



Starbucks Corporation (SBUX)

Updated February 3rd, 2022, by Eli Inkrot

Key Metrics

Current Price:	\$96	5 Year CAGR Estimate:	7.3%	Market Cap:	\$113 B
Fair Value Price:	\$81	5 Year Growth Estimate:	9.0%	Ex-Dividend Date:	02/10/22
% Fair Value:	119%	5 Year Valuation Multiple Estimate:	-3.4%	Dividend Payment Date:	02/25/22
Dividend Yield:	2.0%	5 Year Price Target	\$124	Years Of Dividend Growth:	11
Dividend Risk Score:	B	Retirement Suitability Score:	C	Last Dividend Increase:	8.9%

Overview & Current Events

Starbucks began with a single store in Seattle's Pike Place Market in 1971 and now has more than 34,000 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 \$113 billion market cap company generated \$29 billion in annual revenue last year.

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

On February 1st, 2022, Starbucks reported Q1 fiscal year 2022 results for the period ending January 2nd, 2022. (Starbucks fiscal year ends the Sunday closest to September 30th.) For the quarter, the company generated net revenue of \$8.05 billion, a 19.3% increase compared to Q1 2021, driven by a 13% increase in comparable store sales. Adjusted earnings-per-share equaled \$0.72 compared to \$0.61 in the year ago quarter.

During the quarter Starbucks opened 484 net new stores, bringing the total to 34,317 stories globally, of which 51% and 49% were company-operated and licensed, respectively. There are now 15,500 stores in the U.S. and over 5,500 stores in China.

Growth on a Per-Share Basis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
EPS	\$0.90	\$1.13	\$1.36	\$1.58	\$1.91	\$2.06	\$2.42	\$2.83	\$1.17	\$3.24	\$3.50	\$5.39
DPS	\$0.34	\$0.42	\$0.52	\$0.64	\$0.80	\$1.00	\$1.26	\$1.44	\$1.64	\$1.80	\$1.96	\$2.88
Shares¹	1,499	1,506	1,499	1,485	1,461	1,432	1,309	1,185	1,182	1,186	1,180	1,150

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.

In 2020 the company faced challenges amid the COVID-19 pandemic, as 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 9% annual growth over the intermediate term as the company looks to get back to growth. This rate of growth is down from some prior reports but represents solid 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	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	---	33.3	27.4	23.0
Avg. Yld.	1.4%	1.4%	1.4%	1.3%	1.4%	1.8%	2.2%	1.9%	2.0%	2.1%	2.0%	2.3%

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 27 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%	49%	49%

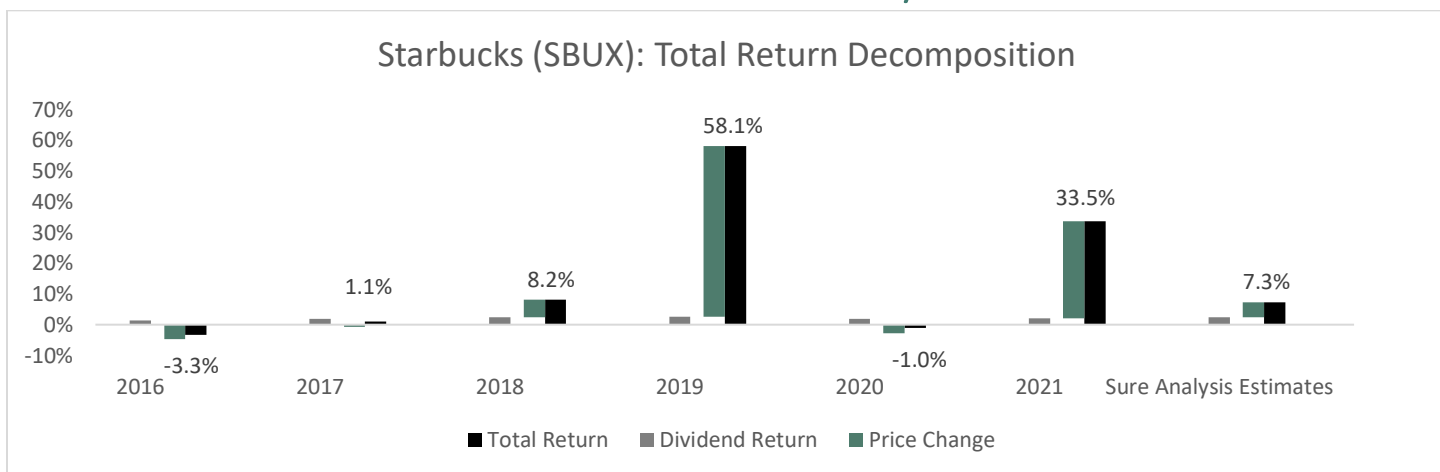
Starbucks sells an addicting product combined with a well-respected brand. This allows the company to sell its coffee at premium prices and generate repeat business from customers. Still, the company is somewhat cyclical. From fiscal year 2007 to 2008, earnings-per-share fell -18%, before increasing 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 Q1 2022, Starbucks held \$4.0 billion in cash and equivalents, \$7.3 billion in current assets and \$28.8 billion in total assets against \$8.9 billion in current liabilities and \$37.3 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 nearly half of earnings now) Starbucks continues to maintain a reasonable financial position.

