



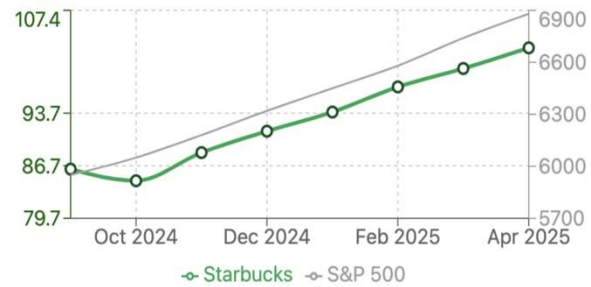
**STARBUCKS
CORPORATION**

Company Analysis Report

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Company Name: Starbucks Corporation
Exchange: NASDAQ **Ticker:** SBUX
Sector: Consumer Discretionary
Industry: Food and Beverages
Recommendation: HOLD **Current Price (as of April 21, 2025):** \$79.47 **Target Price:** \$104.79 **Market Cap:** \$92.58bn

Starbucks Share Price Movement (Last 8 Months)



Business Description

Starbucks Corporation (Nasdaq: SBUX) is the world's leading roaster, marketer, and retailer of specialty coffee. Established in 1985, Starbucks operates in 87 markets globally through a combination of company-operated and licensed stores. As of FY 2024, the company operates more than 38,000 stores worldwide, with approximately 16,000 locations in the United States alone.

The company offers high-quality coffee, handcrafted beverages, premium teas, and food items under its flagship Starbucks Coffee® brand, as well as Teavana®, Ethos®, and Starbucks Reserve®. Starbucks also extends its reach through the Global Coffee Alliance with Nestlé S.A., distributing branded coffee and tea products via grocery and foodservice channels.

Starbucks' primary objective is to uphold its position as one of the most recognized and respected global

brands. The company is committed to long-term revenue and income growth through continued investment in brand equity and operational excellence. This includes the strategic expansion of its global store footprint, with a focus on growth in both established markets like the U.S. and emerging international markets.

Starbucks Revenue by Region (2024)



Ownership Structure

Insider Purchases Last 6 months	Shares
Purchases	2,55,545
Sales	22,045
Net Shares Purchases (Sold)	2,33,500
Total Insider Shares Held	1.82M
% Net Shares Purchased (Sold)	14.80%

Source: Team Calculation

The data presented indicates a strong positive insider sentiment toward Starbucks over the past six months. During this period, insiders have purchased 255,545 shares and sold only 22,045 shares, resulting in net purchases of 233,500 shares. This net accumulation represents 14.80% of the total insider shares held, which currently stands at 1.82 million shares. The significant net buying activity suggests that insiders—typically company executives or directors with intimate knowledge of corporate performance—are confident in the company’s future prospects and valuation, which may be seen as a bullish signal to investors.

Breakdown of shares:

% of Shares Held by All Insider	0.16%
% of Shares Held by Institutions	81.14%
% of Float Held by Institutions	81.27%

Source: Team Calculation

This breakdown highlights the ownership structure of Starbucks' shares, providing insight into who holds stakes in the company. Insiders collectively hold a relatively small portion of the stock, accounting for only 0.16% of total shares outstanding. In contrast, institutional investors dominate ownership, holding 81.14% of the total shares and 81.27% of the public float—the shares available for trading by the general public. Furthermore, the stock is held by a broad base of 2,970 institutional entities, indicating widespread institutional interest and confidence. This level of institutional ownership typically reflects a strong endorsement of the company's fundamentals and long-term outlook by professional investors such as mutual funds, pension funds, and asset managers.

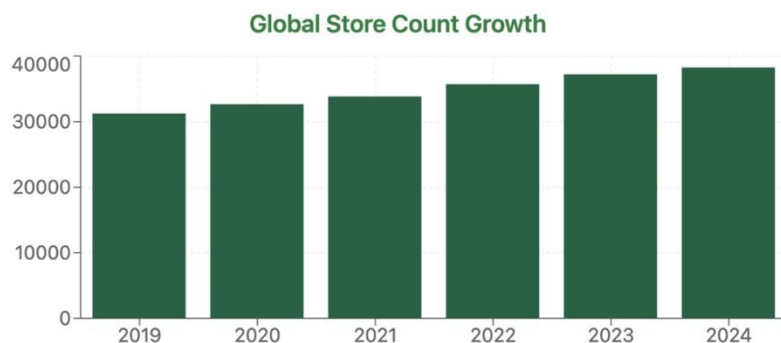
Industry Overview and Competitive Positioning

The U.S. coffee culture is uniquely defined by its emphasis on speed, convenience, and volume, creating an ideal environment for quick-service coffee shops and café chains to flourish.

