



Starbucks Corporation (SBUX)

Updated November 3rd, 2023, by Aristofanis Papadatos

Key Metrics

Current Price:	\$103	5 Year CAGR Estimate:	13.1%	Market Cap:	\$117 B
Fair Value Price:	\$95	5 Year Growth Estimate:	13.0%	Ex-Dividend Date:	11/9/23
% Fair Value:	108%	5 Year Valuation Multiple Estimate:	-1.5%	Dividend Payment Date:	11/24/23
Dividend Yield:	2.2%	5 Year Price Target	\$176	Years Of Dividend Growth:	13
Dividend Risk Score:	B	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 37,000 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 \$117 billion market cap company generated \$36 billion in annual revenue in fiscal 2023.

In early November, Starbucks reported (11/2/23) financial results for the fourth quarter of fiscal year 2023 (Starbucks fiscal year ends the Sunday closest to September 30th). The company maintained its strong business momentum and grew its comparable store sales 8% thanks to 9% growth in North America and 5% growth in international markets. Same-store sales in China grew 5%. Adjusted earnings-per-share grew 31%, from \$0.81 in the prior year's quarter to \$1.06, and exceeded the analysts' consensus by \$0.09. The headwinds from the lockdowns in China and high inflation have subsided. Starbucks provided strong guidance for fiscal 2024, expecting 10%-12% growth of sales and 15%-20% growth of earnings-per-share, in line with its long-term guidance of 15%-20% growth of the bottom line. Accordingly, we expect earnings-per-share of at least \$4.15 in the new fiscal year.

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	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
EPS	\$1.36	\$1.58	\$1.91	\$2.06	\$2.42	\$2.83	\$1.17	\$3.24	\$2.96	\$3.54	\$4.15	\$7.65
DPS	\$0.52	\$0.64	\$0.80	\$1.00	\$1.26	\$1.44	\$1.64	\$1.80	\$1.96	\$2.12	\$2.28	\$3.36
Shares¹	1,499	1,485	1,461	1,432	1,309	1,185	1,182	1,186	1,153	1,149	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 recent headwinds that faced the company, such as excessive inflation and lackluster momentum in China, have subsided.

Valuation Analysis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Now	2029
Avg. P/E	27.9	30.2	30.4	27.7	23.2	26.6	---	33.3	31.2	28.3	24.8	23.0
Avg. Yld.	1.4%	1.3%	1.4%	1.8%	2.2%	1.9%	2.0%	2.1%	2.1%	2.1%	2.2%	1.9%

¹ In millions.

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Excluding 2020, Starbucks has traded hands with an average price-to-earnings ratio of 28.4. 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 24.8. If it trades at our assumed fair valuation level in five years, it will incur a -1.5% annualized drag in its return.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	38%	41%	42%	49%	52%	51%	140%	56%	66%	60%	55%	44%

