STARBUCKS CORPORATION (SBUX)
Price: $76.73
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Introduction

Starbucks Corporation is a global producer and seller of premium coffee, with over 31,800 company owned and licensed stores.[1] Starbucks offers a wide variety coffees, teas, food and accessories within its stores, but also sells bottled beverages through partnerships with distributors like Pepsi. The company has a strong global presence, and is easily recognizable due to its incredibly strong brand value.

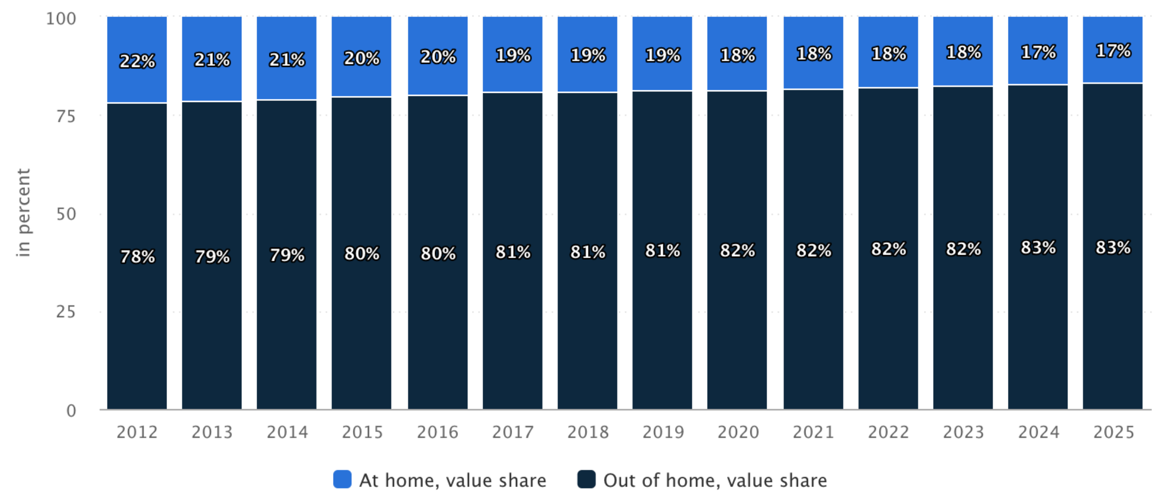
Market Perception[2]:

The current market price of Starbucks is partly a reflection of broader macroeconomic conditions. Investors are not confident that Starbucks will be able to maintain sales given the number of people working from home and the industry wide reduction in F&B consumption. Most models of the virus and its economic impact suppose a slow recovery and lessons learned from China indicate that even once the economy reopens, demand could be sluggish to recover and softer than anticipated.

Furthermore, some investors are skeptical of Starbuck's ability to retain market share when its product is at a significantly higher price point to competitors Dunkin and McCafé. On top of this, Starbuck's afternoon sales have been encroached by competitors as demand for high-calorie beverages like the Frappuccino has softened due to changes in consumer preferences.

Starbuck's has carefully built a full experience around drinking coffee at a premium price. However, as consumers are forced to brew their own coffee at home, there is the possibility that this will create long-term changes in consumer behavior and that Starbuck's will lose its previous customers to cheaper alternatives.

[1] https://pitchbook.com/profiles/company/12409-84
[2] https://seekingalpha.com/article/4340540-starbucks-corporation-cash-cow-significant-growth-potential



Sector Overview

The global market for coffee was estimated to be about $448 Bn in 2020 and has been growing at over 5% CAGR annually. The out-of-home revenue share of this market (which Starbuck belongs to) has grown from 78% in 2012 to 81% in 2020. Customers are starting to purchase more coffee outside of their homes, and this has been a noticeable change in consumer spending habits.[3]

The United States generates the most revenue in the global market for coffee, accounting for approximately ~19% of total market value in 2020.

The Chinese cafe industry is predicted to reach $6.8 Bn USD in 2023 from $3Bn in 2017. In 2023, it is also predicted that 75% of spending will happen outside the home.

Business Overview

Starbucks revenue comprises of sales in the Americas (~69%), International (~23%) and Channel Development (~8%). The Channel Development segment refers to sales of pre-packaged and ready-to-drink beverages.