Final Thoughts & Recommendation

Shares are down -4% 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 7.3% annual returns, comprising of a 9% intermediate-term growth rate and the company's 2.0% 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
Revenue	13277	14867	16448	19163	21316	22387	24720	26509	23520	29060
Gross Profit	7464	8485	9589	11375	12805	13349	14545	7488	5059	8391
Gross Margin	56.2%	57.1%	58.3%	59.4%	60.1%	59.6%	58.8%	28.2%	21.5%	28.9%
SG&A Exp.	801	938	991	1197	1361	1393	1759	1824	1680	1933
D&A Exp.	581	656	748	934	1030	1067	1306	1449	1503	1524
Operating Profit	1787	2207	2793	3351	3854	3897	3807	3916	1518	4657
Operating Margin	13.5%	14.8%	17.0%	17.5%	18.1%	17.4%	15.4%	14.8%	6.5%	16%
Net Profit	1384	8	2068	2757	2818	2885	4518	3599	928	4199
Net Margin	10.4%	0.1%	12.6%	14.4%	13.2%	12.9%	18.3%	13.6%	3.9%	14.5%
Free Cash Flow	894	1757	-553	2445	3135	2655	9961	3240	114.2	4519
Income Tax	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
Total Assets	8219	11517	10753	12416	14313	14366	24156	19220	29370	31390
Cash & Equivalents	1189	2576	1708	1530	2129	2462	8756	2687	4351	6456
Accounts Receivable	486	561	631	719	769	870	693	879	883	940
Inventories	1242	1111	1091	1306	1379	1364	1401	1529	1551	1604
Goodwill & Int. Ass.	543	1138	1130	2096	2236	1981	4584	4273	4149	4027
Total Liabilities	3105	7034	5479	6597	8422	8909	22981	25451	37170	36710
Accounts Payable	398	492	534	684	731	783	1179	1190	998	1212
Long-Term Debt	550	1299	2048	2348	3585	3933	9440	11167	16350	14620
Shareholder's Equity	5109	4480	5272	5818	5884	5450	1170	-6232	-7805	-5321
D/E Ratio	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
Return on Assets	17.8%	0.1%	18.6%	23.8%	21.1%	20.1%	23.5%	16.6%	3.8%	13.8%
Return on Equity	29.2%	0.2%	42.4%	49.7%	48.2%	50.9%	137%	---	---	---
ROIC	26.1%	0.1%	31.6%	35.6%	31.9%	30.6%	45.2%	46.3%	13.8%	47.1%
Shares Out.	1,499	1,506	1,499	1,485	1,461	1,432	1,309	1,185	1,182	1,186
Revenue/Share	8.59	9.75	10.78	12.66	14.34	15.32	17.73	21.50	19.9	24.51
FCF/Share	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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