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Starbucks Valuation

Ticker SBUX

Model: Discount Cash Flow

Date of start: 18/06/24

Date of end: 22/06/24

Date format: day/month/year

Made by Roi Dayan

Opening

Starbucks is a special company, it's a chain of coffeehouses and similar products that owns the biggest market share in the restaurant industry and the 7th largest market share in the consumer service sector.

It was founded in 1971 by 3 college students, and was sold 10 years after to Howard Schutlz, who for decades built the Starbucks chain and the brand itself.

It started as a coffee bean store, and then changed to a coffee shop and into an overall coffeehouse.

Talking about the firm itself, it's a mature firm with a large market share and a simple business model.

On the other hand, in the last quarter, Q1 of 2024, Starbucks showed a significant problem in the firm and in its basic business model, that caused the stock to be down about 17%!

Starbucks has shown that the overall consumer, starts to prefer other firm's coffee then starbucks's one, especially in the current macro environment where interest rates are high.

Other firms in the sector started taking pieces of starbucks's market share, as starbucks slowed down in her operation, opening less units, and raising debt in the high interest environment, which shows starbucks's weakness.

The overall situation for starbucks doesn't look promising at all, as those problems are all rooted in starbucks's fundamental's and only a change in Starbuck's business model could shift the firm towards growth.

Length of the model

When doing a DCF, one of the most underrated and critical choices is for how many years is the model going to forecast future free cash flows, the question is rooted in the answer to the question: when does the firm become mature?

As I discussed earlier, sbux is a mature company, but I believe that a shift in the fundamental of the firm is needed and eventually will happen, so I feel fine with the assumption of putting sbux on a stable growth phase after 6 years, thus a 6 years model.

wacc – weighted average cost of capital

the weighted average cost of capital, or as it known, the "wacc", is the discount rate, in which we discount the future cash flows back to their present value, the weighted average cost of capital represents the how risky is the firms; with high wacc causing the present value of the cashflows to decrease than a lower wacc.

The value of the wacc is as 'simple' as the answer for the following question.

How much does investors should ask in return for investing in the firm?

The wacc can be broken into 2 main pieces, the equity and the debt, as the name implies, the weight average cost of capital is the weighted average of the cost of equity and the cost of debt.
Note that we use the market value of equity and debt, and not the book value.

Equity

Cost of equity

To get the cost of equity, we would use the CAPM model;

The cost of equity = Rf + (beta*erp)

Where:

Rf – risk free rate

Beta – relative risk measure

Erp – equity risk premium

Risk free rate

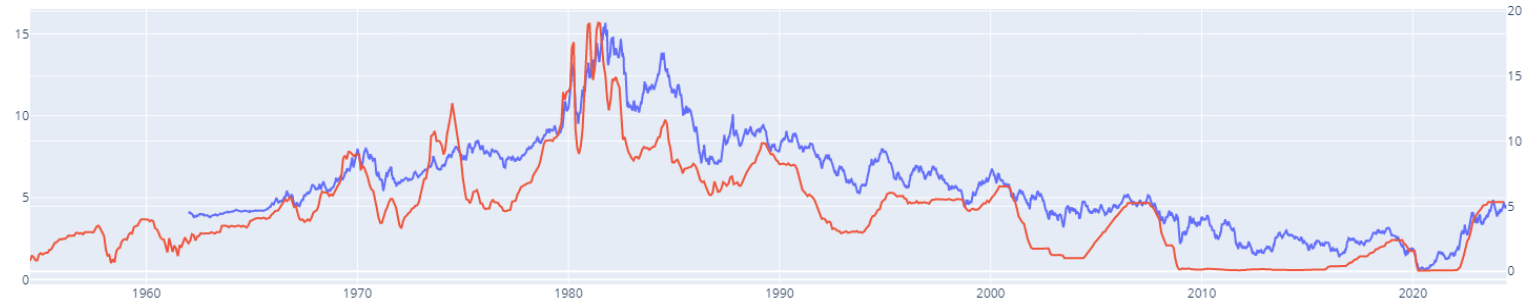
To get an estimate of the risk-free rate, I would use the rate of return of the 30Y us treasury bond, as the us is the most riskless nation in the world, her bond is the safest.

I would rather use the 30Y bond then the 10Y because I think that the ongoing war in the middle east inherit some risk to the next 10Y in the us.

period	risk free rate
current	4.480%
1	5.000%
2	4.500%
3	4.000%
4	3.500%
5	3.000%
6	3.000%
terminal	3%

The current rate of return on the 30Y us Treasury is 4.48%. I don't feel much comfortable to try to asses the future risk free rate, and its also doesn't play a big role in the valuation, but in a nutshell, the rate of return can be traced back to the interest rates, and I believe that the interest rates will remain still in the next 1-2 years, but then inflation will cool down, which will cause interest rates, and thus the risk free rate, to lower as well.

chart 1.0 – us 30Y bond rate vs us nominal Interest rate



Equity risk premium

The equity risk premium is the rate of return in which investors demand for investing In the us equity market, since investing in us equity bears within it more risk the risk free investments, there is some premium investors would demand for doing so.