Starbucks in the Americas is by far the most mature revenue stream. There were over 18,000 stores in the Americas in 2019 (55% company-owned, 45% licensed). The international segment has over 13,000 stores (44% company-owned, 56% licensed). Company-owned stores generate about 81% of total net revenues, and this is where Starbucks is focusing its growth. [4]

In 2019, 497 new stores were opened in the Americas and 773 new stores were opened Internationally, with 629 of them coming from China.

Within company-owned stores, beverages account for 74% of revenue, food for 20%, packaged items count for ~1-2%, and other sales consist of 5% (mugs, ready-to-drink beverages etc). The company has recently entered the Nestle Global Alliance, a licensing agreement with Nestle for the sale of SBUX branded pre-packaged coffees and teas internationally.

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[3] https://www.statista.com/outlook/30010000/100/coffee/worldwide#market-ontradeRevenueShare

[4] https://s22.q4cdn.com/869488222/files/doc_financials/2019/2019-Annual-Report.pdf

Investment Thesis:

1) Starbucks has an incredibly strong track record and has consistently performed and grown. Although global demand may drop in the short term, coffee is an essential part of most people's daily routine and this will not change so drastically.

A. Sales growing at a 5yr CAGR of 10%, Net Income growing at a 5 yr CAGR of 11.7%, and margins staying at a consistent 5yr average of 21.8% (EBITDA) and 14.5% (Net Margin).

B. In FY2019, Starbucks saw a 1% increase in transactions and 3% increase in ticket globally

2) Starbucks strong brand presence, user experience and pricing power[5] will allow it to retain a much larger share of customers exiting the crisis, especially as many competitors are forced to shut down.

a. The crisis is putting a huge strain on local/individual coffee shops which do not have the same resources to survive a 1 year long reduction in consumption.

b. Starbucks has been able to stay operating through a to-go model, also utilizing drive throughs. It's size allows it to retain employees and stay operational, adopting an "adaptive" approach to the constantly changing situation

c. Starbucks Reward Loyalty Program has almost 19 million active members (11% growth Q2 2018) in the US and 10.2 million in China. Over 40% of total sales is attributed to Rewards. This has been shown to both increase spending from current users and draw in new ones.[6]

3) Significant Opportunities for Revenue Expansion

A. As sales for high-calorie drinks like the Frappuccino dwindle, the company has the opportunity to move into new beverages like the Cold and Nitro Brews that they now offer. Since the introduction of these drinks, there has been improved same-store sales growth (6% in Q1 2020)

B. Starbucks has been aggressively opening new stores. The company plans on expanding its store base by 3-4% annually in the US and plans to go from ~4100 stores in China to 6000 stores by 2020.

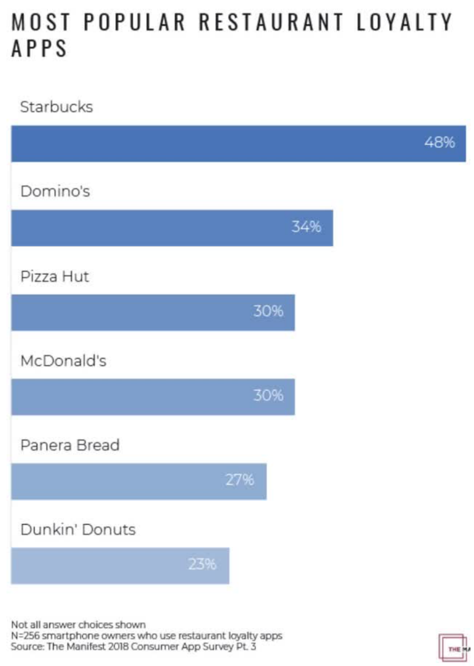
C. Partnerships with delivery services like Uber Eats and Alibaba are slowly starting to yield tangible benefits. By the end of Q1 2020, 75% of American and 85% of Chinese stores offered delivery. Delivery is not as popular in the US, but accounts for 9% of total revenue in China.

