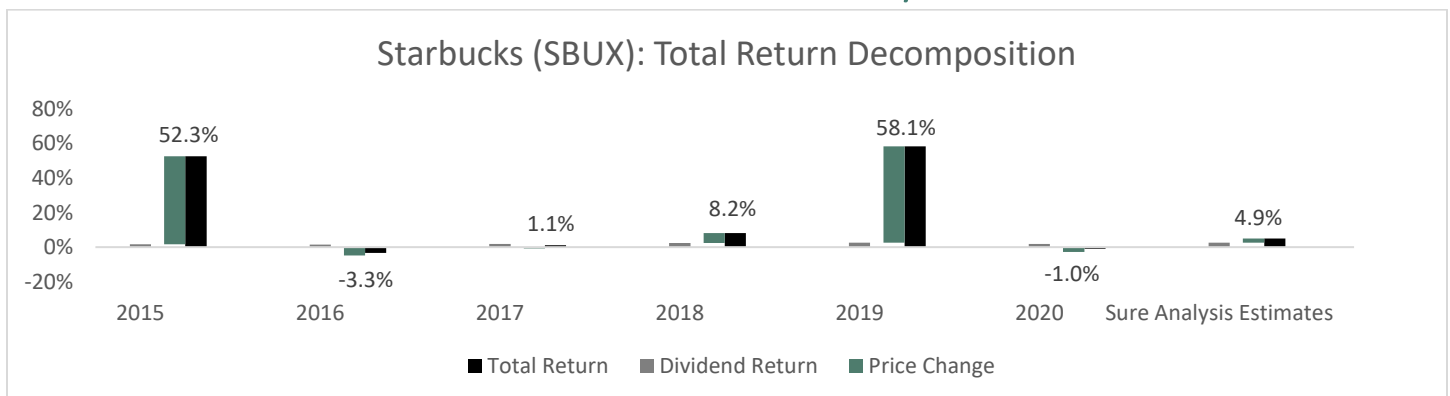
Starbucks sells an addicting product combined with a well-respected brand. This allows Starbucks to sell its coffee at premium prices and generate repeat business from customers. Still, the company is somewhat cyclical. From fiscal year 2007 to 2008, earnings-per-share fell 18%, before increasing by 11% and 60% in the next two years. Earnings climbed higher every year since, until 2020 when the company was tested once again – seeing EPS decline 59%.

At the end of Q4 2020, Starbucks held \$4.4 billion in cash and equivalents, \$7.8 billion in current assets and \$29.4 billion in total assets against \$7.3 billion in current liabilities and \$37.2 billion in total liabilities. Long-term debt stood at \$14.7 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 12% 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 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 4.9% annual returns, comprising of a 10% intermediate-term growth rate and the company's 2.1% dividend yield offset by a valuation headwind. We are reiterating our hold rating.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Revenue	11700	13277	14867	16448	19163	21316	22387	24720	26509	---
Gross Profit	6785	7464	8485	9589	11375	12805	13349	14545	7488	---
Gross Margin	58.0%	56.2%	57.1%	58.3%	59.4%	60.1%	59.6%	58.8%	28.2%	---
SG&A Exp.	749	801	938	991	1197	1361	1393	1759	1824	---
D&A Exp.	550	581	656	748	934	1030	1067	1306	1449	---
Operating Profit	1525	1787	2207	2793	3351	3854	3897	3807	3916	---
Operating Margin	13.0%	13.5%	14.8%	17.0%	17.5%	18.1%	17.4%	15.4%	14.8%	---
Net Profit	1246	1384	8	2068	2757	2818	2885	4518	3599	---
Net Margin	10.6%	10.4%	0.1%	12.6%	14.4%	13.2%	12.9%	18.3%	13.6%	---
Free Cash Flow	1081	894	1757	-553	2445	3135	2655	9961	3240	---
Income Tax	563	674	-239	1092	1144	1380	1433	1262	872	---

Balance Sheet Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Total Assets	7360	8219	11517	10753	12416	14313	14366	24156	19220	---
Cash & Equivalents	1148	1189	2576	1708	1530	2129	2462	8756	2687	---
Accounts Receivable	387	486	561	631	719	769	870	693	879	---
Inventories	966	1242	1111	1091	1306	1379	1364	1401	1529	---
Goodwill & Int. Ass.	434	543	1138	1130	2096	2236	1981	4584	4273	---
Total Liabilities	2973	3105	7034	5479	6597	8422	8909	22981	25451	---
Accounts Payable	540	398	492	534	684	731	783	1179	1190	---
Long-Term Debt	550	550	1299	2048	2348	3585	3933	9440	11167	---
Shareholder's Equity	4385	5109	4480	5272	5818	5884	5450	1170	-6232	---
D/E Ratio	0.13	0.11	0.29	0.39	0.40	0.61	0.72	8.07	-1.79	---

Profitability & Per Share Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Return on Assets	18.1%	17.8%	0.1%	18.6%	23.8%	21.1%	20.1%	23.5%	16.6%	---
Return on Equity	30.9%	29.2%	0.2%	42.4%	49.7%	48.2%	50.9%	137%	---	---
ROIC	27.2%	26.1%	0.1%	31.6%	35.6%	31.9%	30.6%	45.2%	46.3%	---
Shares Out.	1,490	1,499	1,506	1,499	1,485	1,461	1,432	1,309	1,185	---
Revenue/Share	7.60	8.59	9.75	10.78	12.66	14.34	15.32	17.73	21.50	---
FCF/Share	0.70	0.58	1.15	-0.36	1.62	2.11	1.82	7.14	2.63	---

Note: All figures in millions of U.S. Dollars unless per share or indicated otherwise. Table numbers for 2020 are not available for Starbucks, but will be with our next report update.

Disclaimer

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