For that reason, we can asses that the formula for ERP is;

ERP = rm-rf

Where:

Rm – return of the market

Rf- risk free investment

Further more, because the us is considered the safest market to invest in, there is a premium investors demand for investing in other countries, this premium comes from the risk that the country will default, thus, one way of calculating the equity risk premium for a country is;

ERP country x = ERP of the safest country to invest + country x default risk

= ERP of the us + country x default risk.

To calculate the equity risk premium for a firm, we first want to understand where does the firm's risk comes from.

Talking about starbucks, it's risk doesn't come from the place she (the firm) operate, but the places **she sell**, thus, the risk in the firm bear's within the countries where she sells.

Unfortunately, starbucks does not publish in her reports a specify spread of revenue by country, but she does specify cy region;

Quarterly Store Data

Our store data for the periods presented is as follow

	Stores open as of	
	Mar 31, 2024	Apr 2, 2023
North America		
Company-operated stores	10,827	10,347
Licensed stores	7,238	7,135
Total North America	18,065	17,482
International		
Company-operated stores	9,282	8,308
Licensed stores	11,604	10,844
Total International	20,886	19,152
Total Company	**38,951**	**36,634**

county/region	numbers	%
north america	17,482	47.72%
international	19,152	52.28%
total	36,634	100.00%

This information isn't that helpful, but we can extract some things to come up with something.

First, the current equity risk premium for the us is 4.15%, the average default risk for a country in north America is about 2%, but from common sense we can understand that most of starbucks's revenues from north America is actually from the us, since the us has 0% default risk, we can come off with a rough measure of 1% default risk for the north America segment.

The international segment is just a mess, the average country default risk is about 5% but we can have a rough measure of 3% for the international segment since starbucks is more of a "wealth brand" that operates in more developed countries and parts of the world.

Computing a weighted average equity risk premium by each segment yields us a value of 6.23%.

county/region	numbers	us erp	default risk	country erp	%	**weight average**
north america	17,482	4.18%	1%	5%	47.72%	2.4719320849484100%
international	19,152	4.18%	3%	7.18%	52.28%	3.7536539826390800%
total	36,634				100.00%	6.23%

The current equity risk premium of starbucks is 6.23%, trying to assess what will be the future ERP for the next 6 years is hard, but the most important thing in this assessment is the terminal ERP.

By starbucks own model, one of their targets is to become “truly global”, which means operating in more riskier parts of the world, and just overall to spread out globally, which, inevitably, bears risk within it.

I think that if starbucks achieve their goal of becoming truly global, would yield a spread of revenue of about 70% internationally and 30% from north America, counting for the average historical us equity risk premium of 4.12%, yields us a terminal value of equity risk premium of 6.52%, not a big change, but it is a fine detail.

terminal

county/region	numbers	us erp	default risk	country erp	%	**weight average**
north america	17,482	4.12%	1%	5.12%	30.00%	1.5360%
international	19,152	4.12%	3%	7.12%	70.00%	4.9840%
total	36,634				100.00%	6.52%

The change between the current ERP and the terminal ERP is so slim that there is no need in explanation or estimates on how we will get from one to another,

We get to a final estimation of starbucks’s future ERP:

period	Starbucks erp
current	6.23%
1	6.27%
2	6.32%
3	6.37%
4	6.42%
5	6.47%
6	6.52%
terminal	6.52%

beta

The last ingredient in the cost of equity is the relative risk measure, the beta.