D. As part of the Nestle Global Coffee Alliance, Starbucks has licensed out rights to sell their coffees and teas to Nestle. The program hopes to enter 50-60 markets in which Starbucks already has a presence, driving an increase in

[5] http://dspace.calstate.edu/bitstream/handle/10211.3/173524/KumarKavita_Project2016.pdf?sequence=3

[6] https://digital.hbs.edu/platform-digit/submission/starbucks-winning-on-rewards-loyalty-and-data/

channel development. Company guidance is a long term growth rate of 5-7% for this aspect of the business. The operating margins for selling these packaged goods is more appealing (35% compared to the core business 20%)



<u>Starbucks Loyalty Program</u>

Membership was 16 million in March 2019, having grown 14% that year. It is now at approximately 19 million members. The program was launched in 2009 and has emerged as an industry leader in loyalty programs.

In the US, Nearly ¼ of smartphone users regularly use food delivery apps, and over 50% of smartphone owners use loyalty apps. Of these users, almost 50% of them use the Starbucks app (the most used app), ahead of Domino's 34%.[7]

Through the App, users can pre-load money on the app, track their progress towards rewards and achievements, receive GPS alerts when they are near a Starbucks, and stand a change to receive free drinks.

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[7] https://themanifest.com/mobile-apps/how-customers-use-food-delivery-restaurant-loyalty-apps

Competitive Landscape

Company	Market Cap	Market Share (# of stores)[8]
Starbucks	$86.2 Bn	40%
Dunkin Donuts	$5 Bn	26%
JAB Holdings (Panera, Peets, Caribou)	(Private)	12%
McDonalds (McCafe)	$135.8 Bn	(Not included in study)

Starbucks's biggest competitor is Dunkin Donuts, which offers coffee and food at lower prices but offers a different customer experience. While Dunkin was previously a donut store, they have shifted towards the beverage market in the last few years, a direct threat to Starbucks. JAB holdings also accounts for a sizeable portion of the US market for coffee. It is important to recognize that Dunkin Donuts operates a pure franchise business model, whereas Starbuck's owns a large percentage of its stores.

Dunkin Donuts

The two companies offer their products at strategically different prices. While Dunkin' is emphasizing convenience and cost-effectiveness, Starbucks builds on a premium experience. For example, Dunkin provides additional flavor add-ons for free while Starbuck's charges for these additions.[9] A Venti at Starbucks is $2.45 compared to Dunkin's $2.09. A 2018 study on both companies advertisements showed that Starbucks ads focused on coffee whereas Dunkin's was evenly spread between coffee and food. Dunkin Donuts operates on a primarily franchise model whereas Starbucks owns a large share of its stores.

> *Mitigating Factors:* While Dunkin's cheap prices are definitely an excellent draw for new customers, Starbucks has built a premium experience that justifies its higher price. Its loyalty and reward program has an excellent track record at not only retaining current customers but actually increasing their spending.

Home-Brewed Coffee / Coffee Pod Market

In the global market for coffee, home brewed coffee still accounts for 18% of revenue. With the increased prevalence of Coffee Pod Machines, and the significantly cheaper alternative of simply brewing ones own coffee, Starbuck's is indirectly competing with these alternative forms of coffee consumption.

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[8] https://www.worldcoffeeportal.com/Latest/News/2019/Major-chains-driving-US-coffee-shop-growth-%E2%80%93-But-o

[9] https://spoonuniversity.com/lifestyle/dunkin-over-starbucks\

Coronavirus

Starbucks reported a Q2 net income of 328 million, compared to $663 million during Q2 last year. Revenue fell from 6.31bn last year to 6bn in this period. Starbucks has stated they expect the impact to intensify in Q3, and to be moderate in Q4.

Undoubtably, the food sector as a whole has been hit by the coronavirus. Competitors like Dunkin and McDonalds have seen similar hits to earnings, with all three noting a significant reduction in critical breakfast and lunch customers as more people work from home.[10]

In the short term, companies like Starbucks, Dunkin and McDonalds are all large enough to weather these blows. However, the bigger risk is long-term changes in consumer behavior due to the virus. If more people opt to work from home, or brew their own coffee, there is a huge risk to Starbucks Premium Coffee experience.

Mitigating Factors: Starbucks and other coffee shops are based upon routines. As schools and workplaces reopen, and routines resume, so will the daily purchase of coffee. Furthermore, it is important to note that Starbucks was able to convert so many people from making coffee at home because of its unique and premium experience. It is not the same as home-brewing, and will be able to draw customers back in. Starbucks has ranked first on the QSR Loyalty Index, ahead of competitor Dunkin.[11] Starbucks is still offering delivery services and grab and go functions to facilitate the purchase of its coffee. Furthermore, this could be a opportune time to expand sales of its capsules (both for Nespresso and NESCAFE).

