FEBRUARY 29, 2024

STARBUCKS (SBUX) STOCK VALUATION

LO WENCHI
MA CHIHAO
NADYA MIRABEL
PATRICIA ADELINE
RAGHAV AGARWAL
SILVIANA

Figure 1 – Investment Summary

Date	29/2/24
Ticker	SBUX
Industry	Restaurants
Market Value (m)	105,294,600,000
Shares Outstanding (m)	1,136,600,000
52-week high	$115.48
52-week low	$89.21
Beta	0.94
Annual Dividend	$2.16
Current Share Price	$93.00
Implied Share Price	$98.51
Upside Potential	6%
12-Month-Target Price	$104.02
PEG Ratio	1.13
Recommendation	Buy

Source: Team Analysis

Figure 2 – US Coffee Market Shares

Source: Statista

BRIEF

Starbucks is a world's largest coffeehouse chain in the food and beverage industry, offering signature roasted coffee, espresso drinks and Frappuccino, and variety of pastries and snacks. We believe Starbucks's value is higher than the current market price because of its strong financial performance and significant growth potential.

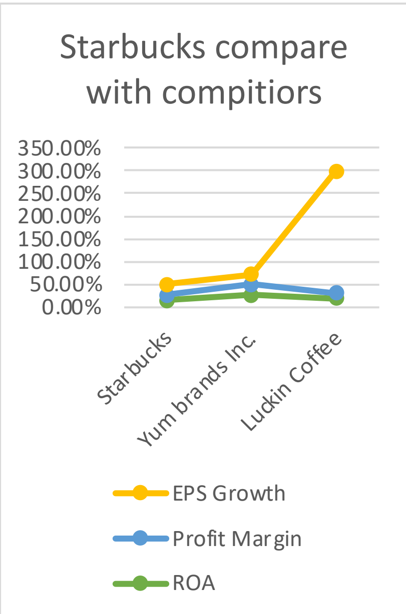
INVESTMENT SUMMARY

We issue a Buy recommendation for Starbucks with 12-Month-Target price of $104.2, which currently trading at $93.00, implying a 6% upside potential from its last closing price on 29-Feb 2024. Our valuation is solely based on Discounted Cash Flow method (DCF). Our recommendation lay on the following key factors:

Strong Market share in coffee brand: Starbucks is a leading company coffee brand in US with market shares of 41%. It's shows that how strongly dominated Starbucks is in beverage sector. It tells us that year after year their revenue keep increasing compare to their peers. That their net revenue increase by 11.46 and their in-store sales by 8%.

High ESG Score: When it comes to incorporating ESG factors into its business operations, Starbucks has led the way. It exhibits a strong dedication to ethical sourcing, sustainable environmental methods, and conscientious business operations. These initiatives are frequently reflected in its ESG score, which establishes it as a standard for corporate responsibility in the coffee sector. Starbucks' dedication to social responsibility and sustainability has a big impact on its brand loyalty and brand image. Nowadays, a lot of customers are prepared to spend more for goods that are supplied ethically, socially conscious, and environmentally sustainable. Starbucks can attract and retain customers who value these traits by achieving high ESG metrics scores. Furthermore, investment decisions may also be influenced by Starbucks' ESG performance. These days, a lot of investors are searching for businesses that can successfully manage the potential and risks associated with ESG. Starbucks may attract socially conscious investors that are interested in making a profit as well as having a beneficial influence on the environment and society by showcasing its adherence to ESG standards.

Figure 3 – Peer financial compare

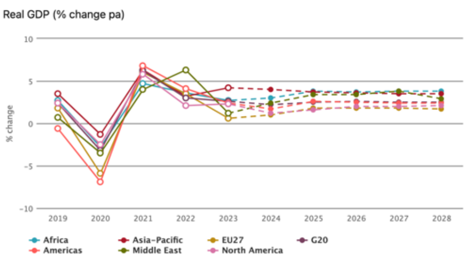


Source: Team Analysis

Financial Strength – In 2023 Starbucks F-score of 9 which according to Piotroski F-score is a sign of strong financial statement without any manipulation and internal intervention. With Return on Assets of 14.37% which is better than 92% of its peers, all though Starbucks equity is in negative still it's ROE is better than 99% of its peers. Starbucks average return in invested capital over past 3 years is 18.26% which is above industry average which is 10.59%. Starbucks profit margin is 11.70% which is above average, and that outperforms 79% of its peers. Although in recent year operating margin of Starbucks has remained more or less at the same level. In the last year Starbucks showing strong growth in Earning Per Share, the EPS is growing by 23.75% and its revenue growth rate is 11.46%. Starbucks also pay out more than 50% of its income as dividend.

ECONOMIC OUTLOOK

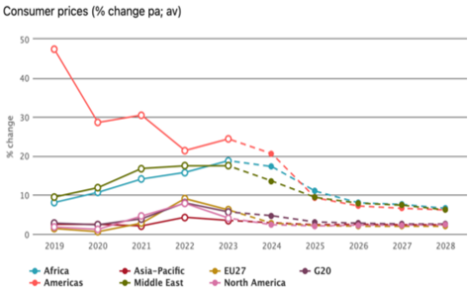
Figure 4 - Real GDP



Source: EIU

Following the easing of the global pandemic, the worldwide economy is experiencing a period of sluggish growth. The primary concern revolves around geopolitical shocks, particularly the impact of the Israel-Hamas war. These events, coupled with the Red Sea attacks, Russia's invasion of Ukraine, and the ongoing US-China rivalry, contribute to economic fragmentation and necessitate a reorganization of global supply chains. While we anticipate a tempered global growth trajectory, a recession is not expected. Projections indicate a deceleration in global real GDP growth from an estimated 2.5% in 2023 to 2.3% in 2024. The slowdown in the US will be partially counterbalanced by an increase in Europe, and measured stimulus efforts in

Figure 5 – Inflation



Source: EIU

China will support growth. Predictions point to a strengthening of global growth to an average of 2.7% per year in 2025-28, aided by monetary easing and increased investment, although it will remain below historical trends. More streamlined supply chains and softened demand will lead to a reduction in average inflation in developed economies, from an estimated 4.5% in 2023 to 2.4% in 2024. However, the risks associated with inflation are skewed towards an upward trajectory. Trade disruptions in the Red Sea are already causing global shipping costs to rise, and a significant escalation in the Israel-Hamas conflict could elevate hydrocarbon prices. Additionally, unexpected impacts from El Niño on agriculture production could drive up global food prices.

The ability to employ policy measures to bolster economic growth is constrained. Although a modest loosening of global monetary policy is expected from mid-2024, this is likely to be moderate due to policymakers' desire to stabilize inflation expectations. Tighter labour markets suggest that interest rates will not return to the low levels seen in the 2010s. On the fiscal front, high borrowing costs and increased defence spending will prompt governments to pursue consolidation measures. The conclusion of US monetary tightening will diminish some support for the US dollar, but its status as a safe haven is anticipated to keep it generally stable rather than weakening.

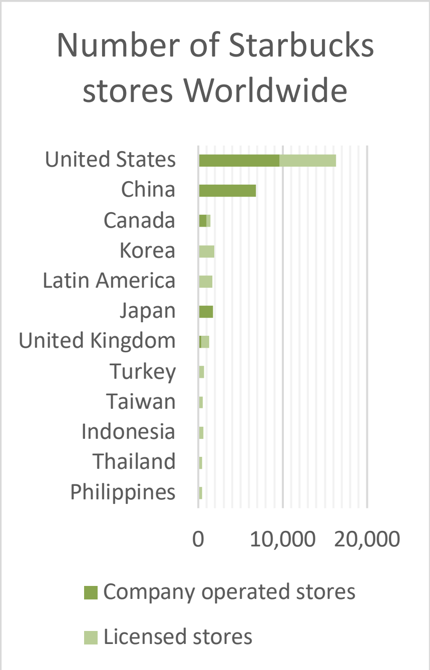
Business Description

History

Founded in Seattle, Washington in 1971, Starbucks Corporation is a global retailer of coffee, tea and spices, with more than 35,000 locations in 80 countries. Starbucks Corp., also known as Starbucks, is a retailer of beverages. It is among the top coffee chains globally. Purchasing and roasting premium coffees to sell alongside handcrafted coffee, tea, and other beverages is the company's primary activity. Along with a variety of culinary items, it also sells chocolates, candies, bagels, croissants, sandwiches, and cookies. Through its Global Coffee Alliances, Starbucks also licenses its trademarks to grocery shops, culinary services, and other establishments.

The business uses several brands to function, such as Ethos, Starbucks Reserve, Teavana, etc. Starbucks went public on June 26, 1992 at a price of $17 per share, under the ticker symbol SBUX (Ref. GlobalData).