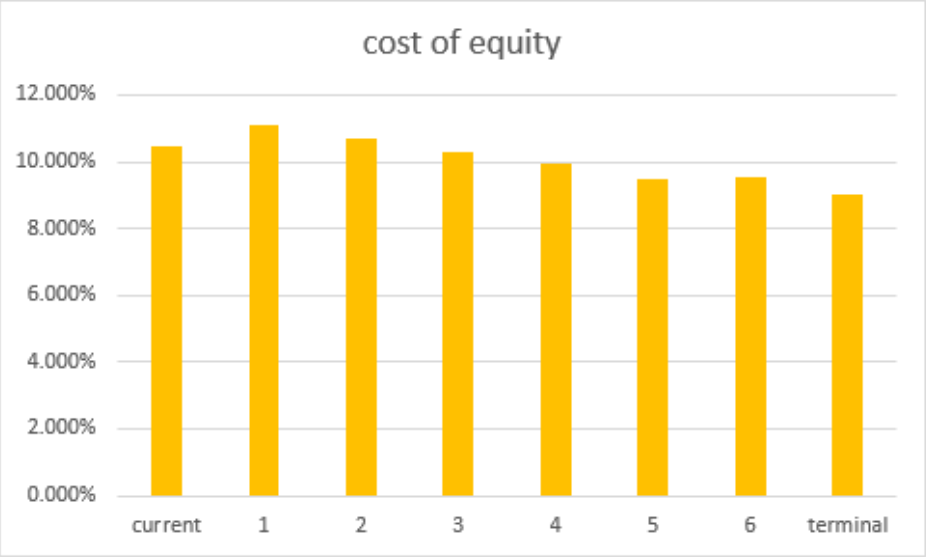
Starbucks’s current 5y regression beta against the s&p500 is 0.96, which tells us what we already knew, starbucks is a big company with a huge market cap in for that reasons it moves almost identically with the market movement.

As Starbucks get bigger, her influence on the market is bigger and thus she moves more and more with the market, which will result in a beta of 1.

period	beta
current	0.96
1	0.97
2	0.98
3	0.99
4	1
5	1
6	1
terminal	1

Now we can compute the cost of equity:

period	rf	erp	beta	cost of equity
current	4.480%	6.23%	0.96	10.457%
1	5.000%	6.27%	0.97	11.086%
2	4.500%	6.32%	0.98	10.697%
3	4.000%	6.37%	0.99	10.309%
4	3.500%	6.42%	1	9.922%
5	3.000%	6.47%	1	9.471%
6	3.000%	6.52%	1	9.520%
terminal	3%	6.52%	1	9.000%



the market value of equity is fairly simple; value per share times the amount of shares:

price:	$	80.00
shares:		1,132.7 mill
mv of equity	$	90,616.00 mill

debt

cost of debt

The cost of debt is the rate of return lenders demand for lending money for the firm, thus, riskier firms have higher cost of debt and safer firms have lower cost of debt.

Cost of debt = rf + country default risk*x + company default risk

Where:

rf – risk free rate

country default risk – the default risk of the country the firm is operating in

x – the precent of exposure of the firm to the country

starbucks is operating in the us, and as we discussed the us default risk is 0, so:

cost of debt = rf + 0*x + company default risk = rf + company default risk

we already have an estimate of the risk-free rate, so we only need to estimate the default risk of starbucks, fortunately, there are firms like Moody's who's their job is the rate firms, and we can turn it to a default risk measure.

The current rating for starbucks is Baa1, with stable outlook, based on historical rating, its fair to say starbucks would maintain this rating for the next 6 years, in the terminal value I think Starbucks's rating would and should be Aa

period	rating
current	Baa1
1	Baa1
2	Baa1
3	Baa1
4	Baa1
5	Baa1
6	Baa1
terminal	Aa

Now we can estimate the cost of debt:

period	rating	% default risk	rf	cost of debt
current	Baa1	1.47%	4.480%	5.9500%
1	Baa1	1.47%	5.000%	6.4700%
2	Baa1	1.47%	4.500%	5.9700%
3	Baa1	1.47%	4.000%	5.4700%
4	Baa1	1.47%	3.500%	4.9700%
5	Baa1	1.47%	3.000%	4.4700%
6	Baa1	1.47%	3.000%	4.4700%
terminal	Aa	1%	3%	4.0000%

Market value of debt

To estimate the market value of the debt, we would treat the future debt as **bonds,** thus, the coupon rate will be the interest payment, and the discount rate will be the cost of debt.

To estimate how many years does this "bond" has before expiring, we would calculate a rough estimate of how many years are there to all interest bearing debt to be paid fully by the firm.

The following table summarizes our long-term debt maturities as of March 31, 2024 by fiscal year (*in millions*):

Fiscal Year	Total
2024	$ —
2025	1,250.0
2026	1,500.0
2027	1,500.0
2028	600.0
Thereafter	10,850.0
Total	$ 15,700.0

year	period	debt
2025	1	$ 1,250.00
2026	2	$ 1,500.00
2027	3	$ 1,500.00
2028	4	$ 600.00
thereafter	8	$ 10,850.00
total		$ 15,700.00

the firm didn't specify exactly how many years is "thereafter", so to get a rough measure we would divide a normal year debt paid by thereafter amount.

A normal year's debt paid is about 1,250 million dollars, divided by 15,700 million dollars is 8.3, we would round it to 8.

