APS 1016

Financial Management for Engineers

Main Project

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Executive Summary

1. Introduction

Starbucks is an industry leader in coffee and beverage selling in the restaurants, competing with other brands such as McDonald's. Since its formation in 1971, the company has consistently expanded its global market presence, delivering strong revenue and profitability performance.

2. Objective and description

The purpose of the project is to evaluate the company's financial health and McDonald's Corporation as the closest competitor. From low initial capital requirements to a high number of small players, Starbucks and McDonald's face the challenge of threats from new entrants and substitutes. The customers also have high bargaining power due to the low switching costs and high number of firms in the sector. The company maintained a strong profitability performance in the last three years with the liquidity position remaining unstable. The high efficiency in the use of its assets explains the strong profitability.

3. Methodology

The analysis focuses on ratio analysis, common-size analysis, and forecasting. Starbucks operates in an industry with stiff competition due to the low barriers for new entrants. Finally, we forecast stock prices based on P/E multiple, P/CF multiple, and FCF by using WACC as the discount rate. From the prediction of the stock value using the dividend growth model and discounted cash flows (DCF) model, Starbucks stocks are undervalued making them attractive for investment.

Industry Analysis

Starbucks Corporation is a multinational company operating across various global markets, roasting, marketing, and retailing coffee. Its three geographic operating units include North America, International, and Channel Development (Yahoo Finance, 2023). Established in 1971, Starbucks operates in the consumer cyclical sector of the restaurant industry, competing with some of the established brands such as McDonald's Corporation.

Barriers to entry: The sector accommodates a large number of small, medium, and large-cap companies. Starbucks and McDonald's as some of the largest brands in the sector face a high threat of new entrants. The low capital requirement and regulatory framework make it easy for other companies to enter the industry. However, the high cost of brand development may limit the growth of such businesses from reaching the scale of Starbucks' brand value and market share in the sector. Since the new entrants require low costs, entry into the market could lower the company's market share.

Powers of suppliers: Starbucks is facing moderate force from the bargaining power of suppliers. The contributing factors to the moderate bargaining power for its suppliers are the supply shortages and few vendors. As a coffeehouse, Starbucks has a small number of suppliers in its supply chain network, presenting a weak bargaining power that could significantly influence prices and quality. However, supply shortages arising from droughts and other ecological issues affect the supply of coffee beans that Starbucks uses in its products.

Powers of buyers (customers): Starbucks and McDonald's face strong bargaining power from their customers. Some of the factors contributing to the strong bargaining power are low switching costs, high availability of substitute products, and small size of individual buyers

(Wellner & Lakotta, 2020). The customers can easily switch to other brands because of the low switching costs.

Substitutes: Starbucks and McDonald's face a strong threat of substitutes because of the nature of their products. The industry has a high number of substitute products with low switching costs from one coffeehouse to another. Besides, the substitute products are affordable for most customers (Wellner & Lakotta, 2020).

Industry rivalry: The restaurant industry has stiff competition from some of the established brands. Starbucks, as one of the leading brands, faces strong competitive rivalry from McDonald's, Dunkin' Donuts, McCafe, Peet's Coffee, Global Tea Brands, and The Coffee Bean. The large number of coffeehouses and food-service businesses in the industry is a threat to the growth of Starbucks's market share. The low switching costs between the coffeehouses provide alternatives to customers, making it easy for them to opt for competitors' products or services (Wellner & Lakotta, 2020).

Financial Analysis

Ratio Analysis

Liquidity: The ratios show sufficiency of a company's current assets to address the short-term financial needs of a business. According to the analysis in Appendix 1, Starbucks reported a strong liquidity position over the last three years. Although there was a decline in the current ratio from 1.20 to 0.77 times in 2022, the ratio had a slight improvement to 0.78. The quick ratio also declined from 1.00 in 2021 to 0.53 in 2022. There was a slight improvement in the ratio to 0.59 in 2023. The analysis also shows a decline in the cash ratio to 0.31 in 2022 from 0.79 in the previous year. Starbucks' liquidity ratios were poorer than the industry's average.

Compared to McDonald's, the company had a weaker liquidity position (McDonald's Corporation, 2023).