Figure 6 – Number of Stores



Source: Statista

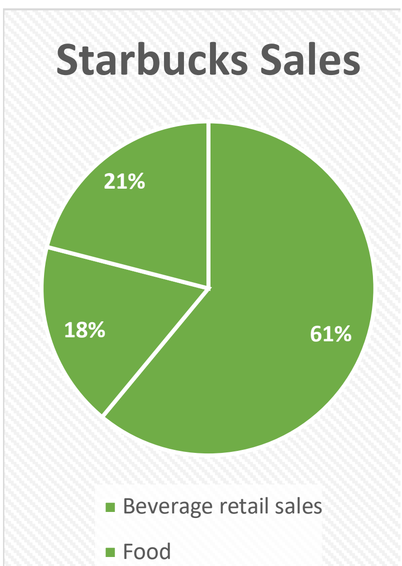
Business Segments & Geopolitical Location

There are three main sources of revenue for Starbucks: company-operated stores, licensed stores, others (consumer packaged goods (CPG) and foodservice operations). In 2023, company-operated stores generated 82% of total net revenues. Beverages continue to lead retail sales at 61%, followed by food at 18%, packaged and 21% from packaged and single-serve coffees and teas, plus royalty and licensing revenues, beverage-related ingredients, and ready-to-drink beverage, among other items. Licensed stores accounted for 12.5% of total net revenues last year. Under this model, Starbucks receives reduced share of the total store revenues in the forms of loyalties and license fees, with minimal share of costs as costs are primarily incurred by the licenses. Another way Starbucks makes money is by selling equipment to the licenses. Starbucks has around 44% of stores is in US, Starbucks has around 44% of stores is in US, around 7.8% in EMEA, in Asia around 35%, and around 13% for others (Ref. Starbucks Cop.).

Products & Services

First and foremost, Starbucks offered coffee as its primary commodity. Starbucks offers four distinct varieties of coffee to cater to the varied needs of its global customer base. Predicted on coffee beans: whole beans, roasted beans. Coffee beans (blonde), medium-roasted coffee, and dark-roasted coffee—depending on the roasting Regular coffee contains caffeine, but decaffeinated coffee has less caffeine (caffeine removed).

Figure 7 – Starbucks sales



Source: Company Data

In terms of flavour: bland coffee and bland coffee Starbucks continues to add seasonal, limited-edition, festive, and other products to its line-up in addition to the items that are sold all year long. Starbucks' products are so cohesive that it is prepared to absorb a reduction in lines or products if it affects the overall quality of the offering.

Generally, Starbucks started experimenting with breakfast sandwiches and cakes around 2008, however, the cake lost its signature excellent coffee flavour, thus Starbucks was forced to discontinue selling it. At the moment, Starbucks' primary offerings are coffee, tea, pastries, Frappuccino drinks, smoothies, and goods (mugs, instant coffee, etc.).

This is the outcome of years of product development for this outstanding company. In order to guarantee that it consistently draws in customers, Starbucks also maintains a specialized research team (Ref. Forbes).

Business Model & Company Strategy

Starbucks' mission statement makes it clear that building relationships with customers is key to their business. However, who are their clients? A study conducted in April 2017 states that men and women in the middle to upper classes who can purchase Starbucks' more expensive beverages on a daily basis are the company's target market. So, how can they persuade people to spend so much money when they could simply make coffee at home? When customers visit their stores, they provide an experience tailored to their target demographic. Customers find that they make the drink price worthwhile by emphasizing the third place and providing a space for them to congregate and socialize. Getting a nice cup of coffee and being told to take a seat with your laptop and work in the shop is kind of consoling. That's what Starbucks offers as an experience. The customer is the centre of the marketing plan. By using this tactic, a company can set itself apart from other products on the market and keep current clients from being drawn in by rivals. Additionally the four Ps (Product, Place, Promotion, Price) The first P focuses on the items that enterprises will offer to customers. Starbucks innovates its product mix to capture more of the market. The second P focuses on where the customers of Starbucks can access the company's foods, beverages, and merchandise. Starbucks offers most of its products at cafes or coffeehouse. The third P focuses on promotion, also known as the marketing communications mix, refer to communication strategies and tactics for the goal of improving Starbucks' brand, revenue, and market share. Starbucks' marketing mix includes the following promotions activities: word-of-mouth marketing, advertising, sales promotions, and public relations. The fourth P focuses on prices, Starbucks uses a premium pricing strategy. This strategy involves relatively high price points and price ranges for products that the coffeehouse business presents as superior-quality or high-end.

Figure 8 – Starbucks Four Ps

Source: Small Business.com

ENVIRONMENTAL, SOCIAL, AND CORPORATE GOVERNANCE (ESG)

Figure 9 – ESG Ratings

Provider	Overall	Environment	Social	Governance
S&P 500	37	63 Industry mean 18	32 Industry mean 20	27 Industry mean 24
Morning Star	23.69 Medium	N/A	N/A	N/A
Sustainalytics	24.7 Medium	6.1 Negligible	14.5 Low	4.2 Negligible
Refinitiv	70 Good	87 Excellent	69 Good	56 Good
MSCI	A Leader	N/A	N/A	N/A

Source: S&P 500, Morning Star, Sustainalytics, Refinitiv, and MSCI

Figure 10 – ESG Focus

Environment
Climate strategy and resilience
Environmentally-responsible sourcing practices
Greenhouse gas emissions and energy efficiency
Packaging
Waste
Water stewardship
Social
Diversity, equity and inclusion
Human rights within Starbucks supply chain and operations
Nutrition and transparency
Partner attraction, development and culture
Partners (OHS), community and customer safety
Partner relations
Product quality and safety
Corporate governance
Cybersecurity and data privacy
Ethics and compliance
Research, development and innovation
Transparency and stakeholder communication

Source: Starbucks ESG Report 2023

Figure 11 – Environmental Progress FY 23

	FY 2023	FY 2022
Climate		
% Change total emissions*	8%	9%
Water		
% Change in total water withdrawal*	-9%	-9%
Waste		
% change in waste sent to landfill*	13%	5%
Cups & Packaging		
% of customer packaging that is reusable, recyclable or compostable	14%	12%
Ethical Sourcing of Coffee		
% Starbucks coffee ethically sourced and verified through C.A.F.E. Practices	99.70%	98.20%
Average #farms participating in C.A.F.E. Practices	>450,000	>400,000

* : from FY 19 baseline

Source: Starbucks ESG Report 2023

Environmental

As depicts in the S&P Global 2023 (Figure 9), Starbucks' environmental score is 63, significantly higher than the industry average score of 21. Several factors impacting this score are Starbucks prioritizes Climate strategy and resilience; Environmentally responsible sourcing practices; Greenhouse gas emissions and energy efficiency; Packaging; Waste; and Water stewardship. In the climate sector, there is an 8% increase in total emissions compared to the FY19 baseline, however, it fell from 2022 to 2023 for about 2,426 $MTCO_2e$[6,7] (Figure 11). Starbucks will preserve or restore 50% of its water withdrawals across direct operations, stores, packaging, and the agricultural supply chain, with a focus on high-risk water basins while also supporting watershed health, ecosystem resilience, and water equity. As stated in Figure 11, the company has successfully maintained a 9% decrease in total water withdrawal compared with FY19 baseline.

In addition, Starbucks also aim to reduce the waste transferred to landfills by 50% in 2030 from retailers and direct operations customer packaging should be 100% reusable, recyclable, or compostable, this results in 13% increase in 2023 in waste sent to landfill in compared to 2019 and 14% of customer packaging is reusable, recyclable. Additionally, Starbucks bases its operations on ethical sourcing, coffee, and farmer equity (CAFE) practices. It is the coffee industry's first set of ethical sourcing guidelines of process to ensure that all the farms from which Starbucks sources its beans use safe environmental and social growth techniques. In 2023, 99.7% Starbucks coffee ethically sourced and verified through C.A.F.E Practices with over 450,000 participating farms.

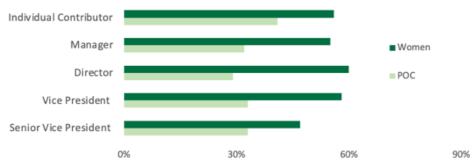
Social

Starbucks' social score for of 32, which is slightly higher than industry mean of 20 (Figure 9). Factors positively impacting Starbucks's social ratings include its commitment to Diversity, equity, and inclusion; Human rights within Starbucks supply chain and operations; Nutrition and transparency; Partner attraction, development, and culture; Partners (OHS), community and customer safety; Partner relations; Product quality and safety (Figure 10).Starbucks' goal in the United States is to achieve racial and cultural diversity of at least 30% at all corporate levels and at least 40% at all retail

Figure 12 - Representation in Retail Roles (U.S) FY 2023

Source: Starbucks ESG Report 2023

Figure 13 - Representation in Enterprise Roles (U.S.) FY 2023



Source: Starbucks ESG Report 2023

Figure 14 – Employee Engagement Survey

Employee Engagement Survey	FY 23
% Employees completed the Employee Experience Survey	
U.S. store employee	65%
Canada store employee	53%
North America non-store employee	92%

Source: Starbucks ESG Report 2023

and manufacturing roles by 2025. The corporation also wants to have at least 50 percent of women working at all levels of management, 55 percent of women working in retail, and 30 percent working in production (Figure 12 & Figure 13). Starbucks has also become an industry leader in benefits and compensation because their investments are guided by feedback and suggestions from their employees. The partner surveys use a census method, with all company-operated partners in the United States and Canada invited to participate and retail partners, including hourly partners, paid for their time to complete the survey. The feedback from these surveys is utilized to improve the overall partner experience and generate chances for growth (Figure 14). Aside from performing employee satisfaction surveys, Starbucks provides training and educational materials to demonstrate its status as one of the greatest employers in the global retail business. Furthermore, Starbucks assesses and manages human rights issues throughout their supply chain and operations to ensure compliance with their supply chain and operations standards, which include respect for human rights (e.g., anti-slavery, no child labour, anti-trafficking), fair labour practices, traceability, fair purchasing practices, and diverse sourcing.

