



# Starbucks Corporation (SBUX)

Updated November 3<sup>rd</sup>, 2021, by Eli Inkrot

## Key Metrics

|                             |       |  |       |                                  |          |
|-----------------------------|-------|--|-------|----------------------------------|----------|
| <b>Current Price:</b>       | \$113 | <b>5 Year CAGR Estimate:</b>               | 5.6%  | <b>Market Cap:</b>               | \$133 B  |
| <b>Fair Value Price:</b>    | \$92  | <b>5 Year Growth Estimate:</b>             | 8.0%  | <b>Ex-Dividend Date:</b>         | 11/10/21 |
| <b>% Fair Value:</b>        | 122%  | <b>5 Year Valuation Multiple Estimate:</b> | -4.0% | <b>Dividend Payment Date:</b>    | 11/26/21 |
| <b>Dividend Yield:</b>      | 1.7%  | <b>5 Year Price Target</b>                 | \$135 | <b>Years Of Dividend Growth:</b> | 11       |
| <b>Dividend Risk Score:</b> | B     | <b>Retirement Suitability Score:</b>       | D     | <b>Last Dividend Increase:</b>   | 8.9%     |

## Overview & Current Events

Starbucks began with a single store in Seattle's Pike Place Market in 1971 and now has more than 33,800 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 \$133 billion market cap company generated \$29 billion in annual revenue last year.

On September 29<sup>th</sup>, 2021, Starbucks increased its dividend 8.9% from \$0.45 to \$0.49 per quarter.

On October 28<sup>th</sup>, 2021, Starbucks reported Q4 and fiscal year 2021 results for the period ending October 3<sup>rd</sup>, 2021. For the quarter, the company generated net revenue of \$8.1 billion, a 31% increase compared to Q4 2020, driven by a 17% increase in comparable store sales. Adjusted earnings-per-share equaled \$1.00 compared to \$0.51 in Q4 2020.

For the year Starbucks generated revenue of \$29.1 billion, a 24% increase compared to fiscal year 2020, driven by a 20% increase in comparable store sales. Adjusted earnings-per-share equaled \$3.24 versus \$1.17 in the prior year, as Starbucks rebounded from the pandemic.

During the quarter the company opened 538 net new stores, bringing the total to 33,833 stores globally, of which 51% and 49% were company-operated and licensed, respectively.

## Growth on a Per-Share Basis

| Year                      | 2012   | 2013   | 2014   | 2015   | 2016   | 2017   | 2018   | 2019   | 2020   | 2021   | 2022          | 2027          |
|---------------------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|---------------|---------------|
| <b>EPS</b>                | \$0.90 | \$1.13 | \$1.36 | \$1.58 | \$1.91 | \$2.06 | \$2.42 | \$2.83 | \$1.17 | \$3.24 | <b>\$4.00</b> | <b>\$5.88</b> |
| <b>DPS</b>                | \$0.34 | \$0.42 | \$0.52 | \$0.64 | \$0.80 | \$1.00 | \$1.26 | \$1.44 | \$1.64 | \$1.80 | <b>\$1.96</b> | <b>\$2.88</b> |
| <b>Shares<sup>1</sup></b> | 1,499  | 1,506  | 1,499  | 1,485  | 1,461  | 1,432  | 1,309  | 1,185  | 1,182  | 1,186  | <b>1,180</b>  | <b>1,150</b>  |

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, the company got back to "normal" and then some in 2021.

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 8% annual growth over the intermediate term as the company looks to get back to growth. This rate of growth is down from our prior reports but represents improved expectations over the intermediate-term due to the higher starting base.

<sup>1</sup> In millions.

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## Valuation Analysis

| Year      | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022        | 2027        |
|-----------|------|------|------|------|------|------|------|------|------|------|-------------|-------------|
| Avg. P/E  | 27.5 | 26.5 | 27.9 | 30.2 | 30.4 | 27.7 | 23.2 | 26.6 | ---  | 34.3 | <b>28.2</b> | <b>23.0</b> |
| Avg. Yld. | 1.4% | 1.4% | 1.4% | 1.3% | 1.4% | 1.8% | 2.2% | 1.9% | 2.0% | 1.6% | <b>1.7%</b> | <b>2.1%</b> |

Excluding 2020, Starbucks has traded hands with an average P/E ratio of about 28 times earnings. However, this was during a time when the company's growth rate was more robust. 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 28 times expected earnings, there is the possibility of a valuation headwind. Meanwhile, the dividend component should continue to grow.