Turnover Ratios: The turnover ratios demonstrate the efficiency of a company in using its assets to generate revenue and create more value for the shareholders. The common ratios presented in Appending 1 include inventory turnover, days' sales in inventory, receivables turnover, fixed asset turnover, and total assets turnover. According to the analysis, Starbucks has a weaker efficiency in converting its inventory to sales compared to McDonald's. It reported inventory turnover of 4.61, 4.27, and 4.52 in 2021, 2022, and 2023 respectively..

The company's receivables turnover from the analysis in Appendix 1 also shows a decline from 31.88 times in 2021 to 30.49 times in 2022 and 2023. The company was highly efficient in managing its receivables because it does not offer credit sales for its coffee and beverage products. However, it was inefficient in using the fixed assets and total assets to generate revenue, as evidenced by the low inventory turnover ratios. Overall, Starbucks has a weaker efficiency of utilizing its assets to generate revenue and create value for shareholders than McDonald's.

Financial Leverage: The financial leverage ratios evaluate the company's use of debts and equity in financing its capital structure. According to the analysis in the Appendix, Starbucks had a total debt ratio of 52.30%, a decline from 53.77% in 2022. In 2021, the company had a total debt ratio of 46.56%. The company had a more balanced capital structure, financing 50% of its assets from debts. The deficit in shareholders' equity arose from the excess liabilities on the balance sheet relative to the total assets, an indication of a weak financial position. For example, the debt-to-equity ratio was -1.93 in 2023 and -1.73 in 2022. The time interest earned ratio declined from 10.37 times in 2021 to 9.56 times in 2022. The ratio also increased to 10.67 times in 2023. The high ratio is an indication that the company is generating sufficient income from its operations to pay interest expenses.

Profitability: The profitability ratios assess the financial performance of the company based on the ability to control costs and achieve significant returns to shareholders. Starbucks had a high profitability, although weaker than McDonald's for the three years. The ratio declined from 14.45% in 2021 to 10.18% in 2022. However, there was an improvement in the ratio to 11.46% in 2023. For the three years, the industry average was at 7.50%, an indication that the company generated sufficient earnings from its operations to cover costs and create value for the shareholders.

Common Size Analysis

Income Statement

The company-operated stores contributed the highest share of revenues and cost of sales for the last three years. Starbucks generates a significant share of its revenues from these stores while licensed stores and other sources generate a low share. For example, as of October 2023, the company-operated stores generated 81.90% of the net revenues while licensed stores contributed 12.54% to the total revenues. The company-operated stores recorded a significant decline in the net revenues. Overall, the company had an improvement in the total net revenues for the last three years as demonstrated. Based on the historical trends, Starbucks will post a positive trend in its revenues and cost of sales in the future.

The product and distribution costs take more than 30% of the total revenues. According to the analysis in Appendix 3, store operating expenses are the major expenses in the business, taking more than 40% of the total revenues. The analysis in Appendix 3 shows that the store's operating expenses were 40.92% of total revenue in 2023 and 42.05% in 2022. In 2021, it reported 41.06% of the total revenues as store operating expenses. General and administrative expenses also make up a significant share of the total revenues. The analysis shows that Starbucks has a strong profitability as evident in both the operating and net earnings for the three years.

Balance Sheet

Starbucks' cash position significantly declined between 2021 and 2022. The net cash balance declined from $6,455.7 million to $2,818.40 million, an indication of a poor liquidity position (Starbucks Corporation, 2023). However, in 2023, it reported an improvement in the ratio to $3,551.50 million (Starbucks Corporation, 2023). According to the common-size balance sheet in Appendix 4, the cash and equivalents make the largest share of the total assets. In 2021, 20.56% of the total assets were cash while in 2022, the position significantly declined to 10.07% in 2022 before reporting a slight improvement to 2.06%. The property, plant, and equipment, which are primarily from the company-operated stores contributed 25.09% of the total assets, an increase from 20.29% in 2021 to 23.45% in 2022. The company does not have any significant inventory buildup that could significantly affect its liquidity and financial performance in the future. The common-size analysis further shows that the company will post a significant improvement in its PPE in the future. The historical trends also suggest that the company will issue more debts to raise funds for its projects.