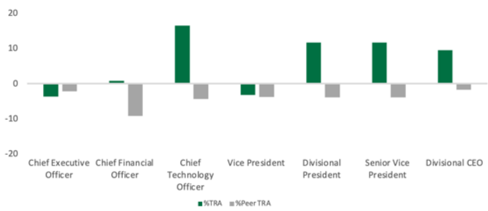
There are several factors negatively impacting the social score. One of them is as Starbucks distanced itself from the workers' union's pro-Palestinian stance this leads to Starbucks boycott that indeed will disrupt the Starbucks' social reputation. Additionally, The company's presence may increase property values and rents, making it more difficult for low-income residents to afford to live in certain locations. There are several efforts that Starbucks build to serve the community, one of them is through Neighbourhood Grants. The Starbucks Foundation awards Neighbourhood Grants to charity organizations nominated by Starbucks partners in the United States and Canada to assist develop long-term impact and encourage increasing partner volunteerism in their areas.

Corporate Governance

Starbucks ranks for the Corporate Governance metrics is at 27, compared with the industry mean of 24 (Figure 9).

Executive Compensation. In evaluating Starbucks' compensation practices for fiscal 2023, the Compensation Committee took shareholder feedback into account and continued to refine the company's Annual Incentive Bonus Plan to align compensation more closely with company financial performance and demonstrate their commitment to shareholder value creation. Beginning with the fiscal 2023 Annual Incentive Bonus Plan, 70% of each participant's target incentive opportunity will be earned based on adjusted net revenue and adjusted operating income financial metrics, up from 50%, with the remaining 30% earned based on ESG metrics (15% up from 10% in fiscal 2022) and individual performance (15% down from 30% in fiscal 2022). The long-term cash performance-based award would have paid out at 100% of target if the Company's TSR performance relative to the S&P 500 index was at the 65th percentile, zero if performance was at the 40th percentile, and 200% of target if performance was at the 80th percentile, with linear interpolation. Starbucks' relative TSR was in the 25th percentile at the end of fiscal 2022, hence no award was paid out.

Figure 15 - %TRA Comparison Between Starbucks and Peers



Source: Bloomberg

Figure 16 – Public Ownership Shares

Top 10 Institutional Ownership Share (%)	
Vanguard Group Inc	9.5330%
BlackRock Inc	6.9560%
State Street Corp	4.0920%
Geode Capital Management	2.0170%
Schultz Howard D	1.9250%
Morgan Stanley	1.9030%
Bank of America Corp	1.7490%
Nothern Trust Corp	1.2980%
Royal Bank of Canada	1.2210%
UBS AG	1.2170%

Source: Bloomberg

Figure 18 – Inside Ownership Shares

Top 10 Insider Ownership Share (%)	
Mellody Hobson	0.0639%
Laxman Narasimhan	0.0146%
Michael A Conway	0.0074%
Jorgen Vig Knudstorp	0.0072%
Rachel Ruggeri	0.0064%
Sara Kelly	0.0041%
Satya Narayana Nadella	0.0024%
Richard E Allison Jr "Ritch"	0.0022%
Bradley E Lerman "Brad"	0.0015%
Andrew Campion "Andy"	0.0003%

Source: Bloomberg

Figure 17 – Executive Committee %TRA

Position	Tenure (Years)	%TRA	%Peer TRA	Years Joined
Chief Executive Officer	0.9	-3.7	-2.2	2023
Chief Financial Officer	3	0.72	-9.2	2021
Chief Technology Officer	1.8	16.47	-4.4	2022
Vice President	0.7	-3.28	-3.9	2023
Divisional President	9.1	11.62	-4	2015
Senior Vice President	9.1	11.62	-4	2015
Divisional CEO	7.7	9.42	-1.8	2016

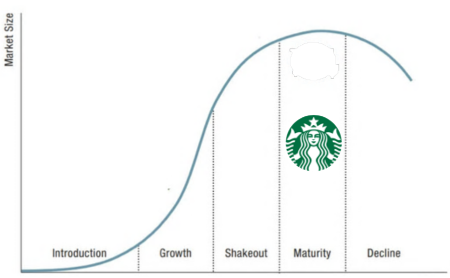
Source: Bloomberg

Board of Directors. Laxman Narasimhan has remained at the helm of Starbucks as CEO for the past 0.9 year, with TRA of -3.7% below the peer TRA of -2.2%. Meanwhile, Rachel Ruggeri the CFO of Starbucks has performed TRA of 0.7% compared to the peer average of -9.2% (Figure 17). Currently, Starbucks has been practicing a diversity across the board of members with 55% of the total BOD representing people of colour and 27% of female as the board members. Starbucks stated in November 2023 that it would develop a new Environmental, Partner, and Community Impact Board Committee (Impact Committee). The Impact Committee will assist the Board in carrying out its oversight obligations, which include responding to altering regulations and standards and driving accountability across environmental, partner, community impact, farmer, and customer promises.

Public and Inside Ownership. Figure 16 depicts Starbucks' public ownership structure. Figure 18 depicts considerable inside ownership by the Starbucks Board and Management, which positively aligns shareholders' interests with those of the firm.

INDUSTRY OVERVIEW

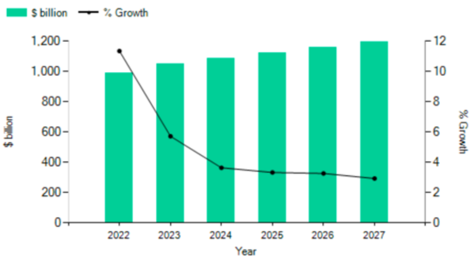
Figure 19 – Life Cycle Analysis



Source: MarketLine

Figure 20 – US foodservice industry value forecast: $billion, 2022-27

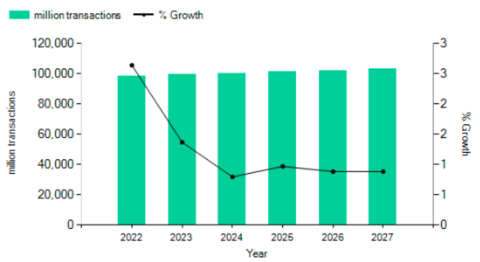
Year	$ billion	€ billion	%Growth
2022	992.1	941.5	11.4%
2023	1,049.0	995.4	5.7%
2024	1,087.2	1,031.7	3.6%
2025	1,123.4	1,066.1	3.3%
2026	1,160.1	1,100.9	3.3%
2027	1,194.1	1,133.2	2.9%
CAGR 2022-27			3.8%



Source : MarketLine

Figure 21 – US foodservice industry volume forecast: million transactions, 2022–27

Year	Million Transactions	%Growth
2022	98,293.60	2.60%
2023	99,639.20	1.40%
2024	100,433.20	0.80%
2025	101,408.80	1.00%
2026	102,305.40	0.90%
2027	103,211.30	1.00%
CAGR 2022-27		1.00%



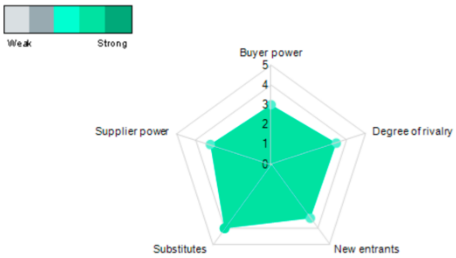
Source: MarketLine

The global demand for coffee is steadily rising, solidifying its position as one of the most consumed beverages worldwide. This growing preference for high-quality brews has prompted a significant shift in the market landscape, with an increased focus on premium offerings. Consequently, companies are leveraging this demand to command higher prices. Starbucks, along with its competitors, operates in both the food service and retail industries, showcasing a blend of culinary excellence and commercial process on a global scale. Starbucks has entered the maturity stage, which means it has slower growth, but a more stable and moderate profit margin (Figure 19). In the United States, the retail coffee sector is a significant player, with a vast network of over 22,000 establishments generating an annual revenue surpassing $11.4 billion. Analysts from MarketLine anticipate a steady growth rate of 3.8% between 2022 and 2027, projecting the industry's value to reach $1,194.1 billion by the conclusion of 2027 (Figure 20). Comparatively, the European and Asia-Pacific industries will grow with CAGRs of 8.5% and 7.1% respectively, over the same period, to reach respective values of $1,091.0 billion and $2,039.0 billion in 2027. Globally, the industry transcends geographical boundaries, amassing a staggering market value surpassing US$100 billion annually, with an astonishing consumption rate exceeding 500 billion cups of coffee per year. The industry's growth trajectory, characterized by a compound annual rate of 5.5%, underscores an exponential expansion akin to a snowball effect.

