



Starbucks Corporation (SBUX)

Updated August 26th, 2022, by Aristofanis Papadatos

Key Metrics

| | | | | | |
|-----------------------------|------|--|-------|----------------------------------|----------------------|
| Current Price: | \$87 | 5 Year CAGR Estimate: | 9.7% | Market Cap: | \$99 B |
| Fair Value Price: | \$71 | 5 Year Growth Estimate: | 12.0% | Ex-Dividend Date: | 11/9/22 ¹ |
| % Fair Value: | 122% | 5 Year Valuation Multiple Estimate: | -3.9% | Dividend Payment Date: | 11/25/22 |
| Dividend Yield: | 2.3% | 5 Year Price Target | \$126 | Years Of Dividend Growth: | 11 |
| Dividend Risk Score: | C | Retirement Suitability Score: | D | Rating: | Buy |

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 \$99 billion market cap company generated \$29 billion in annual revenue last year.

In early August, Starbucks reported (8/2/22) financial results for the third quarter of fiscal year 2022 (Starbucks fiscal year ends the Sunday closest to September 30th). The company grew its comparable store sales 3% thanks to 9% growth in the U.S. and double-digit growth overseas ex-China. Same-store sales in China remained depressed for a second quarter in a row due to lockdowns. In addition, excessive cost inflation reduced gross margin from 19.9% to 15.9%. As a result, adjusted earnings-per-share dipped from \$0.99 in last year's quarter to \$0.84. Due to the impact of inflation and the lockdowns in China, we have lowered our forecast for earnings-per-share from \$3.50 to \$3.10. However, we view the lockdowns in China as a temporary headwind and expect Starbucks to improve its performance later this year.

Howard Schultz, the legendary CEO of Starbucks, has returned to helm for a third time in his career. Starbucks thrived in the previous two tenures of Schultz. As soon as he returned to the CEO position, he suspended share repurchases and stated that the company should focus on its growth initiatives. We view his return as a positive for the stock.

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 | \$3.10 | \$5.46 |
| 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 |
| Shares² | 1,499 | 1,506 | 1,499 | 1,485 | 1,461 | 1,432 | 1,309 | 1,185 | 1,182 | 1,186 | 1,150 | 1,100 |

Starbucks had put together an excellent operating record, growing earnings-per-share by 18% per annum in the 2010 to 2019 period. During that period, its net profit margin expanded 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, Starbucks incurred a -59% earnings hit due to the pandemic but it recovered strongly in 2021, with record earnings. Looking further out, Starbucks has a strong growth trajectory available over the long-term thanks to 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 12% annual growth over the next five years off this year's low comparison base as the company is trying to return to a sustainable growth trajectory.

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 | 28.1 | 23.0 |
| Avg. Yld. | 1.4% | 1.4% | 1.4% | 1.3% | 1.4% | 1.8% | 2.2% | 1.9% | 2.0% | 2.1% | 2.3% | 2.3% |

¹ Estimated date.

² In millions.

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Excluding 2020, Starbucks has traded hands with an average price-to-earnings ratio of 28.1. However, this was during a time when the company's growth rate was more robust. Moving forward, we have assumed a fair price-to-earnings ratio of 23.0, which still implies a premium valuation – reflecting solid growth prospects and overall quality – but note that growth will be more and more difficult to formulate over time. The stock is now trading at an earnings multiple of 28.1. If it trades at our assumed fair valuation level in five years, it will incur a -3.9% annualized drag in its return.

