



Starbucks Corporation (SBUX)

Updated May 6th, 2025, by Aristofanis Papadatos

Key Metrics

Current Price:	\$82	5 Year CAGR Estimate:	10.6%	Market Cap:	\$96 B
Fair Value Price:	\$58	5 Year Growth Estimate:	16.0%	Ex-Dividend Date:	5/16/25
% Fair Value:	143%	5 Year Valuation Multiple Estimate:	-6.9%	Dividend Payment Date:	5/30/25
Dividend Yield:	3.0%	5 Year Price Target	\$121	Years Of Dividend Growth:	14
Dividend Risk Score:	D	Sector:	Consumer Discretionary	Rating:	Hold

Overview & Current Events

Starbucks began with a single store in Seattle's Pike Place Market in 1971 and now has more than 40,000 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 \$96 billion market cap company generated \$36 billion in annual revenue in fiscal 2024.

In late April, Starbucks reported (4/29/25) financial results for the second quarter of fiscal 2025 (Starbucks' fiscal year ends the Sunday closest to September 30th). Comparable store sales declined -1% due to a -2% decline in the number of transactions. Same-store sales in China were flat, after many negative quarters in a row. Adjusted earnings-per-share decreased -40%, from \$0.68 in the prior year's quarter to \$0.41, and missed the analysts' consensus by \$0.07. It was a disappointing quarter, as it signaled that the recovery is likely to take longer to materialize. Due to the disappointing earnings report, we have lowered our forecast for annual earnings-per-share from \$3.40 to \$2.50. Due to the recent change in the CEO position, the new management has not provided any guidance for fiscal 2025.

Howard Schultz, the legendary CEO of Starbucks, stepped down from the CEO position in 2023. Starbucks thrived and enjoyed an impressive growth trajectory in the three tenures of Schultz. We had repeatedly stated that the successor of Schultz seemed incapable of keeping the company in growth mode. Therefore, we view the recent change of CEO as positive for Starbucks, though results are likely to remain volatile in the short run.

Growth on a Per-Share Basis

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2030
EPS	\$1.58	\$1.91	\$2.06	\$2.42	\$2.83	\$1.17	\$3.24	\$2.96	\$3.54	\$3.31	\$2.50	\$5.25
DPS	\$0.64	\$0.80	\$1.00	\$1.26	\$1.44	\$1.64	\$1.80	\$1.96	\$2.12	\$2.28	\$2.44	\$3.44
Shares¹	1,485	1,461	1,432	1,309	1,185	1,182	1,186	1,153	1,149	1,136	1,130	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. Due to the abnormally low comparison base formed by the 4-year low expected earnings-per-share this year, we have assumed 16% growth of earnings-per-share over the next five years.

Valuation Analysis

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	Now	2030
Avg. P/E	30.2	30.4	27.7	23.2	26.6	---	33.3	31.2	28.3	27.0	32.8	23.0
Avg. Yld.	1.3%	1.4%	1.8%	2.2%	1.9%	2.0%	2.1%	2.1%	2.1%	2.6%	3.0%	2.8%

¹ In millions.

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Excluding 2020, Starbucks has traded hands with an average price-to-earnings ratio of 28.3. 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 32.8. If it trades at our assumed fair valuation level in five years, it will incur a -6.9% annualized drag in its return.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2030
Payout	41%	42%	49%	52%	51%	140%	56%	66%	60%	69%	98%	65%

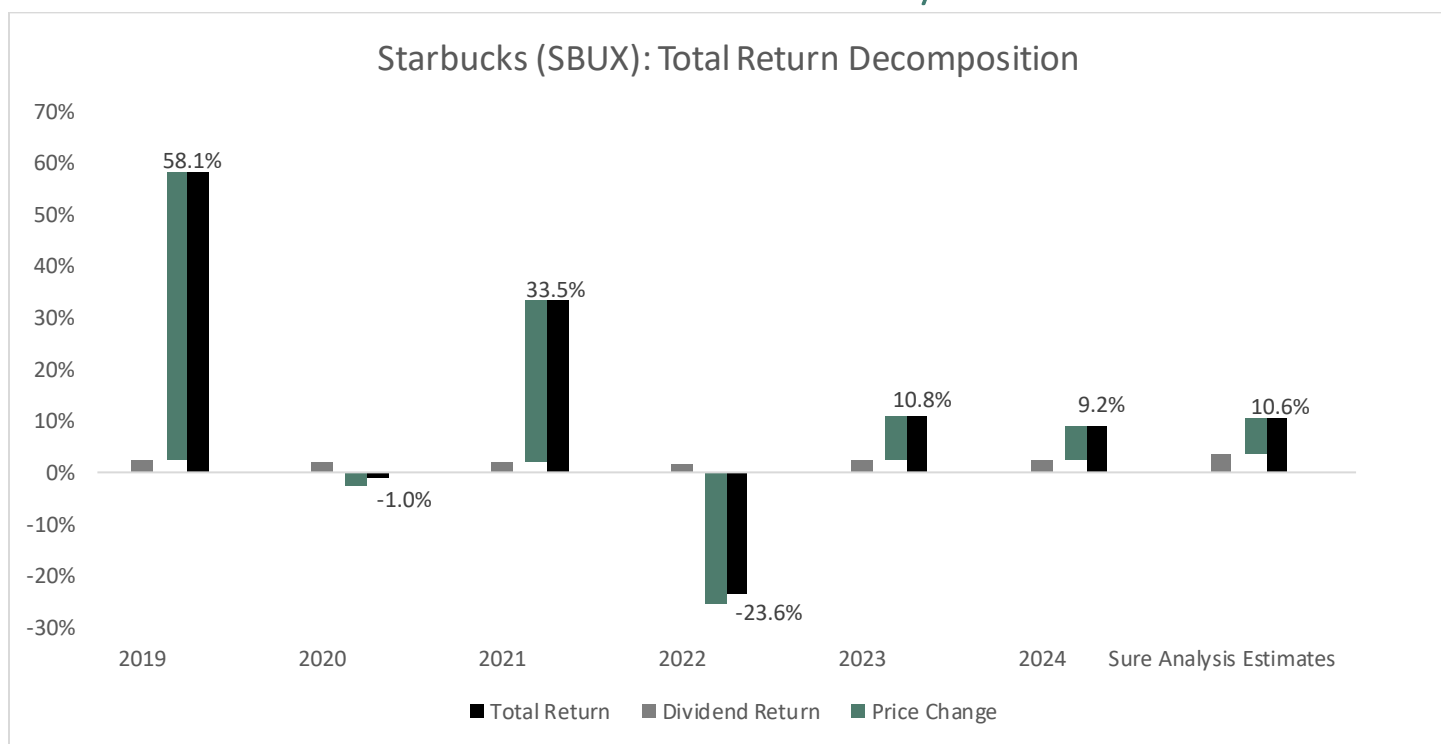
Starbucks sells an addictive product combined with a well-respected brand. This allows the company to sell its coffee at premium prices and generate repeat business from customers. Still, the company is somewhat cyclical. From fiscal year 2007 to 2008, earnings-per-share fell -18%, before increasing 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 offering a dividend yield of 3.0%. The payout ratio is excessive at 98% due to depressed earnings this year, but the dividend is fairly safe in the absence of a severe downturn, given the expected recovery of the company.