Supply and Demand Drivers

In the F&B industry, individual buyers wield moderate influence, as the loss of a single customer typically has minimal impact on overall revenue. However, the proliferation of online review platforms and social media channels has bolstered buyer power, granting consumers a collective voice in shaping market dynamics. Despite food service not being an essential necessity, economic downturns can prompt discretionary spending reductions, thereby rendering pricing strategies pivotal in stimulating demand. To allure customers, establishments frequently deploy promotional tactics, offering discounts during off-peak hours, while industry giants invest significantly in brand cultivation, fostering customer loyalty beyond mere culinary offerings.

Figure 22 - Porter's Five Forces Analysis



Source: MarketLine

Discuss more in Appendix 3

Meanwhile, suppliers within this sector cater to numerous businesses, diminishing the significance of individual enterprises and affording suppliers some latitude in pricing. Notwithstanding, large chain restaurants such as McDonald's and Subway wield considerable influence due to their substantial orders, incentivizing suppliers to maintain favourable relationships. Moreover, while major corporations like Starbucks engage in direct sourcing from coffee producers, smaller farmers exert lesser influence amidst dominance by agricultural conglomerates. The negotiating process of industry giants for preferential pricing further complicates matters for independent eateries, exacerbating disparities in bargaining power. Furthermore, a diverse range of suppliers for similar food inputs mitigates oligopolistic tendencies, enabling businesses to select from various sources while upholding quality standards to safeguard their reputations. However, the intricacies of the supply chain amplify the challenge of supplier switching, bolstering supplier power and necessitating prudent supplier selection to uphold operational continuity and quality assurance standards.

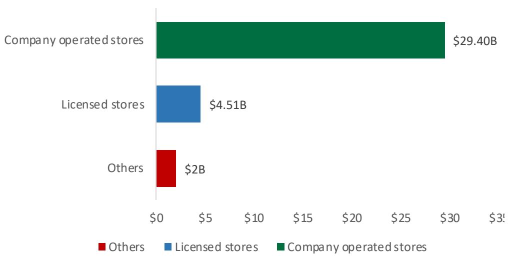
COMPETITIVE POSITIONING

Figure 23 – Starbucks is dominating Dunkin' Donuts

Starbucks pursues its strategic vision, known as the "Growth at Scale" agenda, to enhance stakeholder value, including partners, communities, and shareholders. This strategy involves accelerating growth in key markets, namely the US (Figure 23) and China while expanding its global footprint through the Global Coffee Alliance in collaboration with Nestle in 2018. Furthermore, Starbucks is committed to ongoing investments in technology to boost customer engagement, enhance store operations, and advance environmental sustainability efforts.

Figure 24 – Starbucks Net Revenue 2023

Company-Owned vs Licensed Stores Revenue

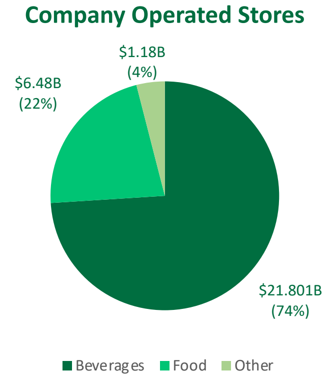


Source : AlphaStreet

Starbucks has far higher pricing than any of its peers such as McDonald's, Yum! Brands, and Restaurant Brand International (RBI) yet because customization is so important, it can still raise revenue. This has also played a significant role in the increased demand for coffee. Customers are willing to pay more for personalized beverages since they can practically customize their drinks to suit their tastes. The company has 35,711 stores worldwide and ambitious plans to expand its store network, to reach 45,000 stores by 2025 and further extend to 55,000 stores by 2030. This comprehensive strategy underscores their commitment to sustainable growth and value creation.

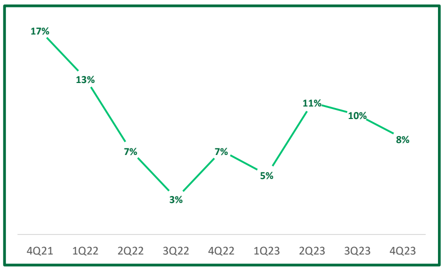
COMPETITIVE POSITIONING

Figure 25 – Starbucks Revenue by Product



Source : AlphaStreet

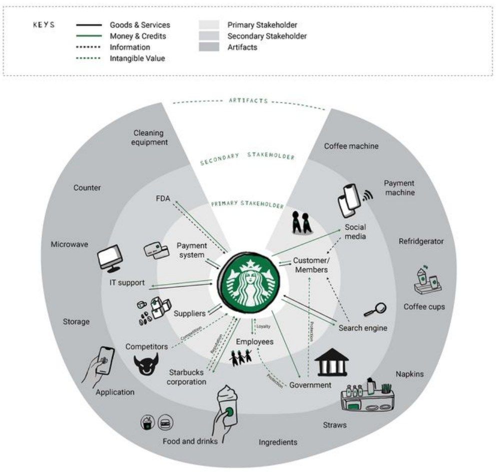
Figure 26 – Worldwide Stores Sales



Global	+8%
North America	+8%
International	+5%

Source : AlphaStreet

Figure 27 - Starbucks system map



Source: Behance.net

Lead the Pack (Success Factor)

Brand Recognition: Starbucks has grown into a global brand recognized for its high-quality coffee, commitment to sustainability, and excellent customer service. Customers recognize and trust the firm due to its distinctive logo and consistent branding across all channels and marketing materials. Among the 90% of Americans who know Starbucks, 40% like the brand.

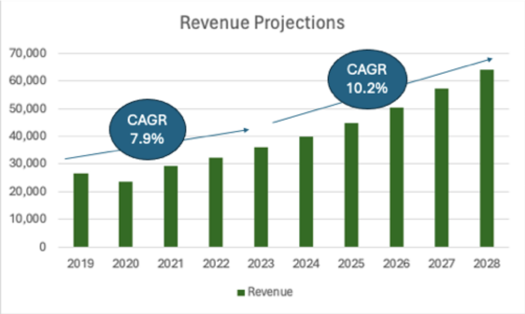
Quality Products: Starbucks is well-known for its high-quality Arabica coffee beans, which are carefully chosen from ethical suppliers across the world. Starbucks takes pride in its stringent quality control procedures, which ensure that each cup of coffee meets the highest standards. Starbucks also serves teas, cold brews, and other drinks created with high-quality ingredients.

Employee Engagement: The company offers benefits, including healthcare coverage, 401(k) plans, and significant paid time off policies. Starbucks has established a focused and motivated staff that provides excellent customer service by encouraging a positive work atmosphere and treating employees with respect. In COVID-19 pandemic, Starbucks temporarily closed its café-only stores in the United State and transitioned to a model focused on drive-thru and delivery. The company assured its employees that they would be paid for the next 30 days, regardless of whether the employees worked or not.

Innovation: The pandemic caused an overall drop in revenue, but Starbucks responded by focusing on digital ordering, contactless payments, and delivery options. It continues to innovate and broaden its reach. The corporation embraced the digital era by developing its mobile app, which allowed consumers to make purchases and receive Starbucks® Rewards using their cell phones and active United State accounts Starbucks® Rewards membership reaches 34.3 million, a 13% increase over the previous year.

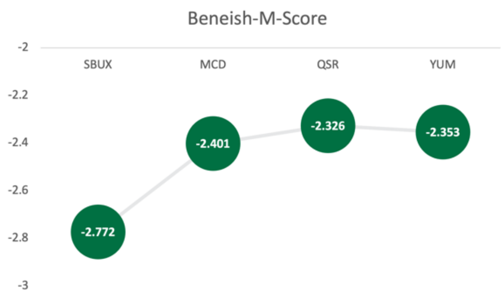
FINANCIAL ANALYSIS

Figure 28 - Revenue Projections



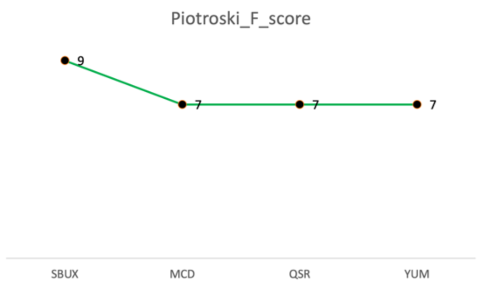
Source: Company Data, Team Analysis

Figure 29 - Beneish M-Score
(bubble size is 2023 net sales)



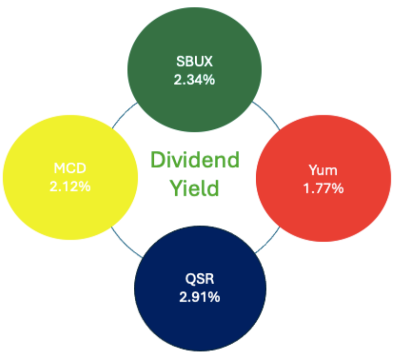
Source: Team Analysis

Figure 30 – Piotroski F-Score
(bubble size is 2023 net sales)



Source: Team Analysis

Figure 31 – Dividend Yields



Source: Yahoo! Finance

Revenue & Profitability

Starbucks's revenue is increasing every year, although there was a slightly decrease in 2020 due to COVID-19. Its revenue is driven by three segments – Company-operated stores, licensed stores and others (royalty & ready-to-drink business). We expect to see the revenue keeps increasing as Starbucks keep innovating to attract new market through expansion of new stores and investing in new technologies. CAGR is 7.9% for 2019-2023 and is forecasted to increase in subsequent years to 10.2% of CAGR (figure 28).