Growth Strategy

International Expansion (China)

Starbucks is soon to begin reopening its stores in China, where it has been aggressively expanding. They expect to have 90% of its stores open by early June. The Chinese cafe industry is predicted to reach $6.8 Bn USD in 2023 from $3Bn in 2017. In 2023, it is also predicted that 75% of spending will happen outside the home. As the market for coffee in China matures, Starbucks will be eager to create the same dominance it has established in the Americas, internationally.

Starbuck's currently has 4500 stores in China and faces direct competition from Luckin Coffee, who have grown aggressively from 9 stores in 2017 to 4500 stores in 2020. However, Luckin Coffee is in a huge scandal after it was revealed on April 2 that the COO and other employees had forged 2019 sales of up to USD $310 million.[12] As China begins to reopen, Starbucks is in a unique position to capitalize on Luckin's misfortune and increase market share. Furthermore, Starbucks is going to be able to use lessons learnt in China to facilitate reopening and strategy in the US, as it will be dealing with reduced consumer demand and changing consumer behavior that is currently present in China.

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[10] https://www.marketwatch.com/story/dunkin-quarterly-results-show-the-coffee-sellers-vulnerability-to-a-shift-in-customers-morning-routine-due-to-the-coronavirus-2020-04-30

[11] https://www.qsrmagazine.com/news/study-starbucks-king-customer-loyalty

[12] https://qz.com/1833297/fans-rally-to-aid-chinas-luckin-coffee-after-fraud-scandal/

Channel Distribution

As Starbucks continues the Nestle Global Alliance, this will be an exciting opportunity to develop a nascent revenue stream. Increased revenue should be generated from the sale of pre-packaged coffees and teas as well as the increased use of coffee pods in Nespresso and NESCAFE machines.

The global coffee pod market is expected to grow from ~ $15 Bn in 2017 to ~ $30 Bn in 2025 at a 5yr CAGR of 8.5%. In January 2020, Nestle and Starbucks announced a suite of Starbucks pods ranging from Cold Brew to Classic Blends.[13] Company guidance is a long term growth rate of 5-7% for this aspect of the business. The operating margins achievable through Channel Distribution is extremely appealing (35% compared to the core business 20%).

Competitive Advantages

1. Brand Power
    - A. Through its aggressive marketing and branding, Starbucks has created an incredibly strong brand name, and is recognizable globally. Brand Finance ranks Starbucks as the worlds most valuable brand due to its strong presence in China, joint venture with India's Tata Global Beverages, participation in the Nestle Global Alliance, and partnership with Uber Eats. This strong brand presence allows for easier international expansion, as well as channel development. The company is repeatedly ranked highest for brand value, customer experience, and was a pioneer in developing an extremely effective social media presence.
2. Customer Loyalty
    - A. Starbucks is incredibly good at retaining customers. It's loyalty rewards program has shown consistent growth (~14% in the US in the last year). There are over 19 million American Users and 10 million Chinese Users (up 45% in 2019).
    - B. Not only does the company retain customers, its loyalty program has been proven to increase average spending per customer. This is a critical element to driving an increase both in transactions and ticket size.
3. Scale
    - A. The company dominates the US market (40% market share compared to Dunkin's 26%)
    - B. It has a significantly stronger international presence as well (Dunkin' international revenue is ~4% of sales compared to Starbuck's 28%)
    - C. 2018 Revenue for Starbucks was $24.7 Bn compared to Dunkin's 1.32 Bn

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[13] https://www.globenewswire.com/news-release/2020/03/16/2000705/0/en/Global-Coffee-Pod-and-Capsule-Market-is-Expected-to-Reach-USD-29-2-Billion-by-2025-Fior-Markets.html

2008 Global Financial Crisis (Case Study)

Starbucks was hit hard in 2008 during the global financial crisis as customers switched to cheaper coffee alternatives. It closed over 900 stores and fired over 6,700 employees. Profits fell by over 28% in March 2008. While the previous management team blamed the economy and high supply side costs, they were quickly replaced by the original CEO, Howard Shultz. Shultz shifted the company's focus back to the user experience, deeply integrating technology and focusing on the customers instead of pure expansion play of his predecessors. He has developed the loyalty programs, public image, and put technology at the forefront of the Starbucks experience. The 2008 crisis, and Starbucks' resounding rebound show us that the value add of its competitive advantages. It has adapted to become more than a company that provides overpriced coffee, it sells an experience that is valuable to its customers for more than just the coffee.