With most Americans consuming coffee daily, the sector has become a significant contributor to the national economy. In 2024, the U.S. coffee and snack shop

market surpassed \$68 billion in size, supporting approximately 77,500 businesses and employing nearly 900,000 individuals across the country.

The U.S. coffee shop market is intensely competitive, with numerous brands competing for consumer attention. Despite this saturation, Starbucks stands as the undisputed leader, both domestically and internationally. In 2023, Starbucks generated nearly \$30 billion in net revenue,



a figure that significantly outpaces most competitors in the coffee space. By 2024, the company was ranked the second-most valuable quick service restaurant brand globally, trailing only McDonald's—highlighting its influence well beyond the coffee category.

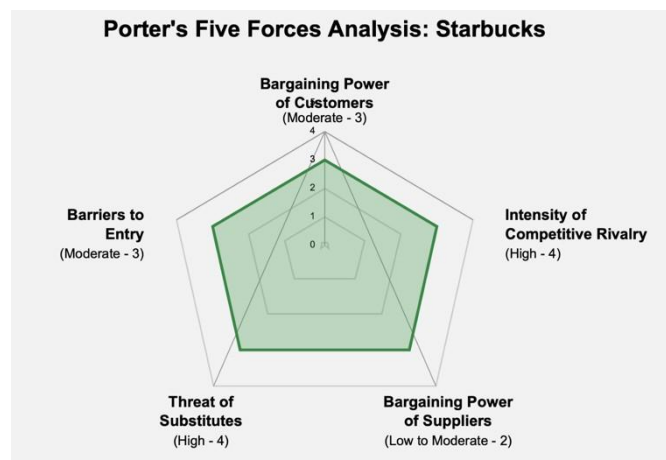
Porter's Five Forces Analysis of Starbucks

1. Competitive Rivalry – High

- Starbucks operates in a saturated and competitive coffee market, particularly in North America, which accounts for 75% of its net revenue.
- It faces competition from major chains (e.g., Dunkin', Tim Hortons), independent specialty cafés, and quick-service restaurants offering coffee products.
- Starbucks maintains a strong edge through brand equity, digital innovation, and its unique Starbucks Experience.
- Nonetheless, rivalry remains intense due to low switching costs and a high number of substitutable offerings in the market.

2. Threat of New Entrants – Moderate

- Barriers to entry are moderate. Small coffee shops can open relatively easily but scaling to Starbucks' level is highly challenging.
- Starbucks benefits from economies of scale, brand recognition, and supply chain integration, which insulates it from most small-scale entrants.



Source: Team Calculation

- However, localized specialty roasters and third-wave coffee houses continue to gain niche market traction.

3. Bargaining Power of Suppliers – Low to Moderate

- Starbucks purchases high-quality arabica coffee globally and uses a mix of fixed-price and hedged contracts to reduce exposure to commodity volatility.
- The company operates farmer support centers and has direct relationships with coffee producers through its C.A.F.E. Practices (ethical sourcing standards).
- Supplier power is relatively low due to Starbucks' large scale, but environmental risks (e.g., climate change) could tighten supply over time.

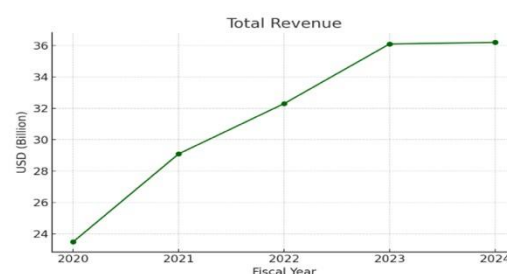
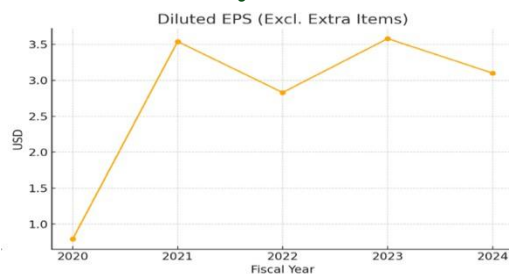
4. Bargaining Power of Buyers – Moderate

- Customers have numerous choices, from independent cafés to ready-to-drink coffee and at-home brewing solutions.
- Despite this, Starbucks reduces buyer power through strong brand loyalty, a compelling loyalty rewards program, and mobile app integration.
- However, pricing sensitivity remains an issue, especially during inflationary periods or economic downturns.