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

| Year   | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022       | 2027       |
|--------|------|------|------|------|------|------|------|------|------|------|------------|------------|
| Payout | 38%  | 37%  | 38%  | 41%  | 42%  | 49%  | 52%  | 51%  | 140% | 56%  | <b>49%</b> | <b>49%</b> |

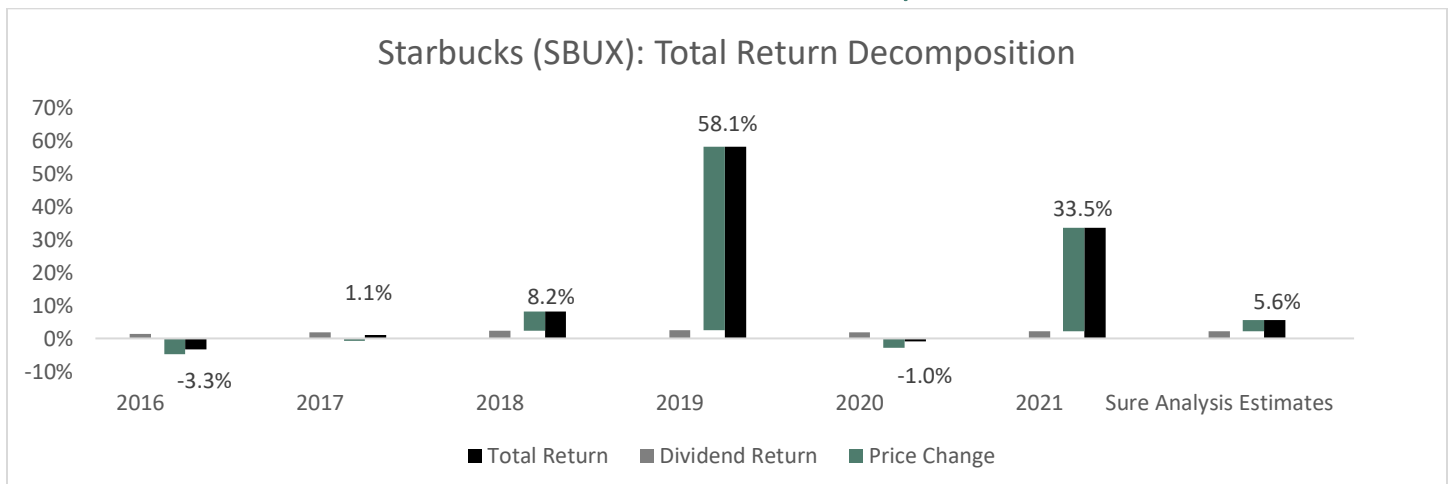
Starbucks sells an addicting product combined with a well-respected brand. This allows the company to sell its coffee at premium prices and generate repeat business from customers. Still, the company is somewhat cyclical. From fiscal year 2007 to 2008, earnings-per-share fell -18%, before increasing 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 Q4 2021, Starbucks held \$6.5 billion in cash and equivalents, \$9.8 billion in current assets and \$31.4 billion in total assets against \$8.2 billion in current liabilities and \$36.7 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 nearly half of earnings now) Starbucks continues to maintain a reasonable financial position.

## Final Thoughts & Recommendation

Shares are up 29% in the last year. 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 attributes, resulting in a share price that has been bid up accordingly. This equalizes the value proposition when it comes to anticipated returns. We forecast 5.6% annual returns, comprising of an 8% intermediate-term growth rate and the company's 1.7% dividend yield offset by the potential for a valuation headwind. Shares earn a hold rating.