Strong Financial Health

Starbucks has shown consistent and stable historical growth. Sales has grown from $16.4 Bn in 2014 to $26.5 Bn in 2019 at a 5 year CAGR of 10%. Even more impressive is the 10yr CAGR of 10.5%. Net Income has grown from $2 Bn in 2014 to $3.59bn in 2019 at a 5 year CAGR of 11.7%. Starbucks has stronger operating margins of 20.7% in its mature America's market compared to its 15.6% margin in the nascent international (China) markets. The company has generated positive FCF since 2015, but it is estimated to have negative FCF in 2020 due to the impact of the coronavirus. The company has a current assets/liabilities ratio of 0.9 and has been spending extra cash over the last 3 years for repurchasing shares and issuing dividends. Starbucks currently has USD $19.3 Bn of long term debt.

Inside Ownership

The company has 0.23% insider ownership, 71.40% institutional ownership, and 28.37% unknown. The top 10 institutional holders account for 26.81% of ownership.

Risks

Slower Coronavirus Recovery / significant shifts changes in consumer spending habits

While there is general consensus that eventually consumer spending will resume, this may take longer than the market expects. We are already seeing that in China, as cities start to reopen, there is a lag in consumer spending due to many having lost jobs or taken pay cuts. If the same happens in the US, and the reopening of services takes longer than anticipated, bleeding deep into 2021, Starbucks will continue to suffer. Furthermore, as many start brewing coffee at home, at considerably cheaper price points, consumers could potentially shy away from premium coffee. Starbucks has worked tirelessly to create a customer experience, but the coronavirus experience could change consumers preference/appreciation for this experience.

Mitigating Factors: Starbucks in many ways created the market for premium coffee where one did not previously exist. If Starbuck's main allure was purely the coffee, it definitely would suffer from this change in preferences. However, its value proposition to customers exceeds just pure coffee. The brand value, customer experience, and loyalty programs that the company has so diligently developed should be able to draw customers back to the stores once normal life resumes. Regardless of the price differential.

Catalysts

1. Reopening of workplaces and schools (speedy return to previous demand)
    a. While this is anticipated, what the market doesn't realize is that coffee is such an essential part of people's daily routine and such a minor spend that it should not behave like other purchases. While other aspects of retail definitely take longer to recover, and expect soft demand in the near term, the quick return to previous consumer spending habits will be crucial in correcting the market's perception of Starbuck's long term health.

2. Failure of smaller businesses not equipped to deal with recession
    a. Starbuck's size and strong balance sheet affords it the ability to wait out the current conditions while still maintaining its workforce, allowing the company to monitor and react to changes over the next few months. As smaller coffee shops and family run businesses do not have the same support structures, their failure will allow for Starbucks to expand even more aggressively in mature and nascent markets.

3. Successful expansion into China (potential legal action against Luckin Coffee). The major threat to Starbuck's Chinese Expansion is Luckin Coffee who are currently amidst a revenue-overreporting scandal. The outcome of this scandal could be extremely fortuitous for Starbucks.

DCF Valuation

Company	Market Cap	EV/EBITDA				
		Current	Average	Median	Min	Max
Starbucks	86.19B	20.79x	16.64x	17.05x	11.46x	20.79x
Nestle	314.20B	17.05x				
McDonalds	135.81B	17.37x				
Dunkin'	5.09B	16.55x				
Coffee Day Enterprises	53.3B	11.46x				

Base Case:

My base case follows consensus estimates for SEP '20 and SEP '21 revenue assuming moderate speed recovery from the coronavirus disease. It holds a 10% growth rate in line with historical averages. There is a 15.3% upside assuming median WACC and EBITDA multiple on SEP'24 Estimated EBITDA.