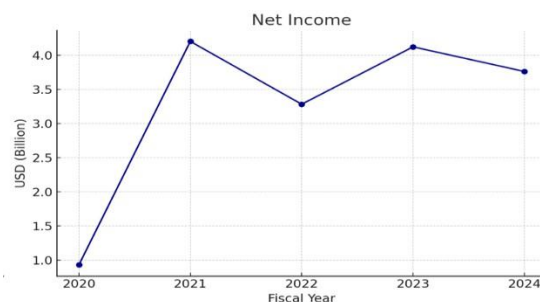
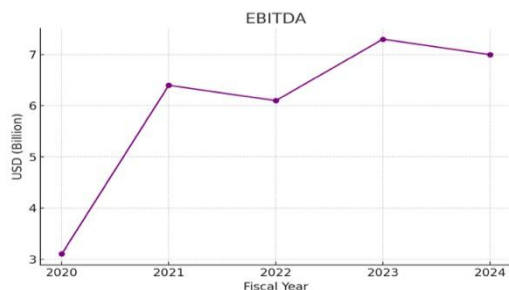
5. Threat of Substitutes – High

- Consumers can substitute Starbucks with home-brewed coffee, energy drinks, bottled beverages, or alternative cafés.
- Starbucks combats this threat by expanding into ready-to-drink, packaged coffee, and leveraging the Nestlé Global Coffee Alliance for broader distribution.
- It also invests in product innovation, such as cold beverages and plant-based alternatives, to retain customer interest.

Financial Analysis



From fiscal year 2020 to 2024, Starbucks demonstrated a consistent upward trend in total revenue, increasing from \$23.5 billion to \$36.2 billion. This growth reflects the company's strong recovery following the pandemic, though revenue gains plateaued slightly in 2024. Net income showed a significant rebound in 2021, rising to \$4.2 billion after a challenging 2020, and although it fluctuated slightly in the following years, it remained above pre-pandemic levels, closing at \$3.76 billion in 2024. EBITDA followed a similar path, climbing from \$3.1 billion in 2020 to a peak of \$7.3 billion in 2023 before dipping modestly to \$7.0 billion in 2024, indicating relatively stable operational performance. Meanwhile, diluted earnings per share (EPS), excluding extraordinary items, surged in 2021 to \$3.54 and remained solid over the next few years, though it slightly declined to \$3.10 in 2024. These financial trends highlight Starbucks' strong brand resilience and recovery capabilities, despite recent challenges in margin pressures and macroeconomic headwinds.



Short-Term Liquidity Analysis

Metric	Insight
Current Ratio	Deteriorated from 1.2x (2021) to 0.7x (LTM 2024) . Below 1.0 indicates short-term liabilities exceed shortterm assets — could raise liquidity concerns.
Quick Ratio	Also declined to 0.5x , reflecting limited immediate liquidity (cash + receivables). May point to working capital tightening.
Cash from Ops. To Current Liabilities	Improved post-pandemic, peaking at 0.7x (2021, 2024) , but slightly down in LTM. Indicates decent, though tightening, operational cash flow coverage of short-term debt.
Cash Conversion Cycle	Decreased significantly from 23.8 days (2020) to 13.8 days (LTM 2024) , which is a positive sign of improving working capital efficiency.

Asset Turnover Analysis

Metric	Insight
Total Asset Turnover	Improved from 1.0x (2020) to 1.3x (2023) , now at 1.2x . Indicates efficient use of assets in revenue generation, although some slowdown recently.
Accounts Receivable Turnover	Stable around 28–30x , showing consistent and efficient collections.
Inventory Turnover	Trending up from 11.9x (2020) to 15.8x (LTM 2024) , suggesting better inventory management and possibly increased product demand or supply chain optimization.