4 years (2024-2028) plus 8 years (thereafter) equals 12 years until all interest bearing debt is to be paid, thus 12 years until this "bond" is expiring.

period	1	2	3	4	5	6	7	8	9	10	11	12
interest payment	$ 556.80	$ 556.80	$ 556.80	$ 556.80	$ 556.80	$ 556.80	$ 556.80	$ 556.80	$ 556.80	$ 556.80	$ 556.80	$ 556.80
cost of debt	6.4700%	5.9700%	5.4700%	4.9700%	4.4700%	4.4700%	4.0000%	4%	4%	4%	4%	4%
present value	$ 522.96	$ 495.83	$ 474.58	$ 458.60	$ 447.45	$ 428.30	$ 423.12	$ 406.85	$ 391.20	$ 376.15	$ 361.69	$ 347.78

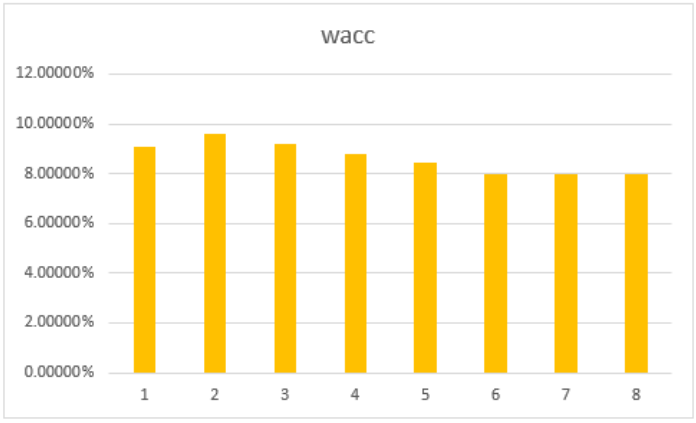
total present value	$	5,134.52
total debt	$	24,599.80
total	$	29,734.32

now we have all the ingredients to compute the weight average cost of capital:

wacc – weight average cost of capital

	cost of equity	market value of equity	cost of debt	tax rate	cost of debt after tax
current	10.4566%	$ 90,616.00	5.950%	19%	4.820%
1	11.0864%	$ 90,616.00	6.470%	20%	5.176%
2	10.6972%	$ 90,616.00	5.970%	21%	4.716%
3	10.3091%	$ 90,616.00	5.470%	22%	4.267%
4	9.9219%	$ 90,616.00	4.970%	23%	3.827%
5	9.4709%	$ 90,616.00	4.470%	24%	3.397%
6	9.5200%	$ 90,616.00	4.470%	24%	3.397%
terminal	9.0000%	$ 90,616.00	4.000%	24%	3.040%

market value of debt	portion of equity from capital	portion of debt from capital	wacc
$ 29,734.32	75.29%	24.71%	9.06384%
$ 29,734.32	75.29%	24.71%	9.62616%
$ 29,734.32	75.29%	24.71%	9.21957%
$ 29,734.32	75.29%	24.71%	8.81619%
$ 29,734.32	75.29%	24.71%	8.41601%
$ 29,734.32	75.29%	24.71%	7.97033%
$ 29,734.32	75.29%	24.71%	8.00727%
$ 29,734.32	75.29%	24.71%	8.00000%



The cash flows

The wacc is the discount rate for the cash flow, and it takes a big part of the valuation process, but at the bottom line, if you mess up a valuation and get it awfully wrong, **it's because you messed up in the cash flows, the cash flows are the heart of the valuation.**

To make estimates for the future cash flows, you need to create a story for the firm, and by that's story characteristics you will be able extract the future cash flows.

The story

Discussing starbucks, I believe there are few key scenarios for the company, as we discussed in the opening, starbucks is in need for a change in its fundamentals and model, its unattractive for customers, and at the bottom line it is in need of lower prices.

For that reason, I think there are 2 main scenarios:

1 – starbucks will keep business as usual, she will keep her high prices, from one side, she will be able to maintain her high margins, on the other side, she will be "the coffee for the rich", and for that reason she can't be as huge as she is right now and her market share will decline.

Maintaining high margins, low growth, lower market share.

2 – starbucks would shift itself towards affordability by lowering prices, slowly but surely, she will be able to reattract normal customers, but her margins will decrease as a result of the pricing change.

Lower margins, higher growth , maintain market share.

Estimations

Story 1

Revenues

By story 1, starbucks will keep "business as usual".

As we discussed at the start, Starbucks's market is in crisis, thus keeping "business as usual" would cause her to lose growth.

Maintaining her high prices would cause her to become a company that's her customers are the wealthy, thus, from one side she would be somewhat protected from economic crisis, but on the other hand would experience low growth.