BASE CASE (15.3% Upside)		WACC				
		4.91%	5.41%	5.91%	6.41%	6.91%
EBITDA Multiple	15x	$ 79.04	$ 77.03	$ 75.08	$ 73.18	$ 71.33
	16x	$ 84.28	$ 82.14	$ 80.07	$ 78.05	$ 76.09
	17x	$ 89.51	$ 87.25	**$ 85.06**	$ 82.93	$ 80.85
	18x	$ 94.74	$ 92.36	$ 90.05	$ 87.80	$ 85.61
	19x	$ 99.97	$ 97.47	$ 95.04	$ 92.67	$ 90.37

Bull Case:

My bull case assumes slightly higher SEP ’20 and SEP ’21 revenue. In this scenario, there is faster than anticipated recovery from the coronavirus disease. Exiting the situation, with competitors and local businesses still suffering, Starbucks is able to maintain a 13% revenue growth rate as it expands in China and through channel development. There is a 24.6% upside assuming median WACC and EBITDA multiple on SEP’24 Estimated EBITDA.

BULL CASE (24.6% Upside)		WACC				
		4.91%	5.41%	5.91%	6.41%	6.91%
EBITDA Multiple	15x	$ 85.47	$ 83.31	$ 81.21	$ 79.18	$ 77.19
	16x	$ 91.07	$ 88.79	$ 86.56	$ 84.40	$ 82.30
	17x	$ 96.68	$ 94.27	**$ 91.91**	$ 89.63	$ 87.40
	18x	$ 102.29	$ 99.74	$ 97.26	$ 94.85	$ 92.50
	19x	$ 107.90	$ 105.22	$ 102.61	$ 100.08	$ 97.61

Bear Case:

My bear case assumes low SEP ’20 and SEP ’21 revenue. In this scenario, there is sluggish recovery from the coronavirus disease and soft demand. Starbucks struggles to maintain its historical growth and sustains a 8% revenue growth rate. There is a 7.6% downside assuming median WACC and EBITDA multiple on SEP’24 Estimated EBITDA.

BEAR CASE (7.6% Downside)		WACC				
		4.91%	5.41%	5.91%	6.41%	6.91%
EBITDA Multiple	15x	$ 63.20	$ 61.54	$ 59.93	$ 58.37	$ 56.85
	16x	$ 67.53	$ 65.77	$ 64.07	$ 62.40	$ 60.79
	17x	$ 71.86	$ 70.00	**$ 68.20**	$ 66.44	$ 64.73
	18x	$ 76.20	$ 74.24	$ 72.33	$ 70.48	$ 68.67
	19x	$ 80.53	$ 78.47	$ 76.46	$ 74.51	$ 72.62

Conclusion

Starbucks, along with most F&B brands, is being punished as the world prepares itself from supply side price increases, decreases in overall consumption, the disruptions associated with coronavirus, and potential long term changes in consumer preferences. However, unlike local businesses and coffee shops, who do not have the means to weather this crisis, Starbuck's competitive advantage lies in its size, brand power, and customer retention. Exiting the crisis, they will be equipped to reopen strategically, recapture previous customers, and attract new customers from competitors who have gone out of business. This is a strong company in a unique position to capture even more market share.

Looking forward, I am particularly interested in tracking:

1. 2020 Revenue (Q3 and Q4 are essential to grasp how the company is exiting the situation)
2. Expansion in China and status of Luckin Coffee's scandal. Where are gaps that Starbucks can step in to fill and what could potential turmoil for Luckin mean for Starbuck's previous expansion plans.
3. Growth of Channel Development through NESTLE Global Alliance. What is Starbuck's progress in marketing its coffee for single-serve and ready-for-home products and how is this growing
4. Strength of Loyalty Program. Is the user base and average spend per user continuing to grow? How has the customer experience been improved or deteriorated? What is the status of Dunkin' Donuts services and how has Starbuck's maintained its premium differential.