Source: Team Calculation

Operating Cash Flow Analysis

Operating cash flow has shown strong recovery and growth since the pandemic-affected 2020, increasing from \$1.6B in FY2020 to \$6.1B in FY2024. The LTM period ending December 2024 shows a slight decline to \$5.8B compared to FY2024. Operating cash flow margins have remained healthy, demonstrating Starbucks' ability to generate cash from its core business.

Capital Expenditure Trends

Capital expenditures have steadily increased year over year, rising from \$1.5B in FY2020 to \$2.8B in FY2024. This represents significant investment in growth initiatives, store expansion, and infrastructure. The LTM figure of \$2.9B indicates continued aggressive investment into Q1 FY2025.

Free Cash Flow Performance

Levered free cash flow has been positive since FY2021, though showing some volatility. A peak of \$4.5B in FY2021 (likely influenced by post-pandemic recovery and the divestiture recorded that year) was followed by varying performance. A decline to \$2.2B in FY2024 and further to \$2.0B in the LTM period is evident. The declining FCF despite stable operating cash flow reflects the company's increasing capital expenditures.

Capital Allocation Strategy

Starbucks maintains consistent dividend payments, increasing from \$1.9B in FY2020 to \$2.6B in FY2024. The company shows variable share repurchase activity, with significant buybacks of \$4.1B in FY2022, moderating to \$1.4B in FY2024. Strategic debt management with refinancing activity is evident throughout the period. The LTM data shows significantly reduced share repurchases (\$82.9M) compared to previous years.

Balance Sheet Management

Working capital fluctuations show the company has been optimizing its operational efficiency. Long-term debt management appears strategic, with well-timed issuances and repayments. Net debt issued has varied over the years, with the most recent period showing positive issuance.

Valuation

Discounted Cash Flow	2024	2025	2026	2027	2028	2,029
<i>Time Periods</i>	<i>0</i>	<i>1</i>	<i>2</i>	<i>3</i>	<i>4</i>	<i>5</i>
EBIT	4,970	5,328	5,712	6,124	6,565	6,697
Less: Cash Taxes	(1,221)	1,152	1,332	1,567	1,765	
Plus: D&A	1,513	1,606	1,747	1,761	1,873	
Less: Capex	(2,778)	(3,055)	(3,361)	(3,697)	(4,067)	
Less: Changes in NWC	756	832	915	1,006	1,107	
FCF	3,240	5,863	6,346	6,761	7,244	
	78,409	5,391	5,367	5,258	5,181	
PV of FCF						
Transaction CF	81,648					

INTRINSIC VALUE Calculation	
MARKET VALUE	102,846
LESS: DEBT	23,091
EQUITY VALUE	79,755
EQUITY VALUE/share	70.36

The DCF MODEL estimates SBUX intrinsic share price at 70.36 suggesting that the stock is overvalued by approximately 17% compared to the current price of \$85. The model applies a five year forecast with discount rate of 9% and a perpetual growth rate of 2%, reflecting the company's mature market position and long-term growth prospects. Projected free cash flows increase from \$3.24 billion in 2024 to \$7.24 billion in 2028, driven by consistent EBIT growth, moderate capital expenditure increases, and stable changes in working capital. These assumptions align with Starbucks' historical performance and outlook for steady global expansion.

The weighted average cost of capital (WACC) is calculated at 8.74%, incorporating a cost of equity of 9.83% (based on a risk-free rate of 4.25%, beta of 0.97, and a 10% market return) and a cost of debt of 5.57%, with a capital structure composed of approximately 81% equity and 19% debt. Although the model implies limited upside, Starbucks' market valuation may also reflect intangible assets like brand strength, digital innovation, and international growth opportunities

Relative Valuation



McDonald's, Tim Hortons, and Dunkin' are the key competitors of Starbucks as they all operate in the quick-service coffee and beverage space, offering similar products like coffee, breakfast, and snacks. While Starbucks positions itself as a premium brand, they all compete on price, convenience, and scale—making them key rivals in both domestic and international markets.

1. Net Income: McDonald's leads with \$8.22B, followed by Starbucks at \$3.76B, and Tim Hortons at \$1.45B.

2. P/E Ratio: Starbucks' P/E stands at 26.3—slightly below the beverage industry average of 27.9—indicating steady growth expectations.