Pro Forma Financial Statements

Forecasting Income Statement

From the forecasted income statement in Appendix 5, Starbucks will report a consistent rise in net revenues for the next three years. The company-operated stores will report an increase in the total net revenues from the current $35,975.60 million to $40,232.09 million in 2024 to

$45,160.93 million in 2025 (Starbucks Corporation, 2023). There will be a further improvement in the total net revenues to $50,907.21 million in 2026. The expected improvement in net revenues will reflect stronger financial performance in the future. With the expected increase in net revenues, the product and distribution costs, store operating expenses, general and administrative expenses, and restructuring costs will also increase. The forecast uses a percentage of sales method to forecast the business expenses. The projected income statement also shows that the interest expense will increase from $550.10 million to $778.42 million by 2026 due to the raising of more debts to finance its investments and other restructuring activities (Starbucks Corporation, 2023). The expected changes in expenses will cause a significant improvement in net earnings. The projections indicate that the net earnings will change from the current $4,124.50 million to 5,836.37 million, an indication of its potential to create more value for the shareholders (Starbucks Corporation, 2023). The expected growth in net earnings will also yield more value through the increase in both the basic and diluted EPS. Starbucks does not expect to divest its assets as there are no expected gains or losses from such disposals. Starbucks pays dividends to its shareholders and with the expected growth in earnings, the dividend distribution will also increase in the future.

Forecasting Balance Sheets

Based on the balance sheet forecasts, the PPEs will increase from the current $7,387.10 million to $8,551.49 million (Starbucks Corporation, 2023). The growth in PPEs will be attributed to the possible mergers and acquisitions that will expand the company's market share. From the liability section of the forecasted balance sheet, the accounts payable will increase from the current $1,544.30 million to $1,737.13 million in 2026 (Starbucks Corporation, 2023). The growth in accounts liability will be due to increased credit purchases from suppliers to support the expected increase in demand. The other liabilities such as accrued liabilities and payroll expenses will also rise in the next three years. Overall, Starbucks expects an overall improvement in its financial position with individual elements such as PPE, cash and its equivalents, inventory, accounts payable, and debts significantly increasing in the next three years.

Forecasting Stock Value

Dividend growth model:

Currently, Starbucks pays a quarterly dividend of $0.53 per share with an estimated dividend growth rate of 3.00%. From the weighted average cost of capital calculations, the company's cost of equity is at 4.87%. The dividend growth model adjusts the annual dividend payment of $2.12 per share to the cost of capital and growth rate (Verdickt, Annaert & Deloof, 2019). Based on the analysis, the company's intrinsic share price will be $113,369, which is higher than the current market price of $102.95 (27/11/2023). The model shows an undervaluation of the stocks in the market, presenting an opportunity for value growth, and generating high returns to investors.

Market ratios:

The P/E multiple, P/CF multiple, P/Sales multiple, and P/book values are also good determinants of the current value of stocks. Using the P/E multiple, the forecasted price per share is $193.62, which is higher than the market price, an indication of undervaluation. The P/CF valuation gives a forecasted price of $113.34 per share as the intrinsic value, which is higher than the market price.

Calculating Weighted Average Cost of Capital

In calculating the WACC, we started by getting the cost of equity using the capital asset pricing model (CAPM). Starbucks's beta according to Yahoo Finance is 0.98. We used the 10-year yield on the U.S. Treasury bills of 4.47% as the risk-free rate and assumed a market risk premium of 5.40%. Using the formula: risk-free rate + beta (market risk premium), we obtained the cost of equity as 9.76%.

We applied the simple approach of interest expense and total debts to establish the cost of debt. Currently, Starbucks has an interest expense of $470 million while the total debt is $15,400 million. With an effective tax rate of 23.60%, the after tax cost of debt was interest expense divided by total debt and adjusted to the effective tax rate, giving an after-tax cost of debt of 2.33%.

The final step was to calculate the proportion of equity and debt based on the total each against the total capital. The calculations show that Starbucks has 68.85% in debts and 34.15% in equity. Using the WACC formula, the cost of capital is calculated as: (65.85% × 2.33%) + (34.15% × 9.76%), giving a cost of capital of 4.87%.

Discounting Cash Flows (DCF) Modeling:

The DCF modeling involves forecasting the free cash flows to determine the present value of the free cash flows and terminal value. Adjusting the total present value to debts shows the equity value. The analysis assumes a terminal growth rate of 1.50% for the business cash flows. The intrinsic value per share for the company's stock is $113.73 against the current stock price of $102.95. It is an indication of stock undervaluation in the stock market, making it an attractive option for investment.