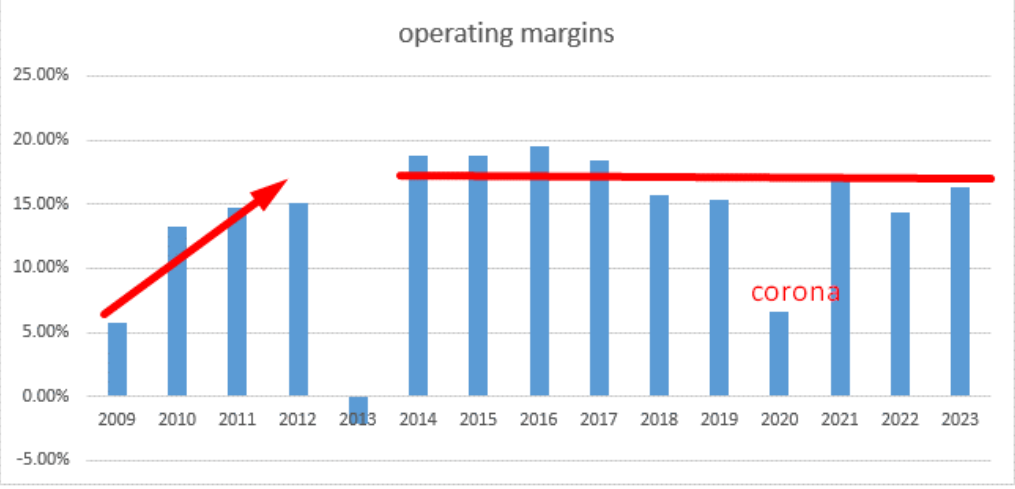
The median growth rate in the industry is about 7%, considering the situation, a 5% growth rate in the terminal value would be a fine assessment.

The average growth rate of starbucks excluding corona and post corona is about 10%.

Assumption: 10% growth rate → 5% terminal growth rate

Operating margins

The historical operating margins of starbucks after maturity, excluding corona and post corona is about 17%



As we discussed, if starbucks would maintain business as usual, she would be able to maintain her margins, thus, no big change in margins are expected

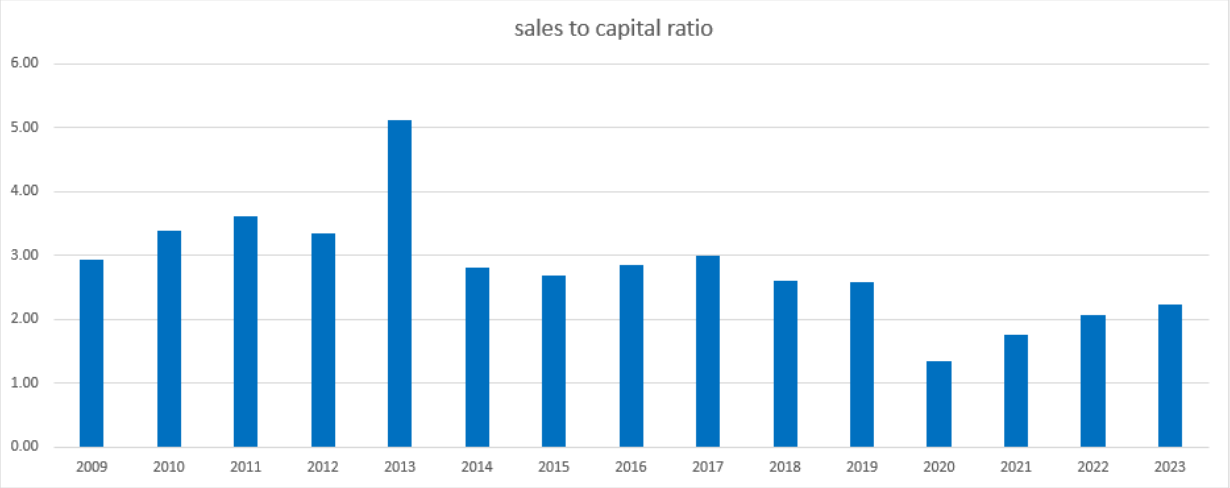
period	current	1	2	3	4	5	6	terminal
operating margins	16.32%	16.40%	16.50%	16.60%	16.70%	16.80%	16.90%	17%