Starbucks stands out as an industry leader compared to its competitors as shown in figure 29 Starbucks's Beneish M-score of -2.77 compared to our peer average of -2.36 shows that, although the industry is not prone to fraud, Starbucks has the most valid earnings. Starbucks's Piotroski F-score of 9 compared to our peer average of 7 validates the profitability that Starbucks shareholders have over its competitors (figure 30).

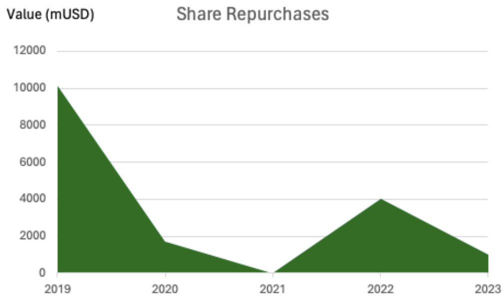
Capital Investments

Starbucks is investing \$2.3 billion in fixed assets, with an assumption of a 4% investment in fixed assets for the first stage of expanding growth from 2024. Starbucks' capital investment are focused on retail development, digital innovation, supply chain improvements, sustainability, product innovation, and international expansion. These investment enable world-wide expansion enhance customer experiences with technology such as mobile applications, assure ethical sourcing and sustainability, and launch new items to match various consumer tastes. By devoting resources to these critical areas, Starbucks hopes to maintain its market leadership, adopt to changing customer tastes, and generate long-term development in both existing and new markets.

Shareholder Compensation

Historically, Starbucks has been consistently paying dividend (figure 31). It is expected to keep increasing in the subsequent years. From 2015-2023, Starbucks averaged 32% of its FCF on dividend payments, raising DPS at 7.9% CAGR.

Figure 32 – Share Repurchase



Source: Company Data

Figure 33 – Financial summary

Company	Credit rating	WACC	Debt to equity
SBX	BBB+	7.88%	-493%
MSD	BBB+	8.08%	-991%
YUM	BB+	7.60%	-166%
QSR	BB	7.20%	454%
Company	**Days of receivables**	**Days of payables**	**Quick ratio**
SBX	13	73	88%
MSD	40	33	126%
YUM	36	24	106%
QSR	35	65	107%

Figure 34 – Debt-to-equity

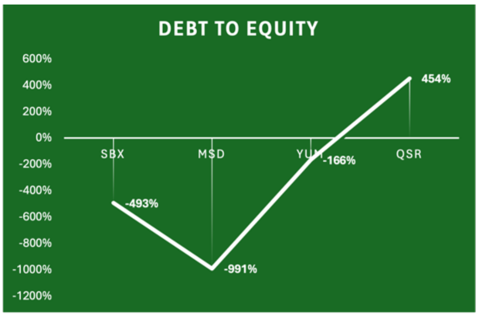


Figure 35 – Quick ratio

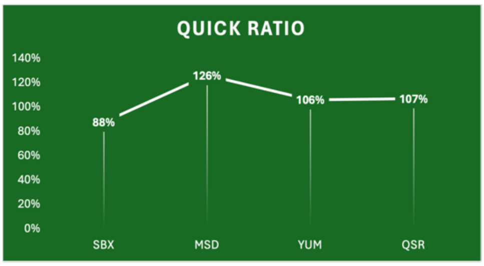
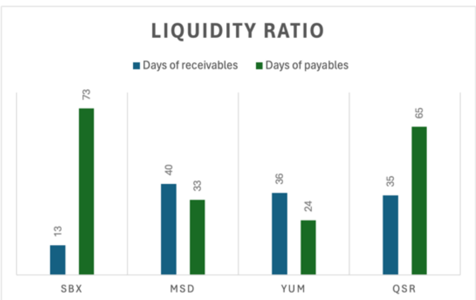


Figure 36 – Liquidity ratio



Source: Capital IQ

Starbucks has also returned wealth to shareholders via share repurchases to average 22% of FCF 2019-2023, although it got temporary pause on its buyback in March 2020 and resumed it in the first quarter of 2022. (figure 32).

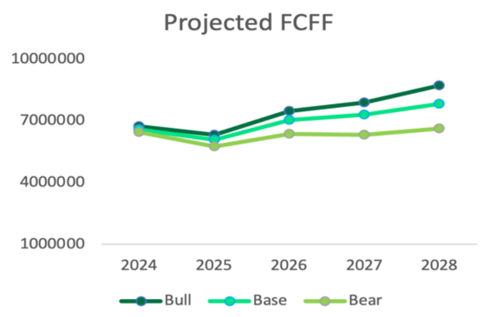
Leverage & Liquidity

S&P has assigned SBX a debt rating of BBB+, which is considered high relative to its major competitors. With a debt-to-equity ratio of -4.93 in 2023, SBX's leverage significantly surpasses the industry average of -2.99 (Figure 34). This higher leverage, indicated by a WACC of 7.88% compared to the peer average of 7.69%, signals a potential increase in riskiness. Additionally, SBX's long-term debt saw an increment of $10 million from 2019, a level it has maintained to date. This strategy was adopted to finance its operations during the pandemic, reflecting the company's proactive financial management. SBX exhibits an average receivables period of 13 days, substantially lower than the industry average of 31 days. This efficiency in collecting payments for its goods and services underscores SBX's effective receivables management. Moreover, with an average payables period of 73 days—considerably longer than the peer average of 48 days—SBX benefits from extended payment terms (Figure 33 & 36). This advantage provides SBX with additional liquidity, offering the opportunity for short-term investments and enhancing its cash flow management. However, a point of concern is SBX's quick ratio of 0.88, which falls short of the industry benchmark of 1.06 (Figure 35). This lower ratio suggests that SBX may struggle to meet its short-term obligations in the event of a financial disruption, highlighting a potential liquidity risk. In conclusion, while SBX demonstrates strong performance in receivables and payables management, its higher leverage and lower quick ratio compared to industry peers raise concerns about its financial stability and liquidity. The company's ability to manage its debt effectively and maintain liquidity will be crucial in navigating potential financial challenges and sustaining its competitive edge.

Valuation

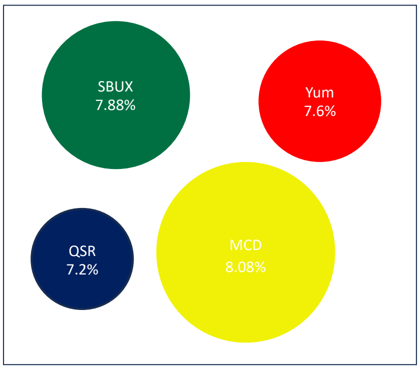
We issue a BUY or HOLD recommendation on Starbucks with a 12-month target price of $104.2, representing a 12% upside from its 29/02/2024 $93.00 closing price (Figure 1). Our recommendation is based on a Free Cash Flow to the Firm (FCFF) Discounted Cash Flow (DCF) model. We then (i) run our FCFF

Figure 37 – Scenario Analysis Projected FCFF



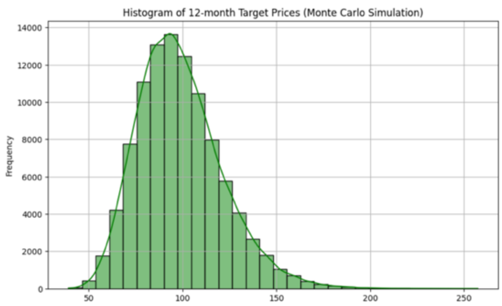
Source: Team Analysis

Figure 38 – Peer WACCs



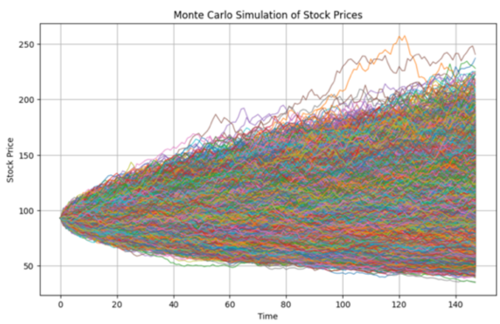
Source: Bloomberg

Figure 39 – MC Simulation Distribution



Source: Team Analysis

Figure 40 – Brownian Price Path



Source: Team Analysis

DCF model through scenario and sensitivity analyses to assess the input variability impact on the implied price and (ii) confirm our valuation via relative valuation and dividend discount models (DDM) (Appendix 18 & 19).