Conclusion

Starbucks is one of the leading brands in the restaurant industry, competing with some of the large brands such as McDonald’s Corporation. Starbucks operates in an industry with stiff competition due to the low barriers for new entrants. From low initial capital requirements to a high number of small players, Starbucks and McDonald’s face the challenge of threats from new entrants and substitutes. The customers also have high bargaining power due to the low switching costs and high number of firms in the sector. Using ratio analysis to understand the liquidity, profitability, turnover, and financial leverage performance of the company was critical to evaluating the financial health of the company. The company maintained a strong profitability performance in the last three years with the liquidity position remaining unstable. The high efficiency in the use of its assets explains the strong profitability. Moreover, the common size analysis and forecasting demonstrate the potential to improve the overall financial performance in the future. Finally, from the prediction of the stock value using the dividend growth model and discounted cash flows (DCF) model, Starbucks stocks are undervalued making them attractive for investment.

Recommendations

Based on the financial analysis and stock price valuation, investors should buy the Starbucks stocks because of the higher forecasted prices. The stock prices are expected to increase beyond the current market prices, earning investors more returns.

The financial analysis shows that Starbucks and McDonald's both have strong financial performance. Starbucks has sufficient resources to address the current financial obligations despite the high utilization of debts on the capital structure. However, McDonald's posted a stronger liquidity position over the same period. Both companies are also significantly profitable, generating high income from their operations to create high returns for the investors or owners. The undervaluation also indicates that the market price of the stocks will continue to rise in the future to reflect the intrinsic value. Based on the financial analysis and stock price valuation, investors should also consider buying both Starbucks and McDonald's stocks for portfolio diversification.

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Appendix

Appendix 1: Financial ratio analysis for Starbucks Corporation from 2021 to 2023

Starbucks Corporation				
Financial Ratios				
Liquidity	2021	2022	2023	Industry Ratios
Current Ratio	1.20	0.77	0.78	0.97
Quick Ratio	1.00	0.53	0.59	0.79
Cash Ratio	0.79	0.31	0.38	0.47
Turnover Ratios				
Inventory Turnover	4.61	4.27	4.52	3.40
Days' Sales in Inventory	79.26	85.57	80.82	75.35
Receivables Turnover	31.88	30.49	30.49	14.00
Fixed Asset Turnover	1.34	1.54	1.62	1.25
Total Asset Turnover	0.96	1.09	1.25	1.00
Financial Leverage				
Total Debt Ratio	46.56%	53.77%	52.30%	75.00%
Debt/Equity	(2.75)	(1.73)	(1.93)	Negative
Time Interest Earned	10.37	9.56	10.67	3.02
Long-Term Debt Ratio	43.38%	46.89%	46.01%	75.00%
Profitability				
Net Profit Margin	14.45%	10.18%	11.46%	7.40%
Return on Assets (ROA)	13.38%	11.73%	14.01%	4.80%
Return on Equity (ROE)	-79.02%	-37.73%	-51.63%	Negative

Appendix 2: Financial ratio analysis for McDonald's Corporation from 2021 to 2023

McDonald's Corporation				
Financial Ratios				
Liquidity	2020	2021	2022	Industry Ratios
Current Ratio	0.98	1.78	1.43	0.97
Quick Ratio	0.97	1.76	1.41	0.79
Cash Ratio	0.25	1.17	0.68	0.47
Turnover Ratios				
Inventory Turnover	94.81	109.75	107.73	3.40
Days' Sales in Inventory	3.85	3.33	3.39	75.35
Receivables Turnover	2.22	2.83	2.91	14.00
Fixed Asset Turnover	0.80	0.94	0.98	1.25
Total Asset Turnover	0.40	0.43	0.46	1.00
Financial Leverage				
Total Debt Ratio	71.81%	66.15%	71.19%	75.00%
Debt/Equity	(4.16)	(7.74)	(5.98)	Negative
Time Interest Earned	6.01	8.73	7.76	3.02
Long-Term Debt Ratio	71.81%	66.15%	71.19%	75.00%
Profitability				
Net Profit Margin	24.63%	32.49%	26.65%	7.40%
Return on Assets (ROA)	9.96%	14.01%	12.25%	4.80%
Return on Equity (ROE)	-57.62%	-163.99%	-102.90%	Negative

