



Starbucks Corporation (SBUX)

Updated July 29th, 2021, by Eli Inkrot

Key Metrics

Current Price:	\$122	5 Year CAGR Estimate:	0.5%	Market Cap:	\$143 B
Fair Value Price:	\$74	5 Year Growth Estimate:	9.0%	Ex-Dividend Date:	08/11/21
% Fair Value:	165%	5 Year Valuation Multiple Estimate:	-9.6%	Dividend Payment Date:	08/27/21
Dividend Yield:	1.5%	5 Year Price Target	\$114	Years Of Dividend Growth:	11
Dividend Risk Score:	C	Retirement Suitability Score:	D	Last Dividend Increase:	9.8%

Overview & Current Events

Starbucks began with a single store in Seattle's Pike Place Market in 1971 and now has nearly 33,000 stores worldwide. 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 \$143 billion market cap company generates over \$25 billion in annual revenue.

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

On July 27th, 2021, Starbucks announced Q3 fiscal year 2021 results for the period ending June 27th, 2021. (Starbucks fiscal year ends the Sunday closest to September 30th.) For the quarter, the company generated net revenue of \$7.5 billion, representing a 78% increase compared to Q2 2020. Global comparable sales increased 73%, driven by a 75% increase in comparable transactions, partially offset by a -1% decline in the average ticket. Adjusted earnings-per-share equaled \$1.01 compared to a loss of -\$0.46 in the prior year's quarter, as Starbucks dealt with the pandemic.

During the quarter Starbucks opened 352 net new stores, bringing the total up to 33,295 stores globally, of which 51% and 49% were company-operated and licensed, respectively.

Starbucks also updated its fiscal 2021 guidance, anticipating 18% to 21% global comparable sales growth (from 18% to 23%) and reiterated approximately 2,150 new store openings. In addition, the company now expects \$29.1 billion to \$29.3 billion in revenue (from \$28.5 - \$29.3 billion) and adjusted EPS of \$3.20 to \$3.25 (from \$2.90 to \$3.00).

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	\$3.22	\$4.95
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.

Last year the company faced challenges amid the COVID-19 pandemic, as 2020 results clearly demonstrate. Demand was down significantly, and financial results were pressured in the short-term. However, we are encouraged by recent guidance, suggesting that the company can get back to "normal" and then some in 2021 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 9% annual growth over the intermediate term as the company looks to get back to growth in 2021 and beyond. This is down from 10% in our prior report but represents improved expectations over the intermediate-term due to the higher starting base.

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	---	38.0	23.0
Avg. Yld.	1.5%	1.4%	1.4%	1.4%	1.3%	1.4%	1.8%	2.2%	1.9%	2.0%	1.5%	2.3%

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 23 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 38 times the midpoint of management's guidance, there is the possibility of a meaningful valuation headwind. Meanwhile, the dividend component should continue to grow.