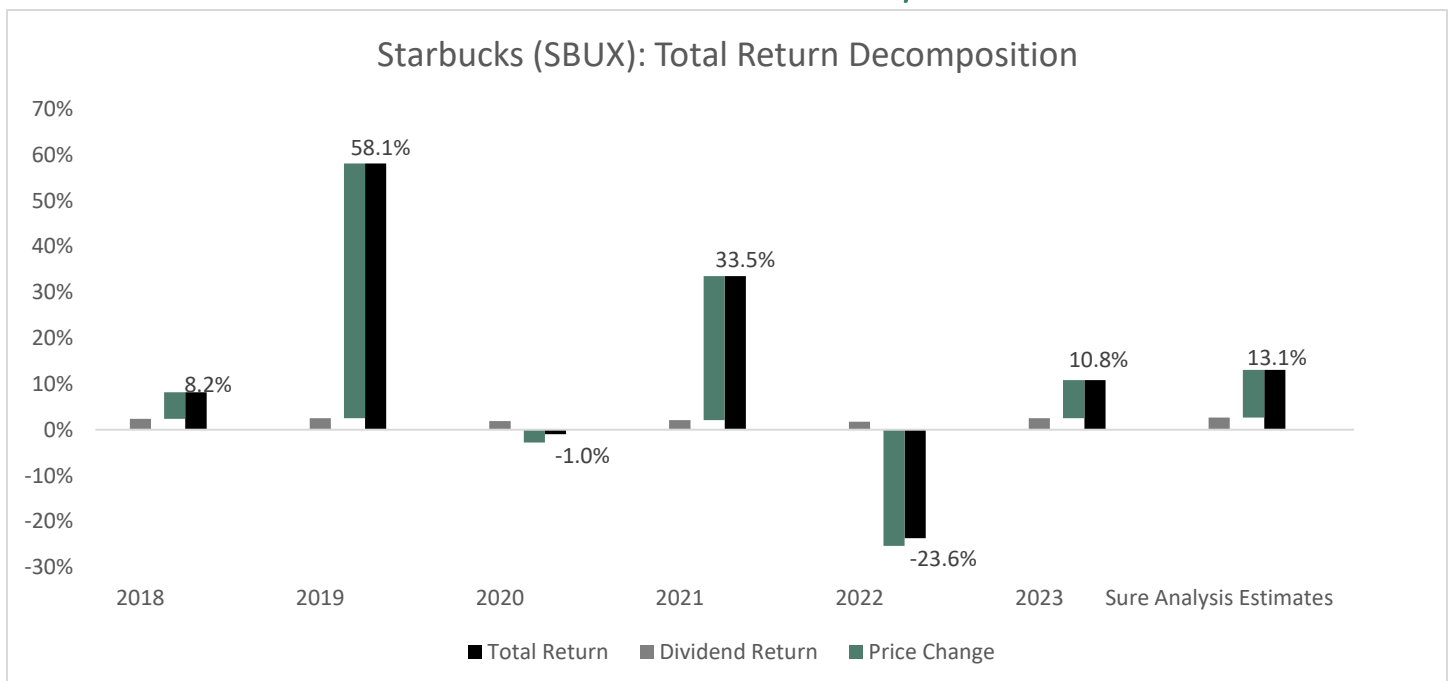
Starbucks sells an addictive product combined with a well-respected brand. This allows the company to sell its coffee at premium prices and generate repeat business from customers. Still, the company is somewhat cyclical. From fiscal year 2007 to 2008, earnings-per-share fell -18%, before increasing 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 recently raised its dividend by 8% and thus it is currently offering a dividend yield of 2.2%. Thanks to its healthy payout ratio of 55%, its solid balance sheet and its promising growth prospects, the company is likely to keep raising its dividend meaningfully 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 a 13.1% average annual return over the next five years thanks to 13.0% growth and its 2.2% dividend, partly offset by a -1.5% valuation headwind. The stock maintains its buy rating.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Revenue	16448	19163	21316	22387	24720	26509	23520	29060	32250	
Gross Profit	9589	11375	12805	13349	14545	7488	5059	8391	8371	
Gross Margin	58.3%	59.4%	60.1%	59.6%	58.8%	28.2%	21.5%	28.9%	26.0%	
SG&A Exp.	991	1197	1361	1393	1759	1824	1680	1933	2032	
D&A Exp.	748	934	1030	1067	1306	1449	1503	1524	1529	
Operating Profit	2793	3351	3854	3897	3807	3916	1518	4657	4430	
Operating Margin	17.0%	17.5%	18.1%	17.4%	15.4%	14.8%	6.5%	16.0%	13.7%	
Net Profit	2068	2757	2818	2885	4518	3599	928	4199	3282	
Net Margin	12.6%	14.4%	13.2%	12.9%	18.3%	13.6%	3.9%	14.5%	10.2%	
Free Cash Flow	-553	2445	3135	2655	9961	3240	114.2	4519	2556	
Income Tax	1092	1144	1380	1433	1262	872	239.7	1157	949	

Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total Assets	10753	12416	14313	14366	24156	19220	29370	31390	27978	
Cash & Equivalents	1708	1530	2129	2462	8756	2687	4351	6456	2818	
Accounts Receivable	631	719	769	870	693	879	883	940	1176	
Inventories	1091	1306	1379	1364	1401	1529	1551	1604	2177	
Goodwill & Int. Ass.	1130	2096	2236	1981	4584	4273	4149	4027	3439	
Total Liabilities	5479	6597	8422	8909	22981	25451	37170	36710	36677	
Accounts Payable	534	684	731	783	1179	1190	998	1212	1441	
Long-Term Debt	2048	2348	3585	3933	9440	11167	16350	14620	15044	
Shareholder's Equity	5272	5818	5884	5450	1170	-6232	-7805	-5321	-8707	
D/E Ratio	0.39	0.40	0.61	0.72	8.07	-1.79	-2.2	-2.75	-1.73	

Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Return on Assets	18.6%	23.8%	21.1%	20.1%	23.5%	16.6%	3.8%	13.8%	11.1%	
Return on Equity	42.4%	49.7%	48.2%	50.9%	137%	---	---	---	---	
ROIC	31.6%	35.6%	31.9%	30.6%	45.2%	46.3%	13.8%	47.1%	41.9%	
Shares Out.	1,499	1,485	1,461	1,432	1,309	1,185	1,182	1,186	1,159	
Revenue/Share	10.78	12.66	14.34	15.32	17.73	21.50	19.9	24.51	27.84	
FCF/Share	-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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