



Starbucks Corporation (SBUX)

Updated May 9th, 2023, by Aristofanis Papadatos

Key Metrics

Current Price:	\$107	5 Year CAGR Estimate:	8.0%	Market Cap:	\$123 B
Fair Value Price:	\$78	5 Year Growth Estimate:	13.0%	Ex-Dividend Date:	5/11/23
% Fair Value:	137%	5 Year Valuation Multiple Estimate:	-6.1%	Dividend Payment Date:	5/26/23
Dividend Yield:	2.0%	5 Year Price Target	\$144	Years Of Dividend Growth:	12
Dividend Risk Score:	C	Retirement Suitability Score:	D	Rating:	Hold

Overview & Current Events

Starbucks began with a single store in Seattle's Pike Place Market in 1971 and now has more than 36,000 stores worldwide. Nearly half of the stores are in the U.S. and nearly 20% of the stores are in China. The company operates under the namesake Starbucks brand, but also holds the Teavana, Evolution Fresh, and Ethos Water brands in its portfolio. The \$123 billion market cap company generated \$32 billion in annual revenue in fiscal 2022.

In early May, Starbucks reported (5/2/23) financial results for the second quarter of fiscal year 2023 (Starbucks fiscal year ends the Sunday closest to September 30th). The company enjoyed accelerated business momentum and grew its comparable store sales 11% thanks to 12% growth in the U.S. and 7% growth in international markets. Same-store sales in China grew 3%, after having remained depressed for four consecutive quarters due to lockdowns. Adjusted earnings-per-share grew 25%, from \$0.59 in the prior year's quarter to \$0.74, and exceeded the analysts' consensus by \$0.09. The headwinds from the lockdowns in China and high inflation have subsided. Starbucks reiterated its positive guidance for 2023, expecting growth of earnings-per-share at the low end of its long-term guidance of 15%-20% growth.

Howard Schultz, the legendary CEO of Starbucks, stepped down from the CEO position in March. Starbucks thrived and enjoyed an impressive growth trajectory in the three tenures of Schultz. The change in the CEO position is a negative development for the company, though it is too early to assess the impact.

Growth on a Per-Share Basis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
EPS	\$1.13	\$1.36	\$1.58	\$1.91	\$2.06	\$2.42	\$2.83	\$1.17	\$3.24	\$2.96	\$3.40	\$6.26
DPS	\$0.42	\$0.52	\$0.64	\$0.80	\$1.00	\$1.26	\$1.44	\$1.64	\$1.80	\$1.96	\$2.12	\$3.12
Shares¹	1,506	1,499	1,485	1,461	1,432	1,309	1,185	1,182	1,186	1,153	1,145	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 13% annual growth over the next five years, as the current headwinds facing the company, such as excessive inflation and lackluster momentum in China, are likely to subside.

Valuation Analysis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Now	2028
Avg. P/E	26.5	27.9	30.2	30.4	27.7	23.2	26.6	---	33.3	31.2	31.5	23.0
Avg. Yld.	1.4%	1.4%	1.3%	1.4%	1.8%	2.2%	1.9%	2.0%	2.1%	2.1%	2.0%	2.2%

¹ In millions.

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Excluding 2020, Starbucks has traded hands with an average price-to-earnings ratio of 28.6. 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 31.5. If it trades at our assumed fair valuation level in five years, it will incur a -6.1% annualized drag in its return.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout	37%	38%	41%	42%	49%	52%	51%	140%	56%	66%	62%	50%