Discounted Cash Flow (DCF)

WACC. The assumptions used to arrive at our 7.88% WACC are provided in Figure 38. In addition, Figure compares WACC components with Starbucks's peer group averages. Starbucks' WACC of 7.88% is lower than main competitor McDonald's Corp but higher than Yum! Brands and Restaurant Brands International (RBI)

WACC Components	Rate	Methodology
Risk-free rate	3.50%	Risk free is estimated based on our expectation on future interest rate
Equity risk premium	5.53%	Excess return of market return
Beta	0.94	Starbucks' beta sourced from Bloomberg
Cost of equity	9.03%	Calculated via CAPM
Pre-tax cost of debt	3.70%	Starbucks' note rate
Tax rate	24.00%	Pre - tax income divided by tax expenses
After-tax cost of debt	2.70%	
WACC	7.88%	Calculated using Starbucks book value of total debt and market value for the

Terminal growth. A positive terminal growth rate indicates that the company will continue to grow indefinitely, whereas a negative terminal growth rate indicates that the company will cease operations. The 2% terminal growth rate is calculated using historical inflation rates (2%-3%) and the average GDP growth rate (3%-4%) at this stage.

Sensitivity Analysis

We incrementally increase/decrease our WACC by 2% and terminal growth by 1% to evaluate the robustness of our target price (Appendix 14). Understandably, our estimate is most sensitive to the assumed discount rate (e.g., a 26% increase in WACC lowers the implied value by 30%). In addition, by decrease the terminal growth (g) by 9.1%, there is slight decrease of 5.27% of the implied value.

Scenario Analysis

Referring to Appendix 16, where we have outlined several assumptions spanning from the worst to the best-case scenarios. Based on these scenarios, our 12-month target price range varies between $76.65 in the bear case and $129.94 in the bull case.

Figure 41 – Brownian Price Path

Monte Carlo Price Paths	
75th Percentile	112
50th Percentile	96
25th Percentile	82
% Buy	37.89%
% Hold	17.86%
% Sell	44.26%
Iterations	1,000,000

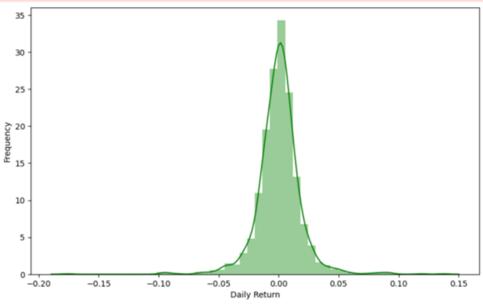
Source: Team Analysis

Figure 42 – Peer Groups

US Peers	
McDonald's (McCafé)	
Restaurant Brands International (RBI)	
Yum! Brands	
China Peers	
Luckin Coffee	
Global Peers	
Cafe Coffee Day (India)	
Compass Group PLC (UK)	
Figaro Coffee Group, Inc. (Philippines)	
Starbucks Relative Valuation	
P/E method	$ 99.58
EV/EBITDA method	$ 70.97
EV/S method	$ 71.79

Source: Team Analysis

Figure 43 – Return Distribution



Source: Team Analysis

The Monte Carlo Price Path involves simulating one million 148-trading day price paths for SBUX, starting from February 28, 2024, and extending to the next annual closing report date. By analysing past performance using daily returns since 2018 and employing Brownian motion, we generate a distribution of 12-month target prices. This distribution indicates a 57.75% likelihood of surpassing analysts' expectations in terms of price performance.

Dividend Discount Model

The Dividend Discount Model (DDM) applied to SBX, with its variable yet growing dividends, uses a two-stage growth rate—initially 5% for international expansion, then slowing to 3%. This analysis values SBX at $40.22, indicating a 57% potential downside. However, the DDM's accuracy may be limited by SBX's inconsistent dividend growth (Appendix 18).

Relative Valuation

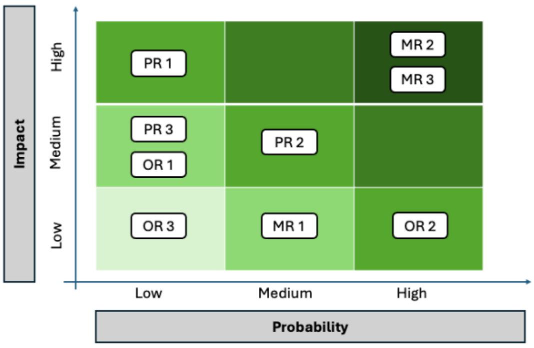
As a final validity check, we turn to relative valuation and construct food & beverage (USA, China & Global) peer groups, which include Starbucks's top competitor and analyst selected peers (Figure 42). Averages of key trading multiples across the three groups matched with Starbucks' multiples are used to forecast firm value (Appendix 19).

Technical Analysis

Starbucks Corporation (SBUX) is currently positioned in the lower spectrum of its 52-week trading range, signalling caution to investors, despite the broader market's upward trajectory. However, recent short-term trends indicate growing investor interest, potentially offering entry opportunities amidst price consolidation. SBUX boasts healthy liquidity with an average daily trading volume of 8,670,890 shares, enhancing its appeal to investors seeking fluid market positions. Over the past month, SBUX has fluctuated between $91.67 and $98.36, showcasing considerable volatility, yet current trading positions the stock in the mid-range, amidst consolidation, offering potential entry points. While the long-term trend remains neutral, the short-term trend is positive, indicating increasing favour among traders and investors. Overall, SBUX's valuation suggests a mixed outlook, with caution warranted due to its position relative to the 52-week range, but short-term positive trends and healthy liquidity may offset some concerns, presenting potential entry opportunities for investors with a strategic outlook.

Investment Risks

Figure 44 – Risk Matrix



Source: Team Analysis

Figure 45 – Return Distribution

Key Risk		Mitigation
OR1	Too Dependent on North America	Expansion in Global Market
OR2	Labour	Competitive Salaries & Benefits
OR3	Technology Risk	Innovation Development
MR1	Threat of New Entrants	Innovation, Brand loyalty
MR2	Supply Chain	Supply Chain Management (Diversification, Optimization)
MR3	Inflation	Efficiency Operation
PR2	Interest risk	Swap
PR3	Foreign exchange	Forward Contracts or Foreign Debt in Foreign Currency

Source: Team Analysis

Our valuation could be impacted by the following factors (figures 44 and 45)

Operational Risks

OR1: Too dependent on North America market (LOW probability, MODERATE impact). Starbucks' financial performance is highly dependent on North America operating segment, which is around 74% of the total revenues in 2023. **Valuation Impact:** If the North American market isn't performing satisfactorily, it will lead to decline in financial results. **Mitigation:** Since Starbucks plan to expanding the global operations (including China), hence rendering the potential impact of North America minimal.

OR2: Labour Environment (HIGH probability, LOW impact). The labour shortage is negatively affecting food & beverage firms and producing talent acquisition issues. **Valuation Impact:** A 20% increase in SG&A expense for labour expenses. **Mitigation:** Starbucks has made some efforts in retaining and attracting talents, including offering more competitive salaries and benefits. Starbucks has also invested in implementing new technologies in order to increase digital relationship with customers, hence less physical workers required.

OR3: Technology Risk (LOW probability, LOW impact). Starbucks has relied heavily on information technology to increase digital position, such as Loyalty Memberships & Starbucks Mobile App. **Valuation impact:** A 20% increase in SG&A expense in terms of its technology expenses due to incremental investment in technology. **Mitigation:** Starbucks continues to make better innovations than competitors in terms of technology innovation, and therefore, it will continue to grow more in the future.

Market Risks

MR1: Competition from New Entrants (MODERATE probability, LOW impact).

Starbucks faces new entrants entering the coffee market, potentially increasing competition. **Valuation impact:** A surge in new entrants may lead to slight market share erosion for Starbucks, resulting in a minimal decrease in revenue growth, estimated at less than 1%.

Figure 46 – Starbucks Supply Chain Flow Chart

Mitigation: Starbucks combats new entrants with brand loyalty, global scale advantages, and innovation. For instance, initiatives like "Starbucks Showcases Innovation for Growth and a More Connected and Sustainable Future" exemplify this strategy, helping minimize the financial impact of new competition.

MR2: Supply Chain (HIGH probability, HIGH impact). Starbucks faces critical supply chain risks, including transportation delays, supplier issues, and natural disasters, jeopardizing raw material sourcing, manufacturing, and distribution. (Figure 46). **Valuation impact:** A 10% increase in raw material lead time could cause substantial inventory shortages, leading to a significant 10% decrease in sales revenue. In Q4 2023, there is an increase of 12.3% of product and distribution cost from Q1. **Mitigation:** Starbucks employs robust supply chain management, with diversification, inventory optimization, and comprehensive contingency plans, ensuring rapid response to disruptions and minimizing operational and financial impacts.