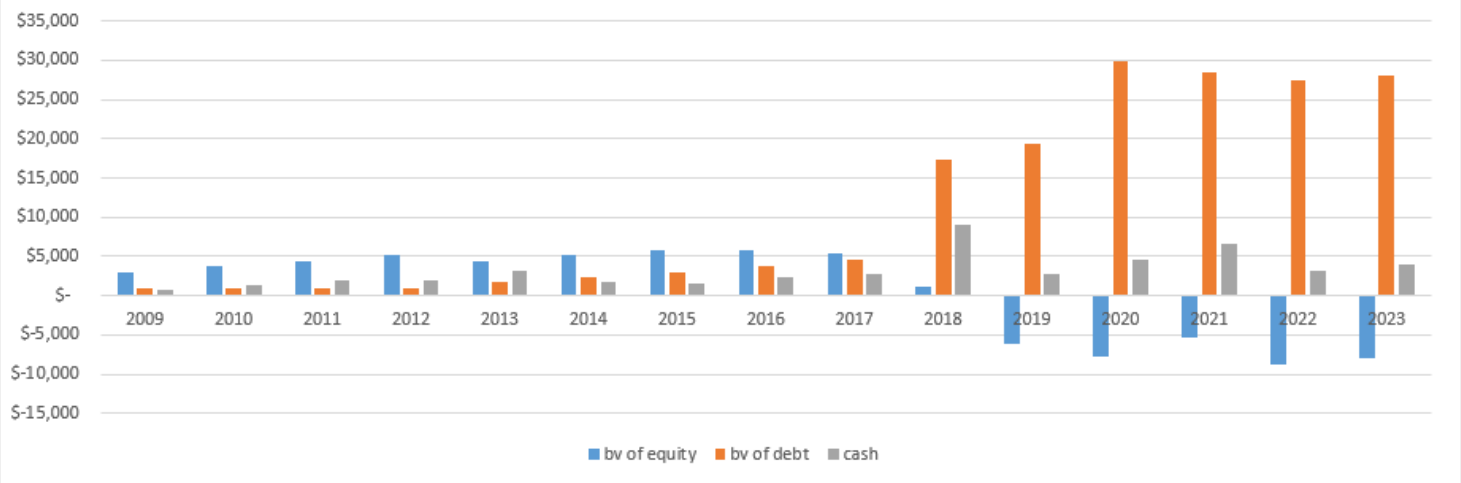
Assumption: 16.32 operating margins (current) → 17% operating margins

Reinvestment

To assess a reinvestment rate, we first would compute a **sales to invested capital ratio**, which equals to the revenue divided by invested capital, with that ratio we can get a sense of how much revenue the firm can generate for each invested dollar.

year	revenues	bv of equity	bv of debt	cash	invested capital	sales to capital ratio
2009	$ 9,775	$ 3,057	$ 939	$ 666	$ 3,330	2.94
2010	$ 10,707	$ 3,682	$ 925	$ 1,450	$ 3,157	3.39
2011	$ 11,700	$ 4,387	$ 897	$ 2,051	$ 3,233	3.62
2012	$ 13,277	$ 5,115	$ 895	$ 2,037	$ 3,973	3.34
2013	$ 14,867	$ 4,482	$ 1,657	$ 3,234	$ 2,905	5.12
2014	$ 16,448	$ 5,274	$ 2,441	$ 1,844	$ 5,871	2.80
2015	$ 19,163	$ 5,820	$ 2,948	$ 1,611	$ 7,157	2.68
2016	$ 21,316	$ 5,891	$ 3,875	$ 2,263	$ 7,503	2.84
2017	$ 22,387	$ 5,457	$ 4,688	$ 2,691	$ 7,454	3.00
2018	$ 24,720	$ 1,176	$ 17,296	$ 8,938	$ 9,534	2.59
2019	$ 26,509	$ -6,231	$ 19,282	$ 2,757	$ 10,294	2.58
2020	$ 23,518	$ -7,799	$ 29,827	$ 4,632	$ 17,396	1.35
2021	$ 29,061	$ -5,315	$ 28,556	$ 6,618	$ 16,623	1.75
2022	$ 32,250	$ -8,699	$ 27,525	$ 3,183	$ 15,643	2.06
2023	$ 35,976	$ -7,988	$ 28,088	$ 3,953	$ 16,147	2.23





Until 2017, starbucks managed to generate 3 dollars for each dollar invested, since 2017, starbucks started taking a lot of debt, which enlarged it's invested capital, and diminished its sales to capital ratio.

If starbucks keeps business as usual, she will experience slower growth but would be able to maintain it's sales to capital ratio, forward to it's average at around 3.