Starbucks
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BASE CASE

	Historical Period			Forecasts				
	SEP '17	SEP '18	SEP '19	SEP '20	SEP '21	SEP '22	SEP '23	SEP '24
Revenue	22384	24720	26502	23000	28000	30800	33880	37268
yoy growth		10.4%	7.2%	-13.2%	21.7%	10.0%	10.0%	10.0%
Cost of Goods Sold	17,039	19,105	20,773	17,940	21,560	23,408	25,749	28,324
% of revenue	76.1%	77.3%	78.4%	78.0%	77.0%	76.0%	76.0%	76.0%
Gross Profit	5345	5615	5729	5060	6440	7392	8131	8944
margin	23.9%	22.7%	21.6%	22.0%	23.0%	24.0%	24.0%	24.0%
SG&A	1,393	1,755	1,824	1610	1960	2156	2372	2609
% of revenue	6.2%	7.1%	6.9%	7.0%	7.0%	7.0%	7.0%	7.0%
EBIT	3951	3860	3905	3450	4480	5236	5760	6336
yoy growth		-2.3%	1.2%	-11.6%	29.9%	16.9%	10.0%	10.0%
Less Taxes	1,433	1,262	872	1035	1344	1570.8	1727.88	1900.668
Tax Rate	36.3%	32.7%	22.3%	30.0%	30.0%	30.0%	30.0%	30.0%
Less Capex	1519.4	1976.4	1806.6	1748	2072	2218	2372	2534
Plus Depreciation	1,067	1,306	1,449	1,150	1,400	1,540	1,694	1,863
Less Delta in Working Capital	(90)	(6914)	(1649)	2000	(392)	(431)	(474)	(522)
Free Cash Flow	2156	8841	4324	-183	2856	3419	3828	4286

Risk Free Rate	0.6%
Market Risk Premium	8.0%
Beta	0.72
CAPM	6.4000%
Equity	86,190
Debt	11,230
Debt and Equity	97419.7
Cost of Equity	6.40%
Interest Expense	340
Cost of Debt	3.03%
Tax Rate	30.00%
WACC	5.91%

NPV of Future Cash Flows	11510.2
Terminal EBITDA	8199.0
Exit Multiple	17
Discounted Terminal Value	104597.9
EV	116108.1
Debt	11230

Equity Value	104878.4
S/O	1233.0
Implied Price	**$85.06**

		WACC				
	$85.06	4.91%	5.41%	5.91%	6.41%	6.91%
EBITDA	15	$ 79.04	$ 77.03	$ 75.08	$ 73.18	$ 71.33
	16	$ 84.28	$ 82.14	$ 80.07	$ 78.05	$ 76.09
	17	$ 89.51	$ 87.25	**$ 85.06**	$ 82.93	$ 80.85
	18	$ 94.74	$ 92.36	$ 90.05	$ 87.80	$ 85.61
	19	$ 99.97	$ 97.47	$ 95.04	$ 92.67	$ 90.37

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BULL CASE

	Historical Period			Forecasts				
	SEP '17	SEP '18	SEP '19	SEP '20	SEP '21	SEP '22	SEP '23	SEP '24
Revenue	22384	24720	26502	24000	29000	32480	36378	40743
yoy growth		10.4%	7.2%	-9.4%	20.8%	12.0%	12.0%	12.0%
Cost of Goods Sold	17,039	19,105	20,773	18,720	22,330	24,685	27,647	30,965
% of revenue	76.1%	77.3%	78.4%	78.0%	77.0%	76.0%	76.0%	76.0%
Gross Profit	5345	5615	5729	5280	6670	7795	8731	9778
margin	23.9%	22.7%	21.6%	22.0%	23.0%	24.0%	24.0%	24.0%
SG&A	1,393	1,755	1,824	1680	2030	2274	2546	2852
% of revenue	6.2%	7.1%	6.9%	7.0%	7.0%	7.0%	7.0%	7.0%
EBIT	3951	3860	3905	3600	4640	5522	6184	6926
yoy growth		-2.3%	1.2%	-7.8%	28.9%	19.0%	12.0%	12.0%
Less Taxes	1,433	1,262	872	1080	1392	1656.48	1855.2576	2077.88851
Tax Rate	36.3%	32.7%	22.3%	30.0%	30.0%	30.0%	30.0%	30.0%
Less Capex	1519.4	1976.4	1806.6	1748	2072	2218	2372	2534
Plus Depreciation	1,067	1,306	1,449	1,150	1,400	1,540	1,694	1,863
Less Delta in Working Capital	(90)	(6914)	(1649)	2000	(392)	(431)	(474)	(522)
Free Cash Flow	2156	8841	4324	-78	2968	3619	4126	4699