MR3: Inflation (HIGH probability, HIGH impact). Starbucks faces significant inflation risk, potentially raising operating costs notably. **Valuation impact:** Inflation-induced rising costs may notably reduce Starbucks' profitability, leading to a potential decrease in valuation by up to 5%. **Mitigation:** Starbucks has several options to counteract the effects of inflation. They can raise prices on their products to cover the increased costs, find ways to operate more efficiently to keep expenses down, and negotiate better deals with suppliers to offset rising input costs. These actions could help Starbucks maintain its profitability despite inflation and prevent a significant decrease in its overall value, potentially limiting it to around 3-4%.

Political Risks

PR1: Slow Economic Risk (LOW probability, HIGH Impact). Starbucks places itself in the premium segment of the market for coffee. The turnover of the stores indicates that it is very much a "affordable luxury," but it is still selling a product for which there are several alternatives. Starbucks saw a drop in business during the 2008 and 2009 financial crisis as customers switched to less expensive coffee. Starbucks discovered that a particular portion of their clientele was price sensitive during the recession, whether it was due to less expensive stores or a greater tendency to consume coffee at home or at work.

Although the economy has significantly improved since then, supporting the company's success, Starbucks is still vulnerable to another downturn. **Valuation Impact:** Although right now slow economic growth didn't affect our valuation, but in near future it's arises again then Starbucks valuation we decline >10%. **Mitigation:** During slow economic growth Starbucks can lower their price by some % (like 5%), that will help to sell more coffee and it can close off the products that don't sale that much.

PR2: Interest rate risk (MODERATE probability, MODERATE Impact). Starbucks can face the growing interest rates are having a detrimental impact on the firm. While not very high at the moment, this risk might have a big influence on borrowing costs later on, particularly if interest rates increase just when Starbucks needs more outside funding. **Valuation Impact:** Although in recent years the rise in interest rates doesn't affect Starbucks sales roses to 5% to 7%, this helps how valuation to increase by >2%. **Mitigation:** Starbucks can mitigate interest rate risk by swap of interest rate risk with other commodities and when interest rate rises it can borrow less money.

PR3: Foreign Currency Risk (LOW probability, MODERATE Impact). F/X risk is classified into transactional risk, which appears when dealing with money, especially future or forward transactions. Contracts for coffee are made in dollars, therefore there is very little supply chain risk. Nonetheless, there would be risk involved with the deal should the business decide to repatriate funds from its foreign activities. Moreover, capital regulations in certain nations, including China and India, may make it challenging to repatriate funds. Starbucks will simply reinvest its revenues into expansion as it is now expanding in those nations, avoiding this specific risk; nevertheless, there may come a time in the future when it wishes to shift profits out of those countries and can run into problem. Translational risk is another type of currency risk that arises when profits from overseas activities are converted back to US dollars for reporting needs. Earnings may suffer as a result of this. For instance, in the 2015 Annual Report, it is reported that the EMEA segment revenue (Europe, Middle East, and Africa) decreased by 6%, with foreign exchange rate risk being the primary cause of this reduction in a year when the U.S. dollar was strong. The system-wide loss for the year resulting from translation risk was $252 million. Because currencies change constantly, there is a huge risk involved, and the consequences could be dire. The lack of effective hedges against translation

APPENDIX

Appendix 1 - Candlestick Chart with Moving Averages

Source: Team Analysis

Appendix 2 - Peers Comparison

Headquartered in Toronto, Canada, Restaurant Brands International (RBI) strategically positions itself to drive the growth of its diverse restaurant brands, which include household names like Burger King, Tim Hortons, Popeyes, and Firehouse Subs. Operating in over 100 countries with a network of 30,000 restaurants worldwide, RBI's expansion strategy encompasses both existing and new markets. The company prioritizes enhancing guest experiences through operational enhancements, comprehensive training initiatives, menu innovations, restaurant renovations, and improved drive-thru and delivery services. Central to RBI's strategy is a commitment to efficiency, aiming to lead as the most efficient franchised Quick-Service Restaurant (QSR) operator. Key focuses for achieving sustained growth and success include rigorous cost management, sharing of best practices, and fostering strong relationships with franchisees.

Yum Brands, with a global presence across 156 countries, adopts a collaborative approach to unlock growth potential across its diverse concepts, including KFC, Pizza Hut, Taco Bell, and Habit Burger Grill, totalling 55,361 restaurants. Grounded in its "Recipe for Growth and Good," the company emphasizes driving market and franchise operations, recruiting top-tier restaurant operators, fostering cultural strength, and continuous innovation to elevate its iconic brands. Yum Brands is committed to delivering exceptional customer experiences, improving brand performance, and enhancing franchise prosperity through its varied offerings of fried and non-fried chicken, pizzas, Mexican-style cuisine, and charbroiled hamburgers.

Bargaining Power of Buyers – MODERATE (3)

- Suppliers in this industry mainly sell goods to many businesses, and some are big and serve numerous companies. This suggests that individual businesses are less important, and suppliers may control price. However, large chain restaurants like McDonald's and Subway have greater power with suppliers because their orders are massive and losing them would hurt the supplier's earnings.
- Starbucks obtains beans for its coffee directly from growers, while other suppliers rely on giant firms to supply basic components. However, small producers also participate, although they have less influence than large agricultural corporations.
- Big businesses, like McDonald's, negotiate lower pricing with suppliers, making it difficult for small, independent eateries to do the same. Some corporations, such as Starbucks, participate in backward integration by cultivating their own produce.
- Similar food inputs allow businesses to choose from a wide range of suppliers, reducing the likelihood of an oligopoly. To keep their reputation, businesses must choose high-quality suppliers. The complex supply chain makes changing suppliers difficult, increasing supplier power.

Bargaining Power of Buyers – MODERATE (3)

- Buyers are individual consumers. The loss of a single buyer is not going to have a major impact on a business's revenue. However, buyer power has grown in recent years as a result of the proliferation of online review sites and social media platforms that allow purchasers to speak up collectively.
- Food service may not be necessary for customers, making it a leisure activity that may be ignored during difficult economic times. As a result, pricing may impact demand. To entice customers, eateries and coffee shops will provide deals and promotions during off-peak hours. Large industry participants engage extensively in brand development, especially in the low and medium-price divisions. This increases client loyalty when linked with social functions, meaning that the industry represents more to the customer than the food itself.

Threat of Substitutes – HIGH (4)

- Eating out is a choice, not a necessity. When money is tight, individuals prefer to cook at home, which is typically less expensive and healthier than eating out.
- Cooking at home using meal kits, particularly since the epidemic, have become a significant hazard. Many Americans now prefer to cook at home and explore new recipes. Meal kit services like HelloFresh and Blue Apron are increasing in popularity, with HelloFresh's sales expected to reach $7.9 billion by 2022.
- Other options for leisure activities include going to the cinema or going to the park. To

compete, restaurants focus on providing experiences through branding or uncommon themes, such as ninja cafés or dining in total darkness.

Threat of Rivalry – HIGH (3.5)

- Rivalry is fierce throughout the sector, with many identical businesses selling equivalent items at comparable prices. Even within sectors, such as fast service, competition is increasing, particularly in the congested coffee and tea markets. Starbucks, for example, is extending its menu to compete.