Lower growth rates require less reinvestment, which comes down to higher sales to invested capital ratio.

period	current	1	2	3	4	5	6	terminal
operating margins	2.23	2.40	2.50	2.60	2.70	2.80	2.90	3.00

Assumption: 2.23 STC ratio → **average sbux STC ratio if 3.0**

Story 2

Revenues

By story 2, starbucks make a change in it's business model, and shifts into affordability, doing that would make it possible to starbucks to maintain it's normal growth rate, which is about 10%

The average of starbuck's growth rate excluding years before maturity, corona and post corona = 10.65%

Assumption: 10.65% growth rate → 10.65% growth rate

Operating margins

If starbucks would shift towards affordability, that inevitably would cause her margins to shrink, at around the median if the industry, which is 12%.

period	current	1	2	3	4	5	6	terminal
operating margins	16.32%	15.47%	14.97%	14.47%	13.97%	13.47%	12.97%	12%

Assumption: 16.32% growth rate → 12% growth rate

Reinvestment

Maintaining it's high growth in the developed market with such a competitive pressure would cause starbucks to need to reinvest a lot, with a sales to capital ratio at around the industry median of 1.46

period	current	1	2	3	4	5	6	terminal
operating margins	2.23	2.10	1.97	1.84	1.72	1.59	1.50	1.46

Assumption: 2.23 STC ratio → median industry at 1.46

DCF

Story 1

starbucks will keep business as usual, she will keep her high prices, from one side, she will be able to maintain her high margins, on the other side, she will be “the coffee for the rich”, and for that reason she can’t be as huge as she is right now and her market share will decline.

DCF	fiscal 2024	1	2	3	4	5	6	terminal
Growth rate		*10.00%*	*9.00%*	*8.00%*	*7.00%*	*6.00%*	*5.00%*	*4.00%*
Revenues	$ 35,976.00	$ 39,573.6	$ 43,135.2	$ 46,586.0	$ 49,847.1	$ 52,837.9	$ 55,479.8	$ 57,699.0
Operating margins		16.40%	16.50%	16.60%	16.70%	16.80%	16.90%	17.00%
EBIT		$ 6,490.07	$ 7,117.31	$ 7,733.28	$ 8,324.46	$ 8,876.77	$ 9,376.08	$ 9,808.83
Tax rate		20.00%	21.00%	22.00%	23.00%	24.00%	24.00%	24.00%
EBIT after tax		$ 5,192.06	$ 5,622.68	$ 6,031.96	$ 6,409.83	$ 6,746.34	$ 7,125.82	$ 7,454.71
Sales to capital ratio		2.40	2.50	2.60	2.70	2.80	2.90	3.00
chg in revenues		$ 3,597.60	$ 3,561.62	$ 3,450.82	$ 3,261.02	$ 2,990.82	$ 2,641.89	$ 2,219.19
Reinvestment		$ 1,499.00	$ 1,424.65	$ 1,327.24	$ 1,207.79	$ 1,068.15	$ 911.00	$ 739.73
reinvestment rate		28.87%	25.34%	22.00%	18.84%	15.83%	12.78%	9.92%
		1	2	3	4	5	6	7
FCFF	**Unlevered FCFF**	$ 3,693.06	$ 4,198.03	$ 4,704.72	$ 5,202.05	$ 5,678.19	$ 6,214.83	$ 6,714.98
	WACC	**9.626%**	**9.220%**	**8.816%**	**8.416%**	**7.970%**	**8.007%**	**8%**
	Present Value of FCFF	$ 3,368.77	$ 3,519.20	$ 3,651.35	$ 3,765.31	$ 3,869.79	$ 3,914.81	$ 3,918.12
	TOTAL =	$ 26,007.37						

stable growth rate =	4.00%	
Terminal Value		$ 97,953.12
Present Value of Terminal Value		$ 57,154.70
Enterprise Value		**$ 83,162.07**
+ Cash		$ 3,953
- Debt		$ 28,088
Equity Value		**59,027**
Shares		1,132.70
Fair Share Price		$ 52.11
current price		$ 80.00
% gain (loss)		-34.86%

Story 2

2 – starbucks would shift itself towards affordability by lowering prices, slowly but surely, she will be able to reattract normal customers, but her margins will decrease as a result of the pricing change.

DCF	fiscal 2024	1	2	3	4	5	6	terminal
Growth rate		*10.65%*	*10.65%*	*10.65%*	*10.65%*	*10.65%*	*10.65%*	*10.65%*
Revenues	$ 35,976.00	$ 39,807.4	$ 44,046.9	$ 48,737.9	$ 53,928.5	$ 59,671.9	$ 66,027.0	$ 73,058.8
Operating margins		15.47%	14.97%	14.47%	13.97%	13.47%	12.97%	12.00%
EBIT		$ 6,158.21	$ 6,593.83	$ 7,052.38	$ 7,533.82	$ 8,037.81	$ 8,563.70	$ 8,767.06
Tax rate		20.00%	21.00%	22.00%	23.00%	24.00%	24.00%	24.00%
EBIT after tax		$ 4,926.57	$ 5,209.12	$ 5,500.86	$ 5,801.04	$ 6,108.73	$ 6,508.41	$ 6,662.97
Sales to capital ratio		2.10	1.97	1.84	1.72	1.59	1.50	1.46
chg in revenues		$ 3,831.44	$ 4,239.49	$ 4,691.00	$ 5,190.59	$ 5,743.39	$ 6,355.06	$ 7,031.87
Reinvestment		$ 1,824.47	$ 2,149.81	$ 2,543.88	$ 3,024.77	$ 3,616.67	$ 4,236.71	$ 4,816.35
reinvestment rate		37.0%	41.3%	46.2%	52.1%	59.2%	65.1%	72.3%
		1	2	3	4	5	6	7
FCFF	**Unlevered FCFF**	$ 3,102.10	$ 3,059.31	$ 2,956.97	$ 2,776.27	$ 2,492.06	$ 2,271.70	$ 1,846.62
	WACC	**9.626%**	**9.220%**	**8.816%**	**8.416%**	**7.970%**	**8.007%**	**8.000%**
	Present Value of FCFF	$ 2,829.71	$ 2,564.62	$ 2,294.92	$ 2,009.50	$ 1,698.38	$ 1,430.98	$ 1,077.48
	TOTAL =	$ 13,905.59						