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 company has stumbled since last year but we expect it to recover thanks to the change of its CEO. The stock appears attractive from a long-term perspective. It could offer a 10.6% average annual return over the next five years thanks to 16.0% growth of earnings-per-share and its 3.0% dividend, partly offset by a -6.9% valuation headwind. The stock receives a hold rating. Nevertheless, due to the recent change in the CEO position, the turnaround may take years to materialize. Therefore, the stock is suitable only for patient investors.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Revenue	19163	21316	22387	24720	26509	23520	29060	32250	35976	36176
Gross Profit	11375	12805	13349	14545	7488	5059	8391	8371	9846	9709
Gross Margin	59.4%	60.1%	59.6%	58.8%	28.2%	21.5%	28.9%	26.0%	27.4%	26.8%
SG&A Exp.	1197	1361	1393	1759	1824	1680	1933	2032	2441	2523
D&A Exp.	934	1030	1067	1306	1449	1503	1524	1529	1450	1592
Operating Profit	3351	3854	3897	3807	3916	1518	4657	4430	5503	5108
Operating Margin	17.5%	18.1%	17.4%	15.4%	14.8%	6.5%	16.0%	13.7%	15.3%	14.1%
Net Profit	2757	2818	2885	4518	3599	928	4199	3282	4125	3761
Net Margin	14.4%	13.2%	12.9%	18.3%	13.6%	3.9%	14.5%	10.2%	11.5%	10.4%
Free Cash Flow	2445	3135	2655	9961	3240	114.2	4519	2556	3675	3318
Income Tax	1144	1380	1433	1262	872	239.7	1157	949	1277	1207

Balance Sheet Metrics

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Total Assets	12416	14313	14366	24156	19220	29370	31390	27978	29446	31339
Cash & Equivalents	1530	2129	2462	8756	2687	4351	6456	2818	3552	3286
Accounts Receivable	719	769	870	693	879	883	940	1176	1184	1214
Inventories	1306	1379	1364	1401	1529	1551	1604	2177	1806	1777
Goodwill & Int. Ass.	2096	2236	1981	4584	4273	4149	4027	3439	3339	3417
Total Liabilities	6597	8422	8909	22981	25451	37170	36710	36677	37433	38781
Accounts Payable	684	731	783	1179	1190	998	1212	1441	1544	1596
Long-Term Debt	2348	3585	3933	9440	11167	16350	14620	15044	15400	15568
Shareholder's Equity	5818	5884	5450	1170	-6232	-7805	-5321	-8707	-7995	-7449
D/E Ratio	0.40	0.61	0.72	8.07	-1.79	-2.2	-2.75	-1.73	-1.93	-2.09

Profitability & Per Share Metrics

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Return on Assets	23.8%	21.1%	20.1%	23.5%	16.6%	3.8%	13.8%	11.1%	14.4%	12.4%
Return on Equity	49.7%	48.2%	50.9%	137%	---	---	---	---	---	---
ROIC	35.6%	31.9%	30.6%	45.2%	46.3%	13.8%	47.1%	41.9%	60.0%	48.4%
Shares Out.	1,485	1,461	1,432	1,309	1,185	1,182	1,186	1,159	1,151	1,137
Revenue/Share	12.66	14.34	15.32	17.73	21.50	19.9	24.51	27.84	31.25	31.81
FCF/Share	1.62	2.11	1.82	7.14	2.63	0.1	3.81	2.21	3.19	2.92

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

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