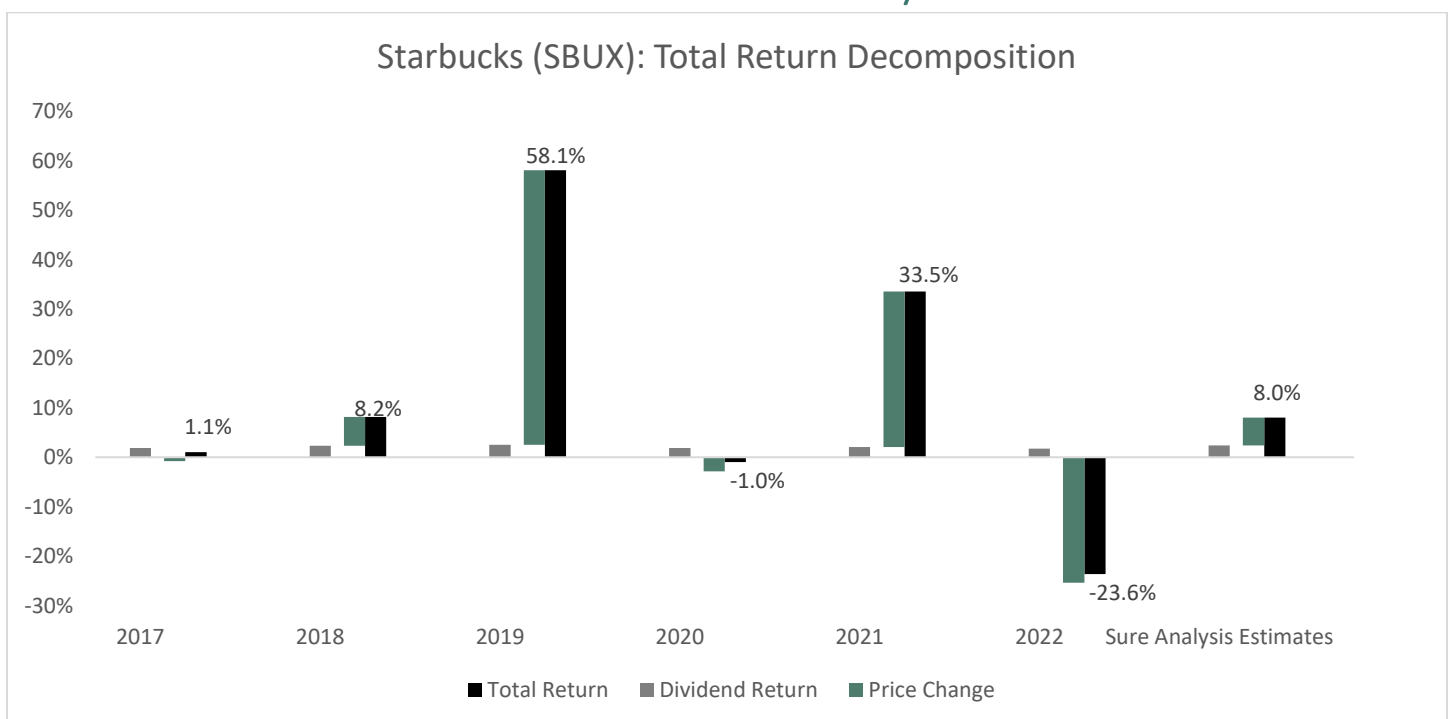
Starbucks sells an addictive product combined with a well-respected brand. This allows the company to sell its coffee at premium prices and generate repeat business from customers. Still, the company is somewhat cyclical. From fiscal year 2007 to 2008, earnings-per-share fell -18%, before increasing 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 dividend yield of 2.0%. Thanks to its healthy payout ratio of 62%, its solid balance sheet and its promising growth prospects, the company is likely to 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 last 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. We expect the stock to offer an 8.0% average annual return over the next five years thanks to 13.0% growth and its 2.0% dividend, partly offset by a -6.1% valuation headwind. The stock maintains its hold rating.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Revenue	14867	16448	19163	21316	22387	24720	26509	23520	29060	32250
Gross Profit	8485	9589	11375	12805	13349	14545	7488	5059	8391	8371
Gross Margin	57.1%	58.3%	59.4%	60.1%	59.6%	58.8%	28.2%	21.5%	28.9%	26.0%
SG&A Exp.	938	991	1197	1361	1393	1759	1824	1680	1933	2032
D&A Exp.	656	748	934	1030	1067	1306	1449	1503	1524	1529
Operating Profit	2207	2793	3351	3854	3897	3807	3916	1518	4657	4430
Operating Margin	14.8%	17.0%	17.5%	18.1%	17.4%	15.4%	14.8%	6.5%	16.0%	13.7%
Net Profit	8	2068	2757	2818	2885	4518	3599	928	4199	3282
Net Margin	0.1%	12.6%	14.4%	13.2%	12.9%	18.3%	13.6%	3.9%	14.5%	10.2%
Free Cash Flow	1757	-553	2445	3135	2655	9961	3240	114.2	4519	2556
Income Tax	-239	1092	1144	1380	1433	1262	872	239.7	1157	949

Balance Sheet Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Total Assets	11517	10753	12416	14313	14366	24156	19220	29370	31390	27978
Cash & Equivalents	2576	1708	1530	2129	2462	8756	2687	4351	6456	2818
Accounts Receivable	561	631	719	769	870	693	879	883	940	1176
Inventories	1111	1091	1306	1379	1364	1401	1529	1551	1604	2177
Goodwill & Int. Ass.	1138	1130	2096	2236	1981	4584	4273	4149	4027	3439
Total Liabilities	7034	5479	6597	8422	8909	22981	25451	37170	36710	36677
Accounts Payable	492	534	684	731	783	1179	1190	998	1212	1441
Long-Term Debt	1299	2048	2348	3585	3933	9440	11167	16350	14620	15044
Shareholder's Equity	4480	5272	5818	5884	5450	1170	-6232	-7805	-5321	-8707
D/E Ratio	0.29	0.39	0.40	0.61	0.72	8.07	-1.79	-2.2	-2.75	-1.73

Profitability & Per Share Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Return on Assets	0.1%	18.6%	23.8%	21.1%	20.1%	23.5%	16.6%	3.8%	13.8%	11.1%
Return on Equity	0.2%	42.4%	49.7%	48.2%	50.9%	137%	---	---	---	---
ROIC	0.1%	31.6%	35.6%	31.9%	30.6%	45.2%	46.3%	13.8%	47.1%	41.9%
Shares Out.	1,506	1,499	1,485	1,461	1,432	1,309	1,185	1,182	1,186	1,159
Revenue/Share	9.75	10.78	12.66	14.34	15.32	17.73	21.50	19.9	24.51	27.84
FCF/Share	1.15	-0.36	1.62	2.11	1.82	7.14	2.63	0.1	3.81	2.21

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

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