3. Revenue Growth: Starbucks leads at 7.2% due to international expansion and digital sales. Tim Hortons follows at 6.8%, Dunkin' at 5.1%, and McDonald's at 4.9%.

4. Operating Margin: McDonald's dominates at 44.6%, Dunkin' follows with 31.6%, Tim Hortons at 19.2%, and Starbucks lags at 14.8%—due to global expansion and restructuring costs.

5. Market Cap: McDonald's tops at \$214B, Starbucks is next at \$96.3B, Tim Hortons at \$13.5B, and Dunkin' at \$8.8B.

Relative Valuation



Metric	Starbucks	Dunkin'	McDonald's	Tim Hortons
Net Income	\$3.76 B	\$242 B	\$8.22 B	\$1.45 B
P/E	23.5x	27.3x	25.1x	24.7x
Revenue Growth	7.2%	5.1%	4.9%	6.8%
Operating Margin	14.8%	31.6%	44.6%	19.2%
Market Cap	\$96.3 B	\$8.8 B	\$214 B	\$13.5 B

Factors determining the Intrinsic Value of STARBUCKS

The intrinsic value of the shares of Starbucks at \$70.36 per share is lower than its current market price of \$85 primarily due to a combination of conservative valuation estimates combined with underlying financial stress observed in the form of the firm's recent operating results. The discounted cash flow (DCF) model used a WACC of 8.74% and a conservative perpetual growth rate of 2%, which are plausible for solid companies but limit upside potential. Even though Starbucks' free cash flow is projected to grow from \$3.24 billion in 2024 to \$7.24 billion by 2028, current trends indicate short-term decreasing free cash flow. Specifically, levered free cash flow has fallen from \$4.5 billion in 2021 to \$2.2 billion in 2024 as operating cash flow remained stable at \$6.1 billion, considerably highlighting the impact of increasing capital expenditure. Such spending has increased incrementally from \$1.5 billion in 2020 to \$2.9 billion in the latest twelve months, reflecting Starbucks' continued investment in store expansion and digital infrastructure. However, such reinvestment reduces free cash flow among shareholders in the short run. Liquidity ratios also point toward financial tightening: the current ratio fell from 1.2x in 2021 to 0.7x in 2024, and the quick ratio stands low at 0.5x, signifying a lowered ability to satisfy short-term liabilities using liquid funds. The company also possesses a high long-term debt-to-capital of over 125%, showing high leverage that enhances risk and suppresses valuation. To top it off, while Starbucks possesses high brand strength and growth opportunities, its shares carry premium valuation multiples like a P/E multiple of 26.3x and a P/FCFE multiple of 30.3x, which are far higher than average for the industry (18.5x and 17.4x, respectively). This implies the market has already factored in a great deal of Starbucks' future growth and brand power, with limited room for additional appreciation on a fundamental value basis alone. As such, the lower intrinsic value represents not only conservative estimates but also genuine fears regarding liquidity, increasing capital requirements, and overvaluation compared to industry peers.

Investment Risk

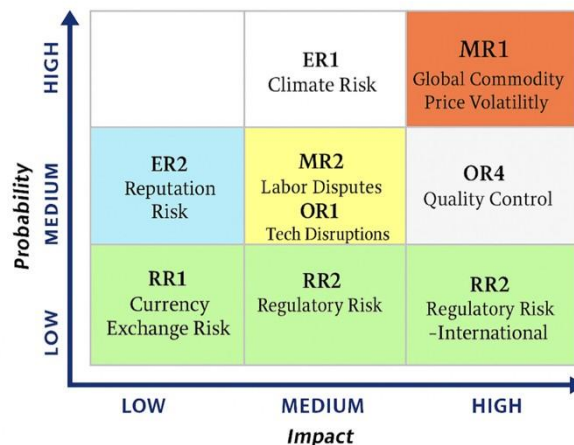
1. Brand Relevance and Execution

- **Core Message:** The company's brand is a key asset. If its image deteriorates or marketing efforts fall flat, it could significantly affect financial outcomes.

2. Operational Risks

- **Strategic execution:** There's a risk that strategic initiatives or customer experience enhancements may not pay off.
- **Consumer sentiment:** Shifts in preferences or health perceptions could hurt demand.
- **Third-party reliability:** Failures by partners or vendors could damage brand and profits.
- **Store expansion and maintenance:** Not hitting store growth targets or letting store quality decline could impact performance.