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% | 63% | 53% |

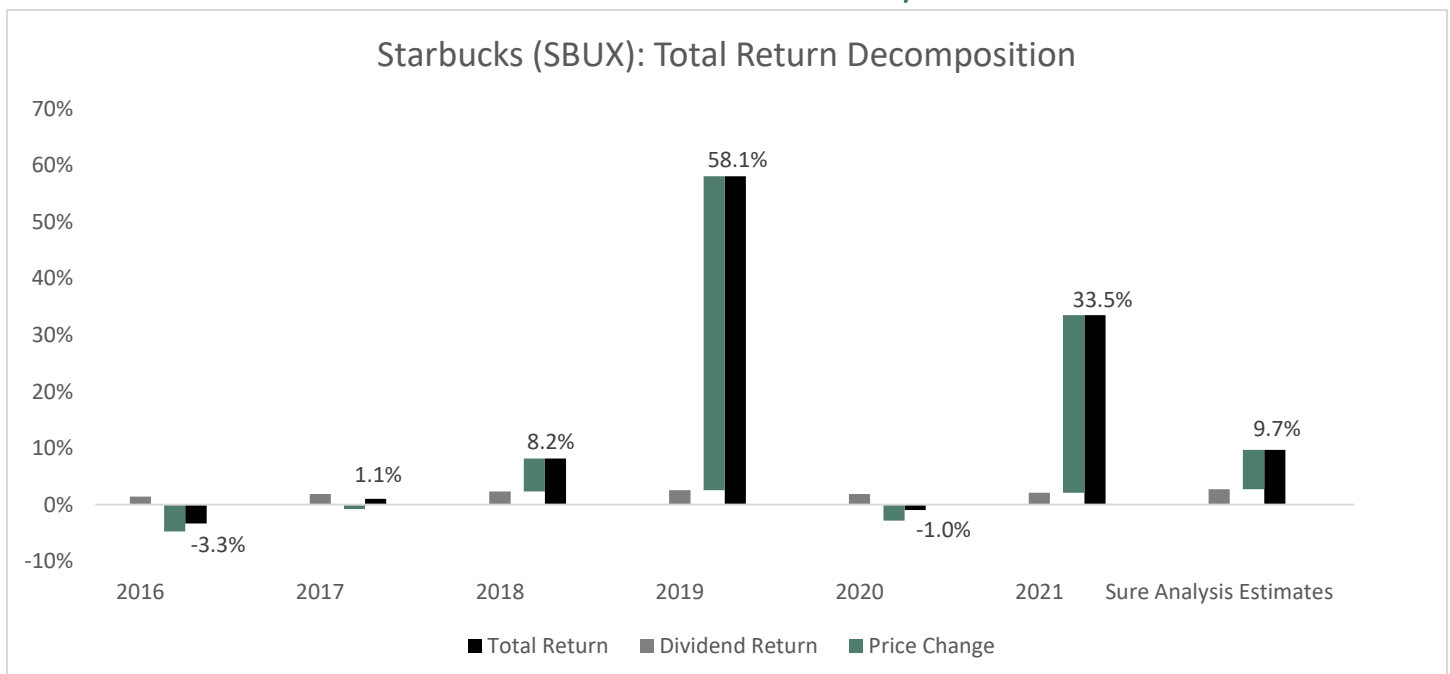
Starbucks sells an addictive product combined with a well-respected brand. This allows the company to sell its coffee at premium prices and generate repeat business from customers. Still, the company is somewhat cyclical. From fiscal year 2007 to 2008, earnings-per-share fell -18%, before increasing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

Starbucks is currently offering a nearly 10-year high dividend yield of 2.3%. Thanks to its healthy payout ratio of 63%, its solid balance sheet and its promising growth prospects, the company will keep raising its dividend for many more years.

Final Thoughts & Recommendation

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. Thanks to its high quality, it has almost always traded with a premium valuation. The stock plunged in the first four months of the year due to the efforts of some stores to form a union and the surge of inflation to a 40-year high. Not only does high inflation exert pressure on the operating margins of the company, but it also exerts pressure on the valuation of this growth stock. We view these headwinds as temporary from a long-term perspective. Since our last research report, in May, Starbucks has rallied 21% but it can still offer a 9.7% average annual return over the next five years thanks to 12.0% growth and its 2.3% dividend, partly offset by a -3.9% valuation headwind. We thus maintain our buy 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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