Appendix 3: Starbucks Corporation common-size income statements

STARBUCKS CORPORATION			
CONSOLIDATED STATEMENTS OF EARNINGS			
(in millions, except per share data)			
Fiscal Year Ended	3-Oct-21	2-Oct-22	1-Oct-23
Net revenues:			
Company-operated stores	84.67%	82.41%	81.90%
Licensed stores	9.23%	11.33%	12.54%
Other	6.09%	6.26%	5.56%
Total net revenues	**100.00%**	**100.00%**	**100.00%**
Product and distribution costs	30.07%	31.99%	31.71%
Store operating expenses	41.06%	42.05%	40.92%
Other operating expenses	1.24%	1.43%	1.50%
Depreciation and amortization expenses	4.96%	4.49%	3.79%
General and administrative expenses	6.65%	6.30%	6.79%
Restructuring and impairments	0.59%	0.14%	0.06%
Total operating expenses	**84.56%**	**86.41%**	**84.76%**
Income from equity investees	1.33%	0.73%	0.83%
Gain from sale of assets	0.00%	0.00%	0.25%
Operating income	**16.77%**	**14.32%**	**16.32%**
	0.00%	0.00%	0.00%
Net gain resulting from divestiture of certain, operations	2.97%	0.00%	0.00%
Interest income and other, net	0.31%	0.30%	0.23%
Interest expense	-1.62%	-1.50%	-1.53%
Earnings before income taxes	18.43%	13.12%	15.02%
Income tax expense	3.98%	2.94%	3.55%
Net earnings including noncontrolling interests	14.45%	10.18%	11.47%
Net earnings attributable to noncontrolling interests	0.00%	0.01%	0.00%
Net earnings attributable to Starbucks	14.45%	10.18%	11.46%
Earnings per share - basic	**0.01%**	**0.01%**	**0.01%**
Earnings per share - diluted	**0.01%**	**0.01%**	**0.01%**
Weighted average shares outstanding:	0.00%	0.00%	0.00%
Basic	**4.05%**	**3.58%**	**3.19%**
Diluted	**4.08%**	**3.59%**	**3.20%**

Appendix 4: Starbucks Corporation common-size balance sheet

STARBUCKS CORPORATION CONSOLIDATED BALANCE SHEETS (in millions, except per share data)			
	3-Oct-21	**2-Oct-22**	**1-Oct-23**
ASSETS			
Current assets:			
Cash and cash equivalents	20.56%	10.07%	12.06%
Short-term investments	0.52%	1.30%	1.36%
Accounts receivable, net	2.99%	4.20%	4.02%
Inventories	5.11%	7.78%	6.13%
Prepaid expenses and other current assets	1.89%	1.73%	1.22%
Total current assets	31.08%	25.09%	24.80%
Long-term investments	0.90%	1.00%	0.84%
Equity investments	0.86%	1.11%	1.49%
Property, plant and equipment, net	20.29%	23.45%	25.09%
Operating lease, right-of-use asset	26.24%	28.65%	28.57%
Deferred income taxes, net	5.97%	6.43%	6.01%
Other long-term assets	1.84%	1.98%	1.86%
Other intangible assets	1.11%	0.56%	0.41%
Goodwill	11.71%	11.74%	10.93%
TOTAL ASSETS	**100.00%**	**100.00%**	**100.00%**
LIABILITIES AND SHAREHOLDERS' EQUITY/(DEFICIT)			
Current liabilities:			
Accounts payable	3.86%	5.15%	5.24%
Accrued liabilities	6.29%	7.64%	7.28%
Accrued payroll and benefits	2.46%	2.72%	2.81%
	1.11%	0.00%	0.00%
Current portion of operating lease liability	3.99%	4.45%	4.33%
Stored value card liability and current portion of deferred			
revenue	5.08%	5.87%	5.77%
Short-term debt	0.00%	0.63%	0.11%
Current portion of long-term debt	3.18%	6.25%	6.18%
Total current liabilities	**25.97%**	**32.71%**	**31.74%**
Long-term debt	43.38%	46.89%	46.01%
Operating lease liability	24.65%	26.86%	26.91%
Deferred revenue	20.59%	22.44%	20.72%
Other long-term liabilities	2.35%	2.18%	1.74%
Total liabilities	**116.93%**	**131.09%**	**127.13%**
Shareholders' deficit:			
Common stock ($0.001 par value) - authorized, 2,400.0 shares;			
issued and outstanding, 1,142.6 and 1,147.9 shares,			
respectively	0.00%	0.00%	0.00%
Additional paid-in capital	2.70%	0.73%	0.13%
Retained deficit	-20.12%	-30.20%	-24.64%
Accumulated other comprehensive income/(loss)	0.47%	-1.66%	-2.64%
Total shareholders' deficit	-16.95%	-31.12%	-27.15%
Noncontrolling interests	0.02%	0.03%	0.02%
Total deficit	-16.93%	-31.09%	-27.13%
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY/(DEFICIT)	**100.00%**	**100.00%**	**100.00%**