Risk Free Rate	0.6%
Market Risk Premium	8.0%
Beta	0.72
CAPM	6.4000%
Equity	86,190
Debt	11,230
Debt and Equity	97419.7
Cost of Equity	6.40%
Interest Expense	340
Cost of Debt	3.03%
Tax Rate	30.00%
WACC	5.91%

NPV of Future Cash Flows	12424.0
Terminal EBITDA	8789.7
Exit Multiple	17
Discounted Terminal Value	112134.1
EV	124558.2
Debt	11230

Equity Value	113328.5
S/O	1233.0
Implied Price	**$91.91**

		WACC				
	$91.91	4.91%	5.41%	5.91%	6.41%	6.91%
EBITDA	15	$ 85.47	$ 83.31	$ 81.21	$ 79.18	$ 77.19
	16	$ 91.07	$ 88.79	$ 86.56	$ 84.40	$ 82.30
	17	$ 96.68	$ 94.27	**$ 91.91**	$ 89.63	$ 87.40
	18	$ 102.29	$ 99.74	$ 97.26	$ 94.85	$ 92.50
	19	$ 107.90	$ 105.22	$ 102.61	$ 100.08	$ 97.61

BEAR CASE

Starbucks
SBUX
Data in Millions

	Historical Period			Forecasts				
	SEP '17	SEP '18	SEP '19	SEP '20	SEP '21	SEP '22	SEP '23	SEP '24
Revenue	22384	24720	26502	20000	23000	24840	26827	28973
yoy growth		10.4%	7.2%	-24.5%	15.0%	8.0%	8.0%	8.0%
Cost of Goods Sold	17,039	19,105	20,773	15,600	17,710	18,878	20,389	22,020
% of revenue	76.1%	77.3%	78.4%	78.0%	77.0%	76.0%	76.0%	76.0%
Gross Profit	5345	5615	5729	4400	5290	5962	6439	6954
margin	23.9%	22.7%	21.6%	22.0%	23.0%	24.0%	24.0%	24.0%
SG&A	1,393	1,755	1,824	1400	1610	1739	1878	2028
% of revenue	6.2%	7.1%	6.9%	7.0%	7.0%	7.0%	7.0%	7.0%
EBIT	3951	3860	3905	3000	3680	4223	4561	4925
yoy growth		-2.3%	1.2%	-23.2%	22.7%	14.8%	8.0%	8.0%
Less Taxes	1,433	1,262	872	900	1104	1266.84	1368.1872	1477.64218
Tax Rate	36.3%	32.7%	22.3%	30.0%	30.0%	30.0%	30.0%	30.0%
Less Capex	1519.4	1976.4	1806.6	1748	2072	2218	2372	2534
Plus Depreciation	1,067	1,306	1,449	1,150	1,400	1,540	1,694	1,863
Less Delta in Working Capital	(90)	(6914)	(1649)	2000	(392)	(431)	(474)	(522)
Free Cash Flow	2156	8841	4324	-498	2296	2710	2989	3299

Risk Free Rate	0.6%
Market Risk Premium	8.0%
Beta	0.72
CAPM	6.4000%
Equity	86,190
Debt	11,230
Debt and Equity	97419.7
Cost of Equity	6.40%
Interest Expense	340
Cost of Debt	3.03%
Tax Rate	30.00%
WACC	5.91%

NPV of Future Cash Flows	8708.8
Terminal EBITDA	6788.9
Exit Multiple	17
Discounted Terminal Value	86608.8
EV	95317.5
Debt	11230

Equity Value	84087.8
S/O	1233.0
Implied Price	**$68.20**

		WACC				
	$68.20	4.91%	5.41%	5.91%	6.41%	6.91%
	15	$ 63.20	$ 61.54	$ 59.93	$ 58.37	$ 56.85
	16	$ 67.53	$ 65.77	$ 64.07	$ 62.40	$ 60.79
EBITDA	17	$ 71.86	$ 70.00	**$ 68.20**	$ 66.44	$ 64.73
	18	$ 76.20	$ 74.24	$ 72.33	$ 70.48	$ 68.67
	19	$ 80.53	$ 78.47	$ 76.46	$ 74.51	$ 72.62