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%	56%	53%

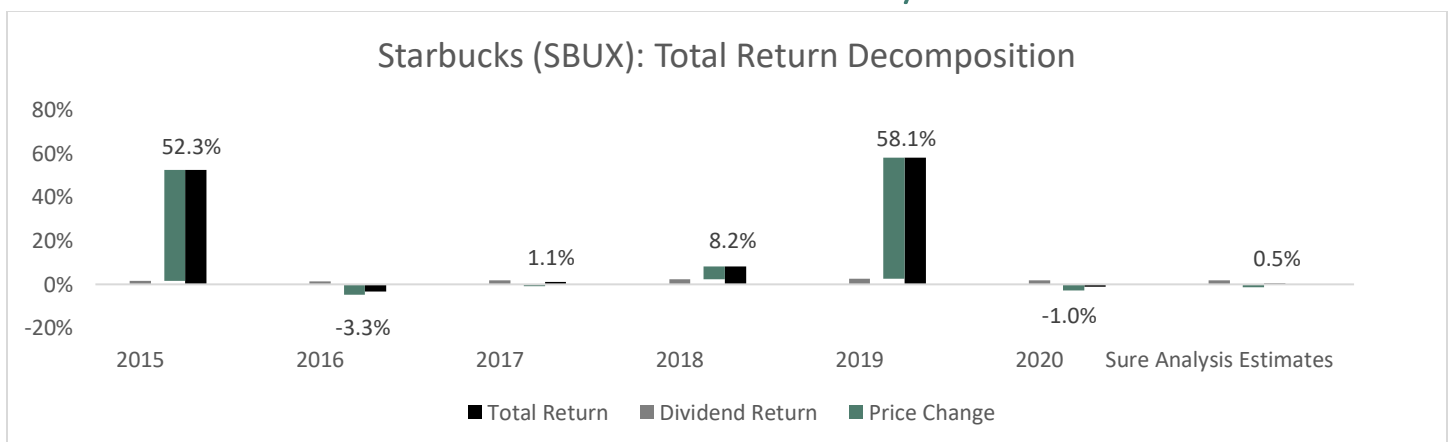
Starbucks sells an addicting product combined with a well-respected brand. This allows the company to sell its coffee at premium prices and generate repeat business from customers. Still, the company is somewhat cyclical. From fiscal year 2007 to 2008, earnings-per-share fell -18%, before increasing 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 Q3 2021, Starbucks held \$4.8 billion in cash and equivalents, \$7.9 billion in current assets and \$29.5 billion in total assets against \$7.8 billion in current liabilities and \$36.3 billion in total liabilities. Long-term debt stood at \$13.6 billion. 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

After being up 15% and 14% in our two previous reports, shares are up another 7% in the last three months. 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 when it comes to anticipated returns. We forecast 0.5% annual returns, comprising of a 9% intermediate-term growth rate and the company's 1.5% dividend yield offset by the potential for a material valuation headwind. Due to the valuation, shares earn a sell 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	23520
Gross Profit	6785	7464	8485	9589	11375	12805	13349	14545	7488	5059
Gross Margin	58.0%	56.2%	57.1%	58.3%	59.4%	60.1%	59.6%	58.8%	28.2%	21.5%
SG&A Exp.	749	801	938	991	1197	1361	1393	1759	1824	1680
D&A Exp.	550	581	656	748	934	1030	1067	1306	1449	1503
Operating Profit	1525	1787	2207	2793	3351	3854	3897	3807	3916	1518
Operating Margin	13.0%	13.5%	14.8%	17.0%	17.5%	18.1%	17.4%	15.4%	14.8%	6.5%
Net Profit	1246	1384	8	2068	2757	2818	2885	4518	3599	928
Net Margin	10.6%	10.4%	0.1%	12.6%	14.4%	13.2%	12.9%	18.3%	13.6%	3.9%
Free Cash Flow	1081	894	1757	-553	2445	3135	2655	9961	3240	114.2
Income Tax	563	674	-239	1092	1144	1380	1433	1262	872	239.7

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	29370
Cash & Equivalents	1148	1189	2576	1708	1530	2129	2462	8756	2687	4351
Accounts Receivable	387	486	561	631	719	769	870	693	879	883
Inventories	966	1242	1111	1091	1306	1379	1364	1401	1529	1551
Goodwill & Int. Ass.	434	543	1138	1130	2096	2236	1981	4584	4273	4149
Total Liabilities	2973	3105	7034	5479	6597	8422	8909	22981	25451	37170
Accounts Payable	540	398	492	534	684	731	783	1179	1190	998
Long-Term Debt	550	550	1299	2048	2348	3585	3933	9440	11167	16350
Shareholder's Equity	4385	5109	4480	5272	5818	5884	5450	1170	-6232	-7805
D/E Ratio	0.13	0.11	0.29	0.39	0.40	0.61	0.72	8.07	-1.79	-2.2

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%	3.8%
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%	13.8%
Shares Out.	1,490	1,499	1,506	1,499	1,485	1,461	1,432	1,309	1,185	1,182
Revenue/Share	7.60	8.59	9.75	10.78	12.66	14.34	15.32	17.73	21.50	19.9
FCF/Share	0.70	0.58	1.15	-0.36	1.62	2.11	1.82	7.14	2.63	0.1

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

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