## Total Return Breakdown by Year



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## Income Statement Metrics

| Year                    | 2012  | 2013  | 2014  | 2015  | 2016  | 2017  | 2018  | 2019  | 2020  | 2021  |
|-------------------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| <b>Revenue</b>          | 13277 | 14867 | 16448 | 19163 | 21316 | 22387 | 24720 | 26509 | 23520 | 29060 |
| <b>Gross Profit</b>     | 7464  | 8485  | 9589  | 11375 | 12805 | 13349 | 14545 | 7488  | 5059  | 8391  |
| <b>Gross Margin</b>     | 56.2% | 57.1% | 58.3% | 59.4% | 60.1% | 59.6% | 58.8% | 28.2% | 21.5% | 28.9% |
| <b>SG&amp;A Exp.</b>    | 801   | 938   | 991   | 1197  | 1361  | 1393  | 1759  | 1824  | 1680  | 1933  |
| <b>D&amp;A Exp.</b>     | 581   | 656   | 748   | 934   | 1030  | 1067  | 1306  | 1449  | 1503  | 1524  |
| <b>Operating Profit</b> | 1787  | 2207  | 2793  | 3351  | 3854  | 3897  | 3807  | 3916  | 1518  | 4657  |
| <b>Operating Margin</b> | 13.5% | 14.8% | 17.0% | 17.5% | 18.1% | 17.4% | 15.4% | 14.8% | 6.5%  | 16%   |
| <b>Net Profit</b>       | 1384  | 8     | 2068  | 2757  | 2818  | 2885  | 4518  | 3599  | 928   | 4199  |
| <b>Net Margin</b>       | 10.4% | 0.1%  | 12.6% | 14.4% | 13.2% | 12.9% | 18.3% | 13.6% | 3.9%  | 14.5% |
| <b>Free Cash Flow</b>   | 894   | 1757  | -553  | 2445  | 3135  | 2655  | 9961  | 3240  | 114.2 | 4519  |
| <b>Income Tax</b>       | 674   | -239  | 1092  | 1144  | 1380  | 1433  | 1262  | 872   | 239.7 | 1157  |

## Balance Sheet Metrics

| Year                            | 2012 | 2013  | 2014  | 2015  | 2016  | 2017  | 2018  | 2019  | 2020  | 2021  |
|---------------------------------|------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| <b>Total Assets</b>             | 8219 | 11517 | 10753 | 12416 | 14313 | 14366 | 24156 | 19220 | 29370 | 31390 |
| <b>Cash &amp; Equivalents</b>   | 1189 | 2576  | 1708  | 1530  | 2129  | 2462  | 8756  | 2687  | 4351  | 6456  |
| <b>Accounts Receivable</b>      | 486  | 561   | 631   | 719   | 769   | 870   | 693   | 879   | 883   | 940   |
| <b>Inventories</b>              | 1242 | 1111  | 1091  | 1306  | 1379  | 1364  | 1401  | 1529  | 1551  | 1604  |
| <b>Goodwill &amp; Int. Ass.</b> | 543  | 1138  | 1130  | 2096  | 2236  | 1981  | 4584  | 4273  | 4149  | 4027  |
| <b>Total Liabilities</b>        | 3105 | 7034  | 5479  | 6597  | 8422  | 8909  | 22981 | 25451 | 37170 | 36710 |
| <b>Accounts Payable</b>         | 398  | 492   | 534   | 684   | 731   | 783   | 1179  | 1190  | 998   | 1212  |
| <b>Long-Term Debt</b>           | 550  | 1299  | 2048  | 2348  | 3585  | 3933  | 9440  | 11167 | 16350 | 14620 |
| <b>Shareholder's Equity</b>     | 5109 | 4480  | 5272  | 5818  | 5884  | 5450  | 1170  | -6232 | -7805 | -5321 |
| <b>D/E Ratio</b>                | 0.11 | 0.29  | 0.39  | 0.40  | 0.61  | 0.72  | 8.07  | -1.79 | -2.2  | -2.75 |

## Profitability & Per Share Metrics

| Year                    | 2012  | 2013  | 2014  | 2015  | 2016  | 2017  | 2018  | 2019  | 2020  | 2021  |
|-------------------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| <b>Return on Assets</b> | 17.8% | 0.1%  | 18.6% | 23.8% | 21.1% | 20.1% | 23.5% | 16.6% | 3.8%  | 13.8% |
| <b>Return on Equity</b> | 29.2% | 0.2%  | 42.4% | 49.7% | 48.2% | 50.9% | 137%  | ---   | ---   | ---   |
| <b>ROIC</b>             | 26.1% | 0.1%  | 31.6% | 35.6% | 31.9% | 30.6% | 45.2% | 46.3% | 13.8% | 47.1% |
| <b>Shares Out.</b>      | 1,499 | 1,506 | 1,499 | 1,485 | 1,461 | 1,432 | 1,309 | 1,185 | 1,182 | 1,186 |
| <b>Revenue/Share</b>    | 8.59  | 9.75  | 10.78 | 12.66 | 14.34 | 15.32 | 17.73 | 21.50 | 19.9  | 24.51 |
| <b>FCF/Share</b>        | 0.58  | 1.15  | -0.36 | 1.62  | 2.11  | 1.82  | 7.14  | 2.63  | 0.1   | 3.81  |

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

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