stable growth rate =	4.00%	
Terminal Value		$ 26,937.06
Present Value of Terminal Value		$ 15,717.52
Enterprise Value		**$ 29,623.11**
+ Cash		$ 3,953
- Debt		$ 28,088
Equity Value		**5,488**
Shares		1,132.70
Fair Share Price		$ 4.85
current price		$ 80.00
% gain (loss)		-93.94%

analyst estimates

DCF	fiscal 2024	1	2	3	4	5	6	terminal
Growth rate		*1.70%*	*13.30%*	*10.00%*	*10.00%*	*10.00%*	*10.00%*	*10.00%*
Revenues	$ 35,976.00	$ 36,587.6	$ 41,453.7	$ 45,599.1	$ 50,159.0	$ 55,174.9	$ 60,692.4	$ 66,761.7
Operating margins		16.40%	16.50%	16.60%	16.70%	16.80%	16.90%	17.00%
EBIT		$ 6,000.37	$ 6,839.87	$ 7,569.45	$ 8,376.56	$ 9,269.39	$ 10,257.02	$ 11,349.48
Tax rate		20.00%	21.00%	22.00%	23.00%	24.00%	24.00%	24.00%
EBIT after tax		$ 4,800.29	$ 5,403.50	$ 5,904.17	$ 6,449.95	$ 7,044.74	$ 7,795.33	$ 8,625.61
Sales to capital ratio		2.10	2.50	3.00	3.00	3.00	3.00	3.00
chg in revenues		$ 611.59	$ 4,866.15	$ 4,145.37	$ 4,559.91	$ 5,015.90	$ 5,517.49	$ 6,069.24
Reinvestment		$ 291.23	$ 1,946.46	$ 1,381.79	$ 1,519.97	$ 1,671.97	$ 1,839.16	$ 2,023.08
		1	2	3	4	5	6	7
FCFF	**Unlevered FCFF**	$ 4,509.06	$ 3,457.04	$ 4,522.38	$ 4,929.98	$ 5,372.77	$ 5,956.17	$ 6,602.53
	WACC	**9.626%**	**9.220%**	**8.816%**	**8.416%**	**7.970%**	**8.007%**	**8.000%**
	Present Value of FCFF	$ 4,113.13	$ 2,898.03	$ 3,509.84	$ 3,568.38	$ 3,661.64	$ 3,751.88	$ 3,852.51
	TOTAL =	$ 25,355.41						

stable growth rate =	4.00%	
Terminal Value		$ 96,312.77
Present Value of Terminal Value		$ 56,197.58
Enterprise Value		**$ 81,552.98**
+ Cash		$ 3,953
- Debt		$ 28,088
Equity Value		**57,418**
Shares		1,132.70
Fair Share Price		$ 50.69
current price		$ 80.00
% gain (loss)		-36.64%

Disclosure and Final thoughts

As we discussed in the opening, starbucks is in big trouble, she can't seem to attract the average consumer and she doesn't seem to have a plan for this problem either, and to top all these fundamental problems, the competitive environment of the coffee sellers seems to just get stronger.

at the bottom line, why would someone pay 10$ for a starbucks coffee when at the other corner of the street Dunkin donuts sells a coffee just as tasty as starbuck's coffee for 4$?

And the numbers speak to themselves, by story number 1, which is the most probable, the fair value of sbux is about 52$ a share, the stock is overvalued by 35%, analyst expectations back up this number too.

needs an outstanding performance, much higher margins and much higher sales to capital ratio to justified its current market price.

I think that starbucks is in a bubble, and it's fair value is much lower then its market price, and that the fundamentals just does not justify the stock's price.

My opinion is:

STRONG SELL