Figure: Starbucks Risk Matrix



Source: Team Calculation

3. Global Business Risks

- **Dependence on North America:** Heavy reliance on one region exposes the company to concentrated risk.
- **International expansion:** Success abroad is becoming more critical but also introduces new uncertainties.
- **Partnerships:** Global growth often depends on third parties, creating potential operational risks.

4. Supply Chain Vulnerabilities

- **Commodity prices and availability:** Coffee bean pricing and availability, for instance, directly impact margins.
- **Operational disruptions:** Breakdowns in logistics or supplier issues could lead to product shortages or quality issues.

IMPACTS OF TARIFFS ON STARBUCKS

Tariffs have had, and continue to pose, significant implications for Starbucks' operations and profitability, both directly and indirectly. While Starbucks primarily sources coffee beans from Latin America, Africa, and Asia regions generally not heavily targeted by U.S. tariffs the company is exposed to tariffs on other imported goods critical to its global supply chain. During the U.S. China trade war (2018–2020), tariffs affected the cost of equipment, machinery, packaging materials, and store fixtures imported from China and other regions. These increased costs either compressed profit margins or were partially passed on to consumers through price hikes. In addition, China a key growth market for Starbucks has in the past imposed retaliatory tariffs on U.S. goods, raising concerns that U.S. brands, including Starbucks, could face both cost and demand pressures in the region.

Beyond physical goods, Starbucks is vulnerable to broader tariff-driven supply chain disruptions. Tariffs can increase transportation and logistics expenses and introduce delays and inefficiencies when rerouting supply chains to avoid high-tariff routes. For a company aggressively expanding in international markets, particularly Asia, this adds complexity and cost. Furthermore, the threat of future tariffs, especially as geopolitical tensions with China and other trade partners continue, represents an ongoing strategic risk. For example, new tariffs on imports related to technology, metals, or agricultural products could unexpectedly increase operational expenses. Even if Starbucks avoids direct tariffs on coffee, the indirect effects—higher supplier costs, changes in consumer pricing sensitivity, and fluctuations in currency due to trade tensions can significantly influence profitability and growth prospects.

Thus, while Starbucks has mitigated some tariff impacts through supplier diversification and hedging strategies, it remains exposed to policy shifts and trade negotiations that could affect both its cost structure and its ability to price competitively in key markets

Recommendation

While Starbucks maintains strong market leadership and demonstrates operational innovations, its current valuation appears to fully reflect these positives. The DCF model indicates a 17% overvaluation, and most relative valuation metrics show premium pricing versus industry peers. However, strong insider buying activity, strategic shifts under new leadership, and continuous innovation in product offerings provide potential upside.

Given the balance between growth opportunities and valuation concerns, a HOLD recommendation is appropriate. Current shareholders should maintain positions to benefit from potential operational improvements under new leadership, while new investors may want to wait for a more attractive entry point.

APPENDIX A

RECENT EVENTS

Cold Beverage Innovation Accelerates - March 25, 2025: Starbucks announced the expansion of its cold beverage platform with the introduction of five new dairy-alternative cold foam options and three proprietary cold brew extraction methods, furthering its strategy to capitalize on the growing cold beverage category that now represents over 75% of beverage sales.

Digital Partnership with Major Tech Platform - February 18, 2025: Starbucks announced an expanded partnership with a leading technology company to integrate its loyalty program and mobile ordering capabilities with a major navigation app, allowing customers to place orders directly through the navigation interface when approaching Starbucks locations.

China Market Revitalization Plan - March 10, 2025: Following two years of challenging performance in China, Starbucks unveiled a comprehensive market revitalization plan, including menu localization, expanded delivery partnerships, and a new store format designed specifically for the Chinese market to counter growing local competition.

Expansion of Ready-to-Drink Portfolio - January 30, 2025: Through its Global Coffee Alliance with Nestlé, Starbucks announced the launch of eight new ready-to-drink coffee products targeting the premium segment of the grocery channel, expanding its footprint in the fastest-growing segment of retail coffee.

Leadership Team Restructuring - March 15, 2025: Six months into CEO Brian Niccol's tenure, Starbucks announced a streamlined leadership structure with the consolidation of several executive positions and the creation of a new Chief Digital Officer role reporting directly to the CEO, emphasizing the company's focus on digital transformation.

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