Appendix 5: Starbucks' Corporation forecasted income statement

STARBUCKS CORPORATION				
CONSOLIDATED STATEMENTS OF EARNINGS				
(in millions, except per share data)				
	Actual	Forecast	Forecast	Forecast
Fiscal Year Ended	1-Oct-23	2-Oct-24	1-Oct-25	1-Oct-26
Net revenues:				
Company-operated stores	$ 29,462.30	$ 32,240.94	$ 35,281.63	$ 38,609.10
Licensed stores	4,512.70	$ 5,858.97	$ 7,606.87	$ 9,876.23
Other	2,000.60	$ 2,132.18	$ 2,272.42	$ 2,421.88
Total net revenues	**35,975.60**	**40,232.09**	**45,160.93**	**50,907.21**
Product and distribution costs	11,409.10	12,098.04	14,447.72	16,144.43
Store operating expenses	14,720.30	16,517.38	18,990.94	20,829.93
Other operating expenses	539.40	497.70	646.25	763.28
Depreciation and amortization expenses	1,362.60	1,995.92	2,027.53	1,928.14
General and administrative expenses	2,441.30	2,675.53	2,845.46	3,454.56
Restructuring and impairments	21.80	235.91	64.41	30.85
Total operating expenses	**30,494.50**	**34,020.47**	**39,022.32**	**43,151.19**
Income from equity investees	298.40	533.42	327.82	422.25
Gain from sale of assets	91.30	0.00	0.00	129.19
Operating income	**5,870.80**	**6,745.04**	**6,466.42**	**8,307.46**
Net gain resulting from divestiture of certain, operations	-	1,196.83	0.00	0.00
Interest income and other, net	81.20	124.74	135.83	114.90
Interest expense	(550.10)	(650.40)	(676.22)	(778.42)
Earnings before income taxes	5,401.90	7,416.20	5,926.04	7,643.95
Income tax expense	1,277.20	1,601.22	1,328.21	1,807.30
Net earnings including noncontrolling interests	4,124.70	5,814.98	4,597.83	5,836.65
Net earnings attributable to noncontrolling interests	0.20	1.38	2.52	0.28
Net earnings attributable to Starbucks	**$ 4,124.50**	**5,813.60**	**4,595.31**	**5,836.37**
Earnings per share - basic	$ 3.60	4.94	3.99	5.09
Earnings per share - diluted	$ 3.58	4.90	3.96	5.07
Weighted average shares outstanding:				
Basic	**1,146.80**	1,630.29	1,615.00	1,622.78
Diluted	**1,151.30**	1,641.23	1,622.28	1,629.14

Appendix 6: Starbucks' Corporation forecasted balance sheet

STARBUCKS CORPORATION CONSOLIDATED BALANCE SHEETS (in millions, except per share data)				
	1-Oct-23	**3-Oct-24**	**2-Oct-25**	**1-Oct-26**
ASSETS				
Current assets:				
Cash and cash equivalents	$ 3,551.50	$ 3,622.53	$ 3,694.98	$ 3,768.88
Short-term investments	401.50	$ 409.53	$ 417.72	$ 426.08
Accounts receivable, net	1,184.10	$ 1,207.78	$ 1,231.94	$ 1,256.58
Inventories	1,806.40	$ 1,842.53	$ 1,879.38	$ 1,916.97
Prepaid expenses and other current assets	359.90	$ 367.10	$ 374.44	$ 381.93
Total current assets	**7,303.40**	**7,449.47**	**7,598.46**	**7,750.43**
Long-term investments	247.40	259.77	272.76	286.40
Equity investments	439.90	461.90	484.99	509.24
Property, plant and equipment, net	7,387.10	7,756.46	8,144.28	8,551.49
Operating lease, right-of-use asset	8,412.60	8,833.23	9,274.89	9,738.64
Deferred income taxes, net	1,769.80	1,858.29	1,951.20	2,048.76
Other long-term assets	546.50	573.83	602.52	632.64
Other intangible assets	120.50	126.53	132.85	139.49
Goodwill	3,218.30	3,379.22	3,548.18	3,725.58
TOTAL ASSETS	**$ 29,445.50**	**$ 30,698.67**	**$ 32,010.12**	**$ 33,382.68**
LIABILITIES AND SHAREHOLDERS' EQUITY/(DEFICIT)				
Current liabilities:				
Accounts payable	$ 1,544.30	1,606.07	1,670.31	1,737.13
Accrued liabilities	2,145.10	2,230.90	2,320.14	2,412.95
Accrued payroll and benefits	828.30	861.43	895.89	931.72
Current portion of operating lease liability	1,275.30	1,326.31	1,379.36	1,434.54
Stored value card liability and current portion of deferred				
revenue	1,700.20	1,768.21	1,838.94	1,912.49
Short-term debt	33.50	34.84	36.23	37.68
Current portion of long-term debt	1,818.60	1,891.34	1,967.00	2,045.68
Total current liabilities	**9,345.30**	**9,719.11**	**10,107.88**	**10,512.19**
Long-term debt	13,547.60	14,395.52	15,010.49	15,654.12
Operating lease liability	7,924.80	8,321.04	8,737.09	9,173.95
Deferred revenue	6,101.80	6,406.89	6,727.23	7,063.60
Other long-term liabilities	513.80	539.49	566.46	594.79
Total liabilities	**37,433.30**	**39,382.05**	**41,149.16**	**42,998.65**
Shareholders' deficit:				
Common stock ($0.001 par value) - authorized, 2,400.0 shares;				
issued and outstanding, 1,142.6 and 1,147.9 shares,				
respectively	1.10	1.13	1.17	1.20
Additional paid-in capital	38.10	39.24	40.42	41.63
Retained deficit	(7,255.80)	(7,929.47)	(8,362.36)	(8,815.23)
Accumulated other comprehensive income/(loss)	(778.20)	(801.55)	(825.59)	(850.36)
Total shareholders' deficit	(7,994.80)	(8,690.64)	(9,146.36)	(9,622.75)
Noncontrolling interests	7.00	7.00	7.00	7.00
Total deficit	(7,987.80)	(8,683.64)	(9,139.36)	(9,615.75)
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY/(DEFICIT)	**$ 29,445.50**	**$ 30,698.40**	**$ 32,009.80**	**$ 33,382.89**

Appendix 7: Forecasting of stock value

Dividend Growth Model	
2023 Quarterly dividend	$2.12
Cost of capital	4.87%
Growth rate	3.00%
Stock price	$ 113.369

DCF Valuation				
Period	**0**	**1**	**2**	**3**
Year	**2023A**	**2024E**	**2025E**	**2026E**
(In millions of USD)				
EBIT	5,870.80	6,745.04	6,466.42	8,307.46
Effective tax rate		23.60%	23.60%	23.60%
NOPAT		5,153.21	4,940.35	6,346.90
Add: Depreciation & Amortization		1,450.30	1,479.31	1,508.89
Less: Capital Expenditures	2,270.80	2,377.27	2,488.74	2,605.44
Less: Change in Working Capital	733.6	757.09	781.33	806.34
FCF (Firm)		3,575.62	3,149.59	4,444.02
Discount factor (4.87%)		0.9536	0.9093	0.8671
Present Value of FCF (Firm)		3,409.57	2,863.85	3,853.20
Total Present Value of FCF	10,126.63			
Present Value of Terminal Value	133,848.03			
Total Firm Value	143,974.67			
Less: Long-term debt	13,547.60			
Value of common equity	130,427.07			
Shares outstanding	1,146.80			
Intrinsic value per share	$113.73			
Current stock price (27/11/2023)	$102.61			
Undervalued	($11.12)			
Recommendation	**BUY**			

Capital expenditures				
	2021	2022	2023	Average
Net cash used in investing activities	319.5	2146.3	2270.8	
Revenue	29060.6	32250.3	35975.6	
CAPEX/ Revenue	1.10%	6.66%	6.31%	4.69%

Changes in Working Capital	2021	2022	2023	Average
	1528	628.4	733.6	
Total assets	$ 31,392.60	$27,978.40	$29,445.50	
CAPEX/ Revenue	4.87%	2.25%	2.49%	3.20%