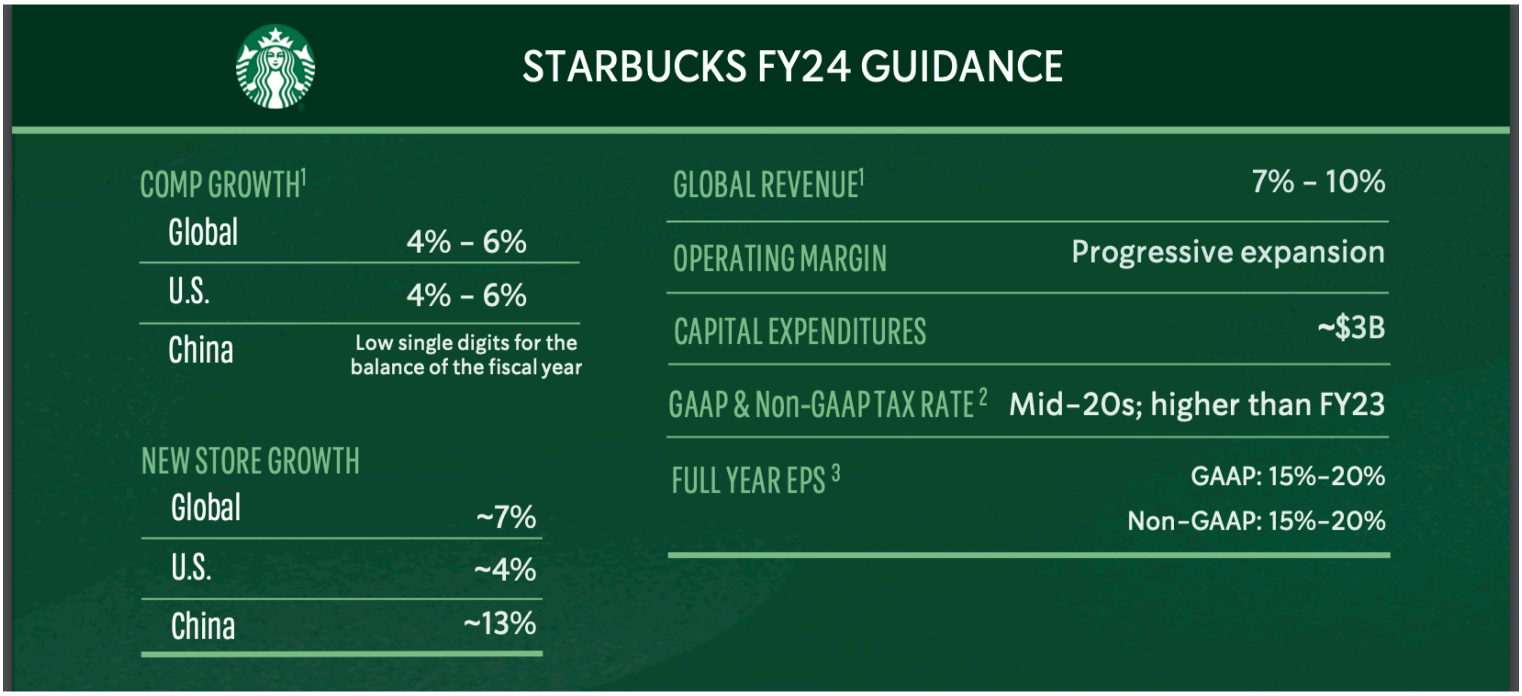
Threat of New Entrants – MODERATE (3)

- The industry's abundance of suppliers, inexpensive capital investment, and consistent growth attract new entrants.
- However, huge global corporations such as McDonald's and Yum! Brands have scale efficiencies, bargaining strength with suppliers, and competitive price benefits.
- To meet changing customer tastes, there is a growing need for vegetarian, organic, and low-fat foods that replace harmful options.
- Rising popularity due to lower operating costs and increased demand for takeaway services amid the pandemic offers an alternative entry route with reduced overheads.

Appendix 1 – SWOT ANALYSIS

Source : Capital IQ

Appendix 2 – Earnings guidance



Appendix 6 – Executive Committee

Executive Committee

Name	Position	Age	Tenure (Years)	Year Joined	Education	Pay Value	Share Held % Outstd
Laxman Narasimhan	CEO	56	2	2022	MBA, Engineering	$14,604,531.00	0.0146%
Rachel Ruggeri	Exec VP/CFO	56	23	2001	MBA, Accounting	$ 6,750,140.00	0.01%
Brady Brewer	Exec VP/CMO	52	23	2001	Marketing	-	-
Michael A Conway	Intl & Channel Dev	59	5	2019	Business, Economics	$ 8,421,507.00	0.0074%
Dominic Carr	Exec VP/CFO	55	5	2019	Economics	-	-
Sara Kelly	Exec VP/CPO	50	1	2023	Business	$ 2,784,012.00	0.00%
Bradley E Lerman	Exec VP/General Consumer	54	7	2017	Business	$ 2,973,927.00	0.00%
Howard D Schultz	Interim President & CEO	53	2	2022	-	$ 757,597.00	-

Appendix 7 – Board of Directors

Board of Directors

Name	Position	Age	Tenure (Years)	Director Since	Education	Pay Value	Share Held % Outstd
Mellody Hobson	Chairman	54	3	2021	-	-	0.0639%
Richard E. Allison, Jr.	Board Member	56	5	2019	-	-	0.00%
Andrew Campion	Board Member	52	5	2019	Business	-	
Beth Ford	Board Member	59	1	2023	Supply Chain	-	0.00%
Jørgen Vig Knudstorp	Board Member	55	7	2017	-	-	0.0072%
Neal Mohan	Board Member	50	0	2024	Engineering	-	0.00%
Satya Nadella	Board Member	56	7	2017	-	-	0.00%
Laxman Narasimhan	CEO	56	2	2022	MBA, Engineering	-	0.0146%
Daniel Servitje	Board Member	64	0	2024	MBA	-	0.00%
Mike Sievert	Board Member	54	0	2024	Economics	-	0.00%
Wei Zhang	Board Member	53	1	2023	-	-	0.00%

Appendix 8 – Pro forma Assumptions

Base Case DCF Scenario

Global economic growth is stable and normalized.

Revenues are forecasted based on the previous year's earning ability and 2024 management earning guidance.

No major geopolitical risk globally, especially in China and USA

USA inflation will be reducing, and Federal Reserve will adjust interest rate downward in 2024. The average of next 5 years' WACC is 7.85%

Industry competition is limited and no major challenges, management earning expectation can be achieved and predictable.

Terminal growth at 2.5%

Bull DCF Scenario

All assumptions remain the same except

Revenue growth exceeds earnings expectations slightly.

Starbucks maintains its market leadership in the F&B industry.

WACC is slightly lower due to the decreased cost of debt.

Terminal growth at 3%.

Bear DCF Scenario

All assumptions remain the same except

Starbucks faces severe challenges from other players in the market.

Revenue growth falls below management expectations.

WACC maintains at current level, Federal Reserve will not cut interest rates.

Terminal growth at 2%.

DDM Assumption

Two stages DDM model, the dividend growth at 5% per year until 5 years later (2028). The growth rate will decrease to 3% after 2028.

Cost of equity at 9%

Appendix 9 – Revenue Projections

Assumptions	FY 2023	FY 2024F	FY 2025F	FY 2026F	FY 2027F	FY 2028F
Company-operated Stores						
New store growth (Based on Appendix 5)						
- US	4%	4%	4%	4%	4%	4%
- China	13%	13%	4%	4%	4%	4%
- Global	7%	7%	7%	7%	7%	7%
Number of Stores						
- US	10,628	11,053	11,495	11,955	12,433	12,931
- China	6,804	7,689	7,996	8,316	8,649	8,994
- Global	2,160	2,311	2,473	2,646	2,831	3,030
Total	19,592	21,053	21,964	22,917	23,913	24,955
Revenue						
- US	23,905,400	16,954,029	18,690,122	20,798,368	23,144,424	25,514,413
- China	5,556,900	11,793,176	13,000,798	14,467,288	16,099,198	17,747,756
- Global		3,545,076	4,020,825	4,603,443	5,270,482	5,977,781
Total	29,462,300	32,292,282	35,711,745	39,869,098	44,514,103	49,239,949
Revenue per store	1,504	1,534	1,626	1,740	1,861	1,973
Growth Rate Revenue per store		2%	6%	7%	7%	6%
Licensed Stores						
New store growth (Based on Appendix 5)						
- US	1%	4%	4%	4%	4%	4%
- China	0%	13%	4%	4%	4%	4%
- Global	6%	7%	7%	7%	7%	7%
Number of Stores						
- US	7,182	7,469	7,768	8,079	8,402	8,738
- China	-	-	-	-	-	-
- Global	11,264	12,052	12,896	13,799	14,765	15,798
Total	18,446	19,522	20,664	21,878	23,167	24,536
Revenue						
- US	2,659,100	1,863,859	1,996,566	2,159,486	2,335,700	2,502,002
- China	1,853,600	-	-	-	-	-
- Global		3,007,536	3,314,606	3,688,493	4,104,555	4,523,630
Total	4,512,700	4,871,396	5,311,172	5,847,979	6,440,255	7,025,632
Revenue per store	245	250	257	267	278	286
Growth Rate Revenue per store		2%	3%	4%	4%	3%
Other						
Revenue	2,000,600	2,049,726	2,111,827	2,162,489	2,191,960	2,195,369
Growth rate Other %		2.46%	3.03%	2.40%	1.36%	0.16%

Appendix 10 – Base Case Income Statement & Balance Sheet

Base Case	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024F	FY 2025F	FY 2026F	FY 2027F	FY 2028F
Total Revenue growth	7%	-11%	24%	11%	12%	9%	10%	11%	11%	10%
COGS/Revenue	72%	78%	71%	74%	73%	70%	70%	70%	70%	70%
SG&A/Revenue	12%	14%	12%	12%	12%	13%	14%	13%	14%	14%
Depreciation/Fixed Assets	10%	6%	6%	6%	5%	5%	6%	6%	6%	6%
Inventory/COGS	8%	8%	8%	9%	7%	7%	7%	7%	7%	7%
Accounts Receivables/Sales	3%	4%	3%	4%	3%	3%	3%	3%	3%	3%
Accounts payable/COGS	26%	16%	21%	19%	17%	20%	20%	20%	20%	20%
Cash/Sales	10%	20%	23%	10%	11%	10%	13%	14%	15%	17%
Fixed Asset Growth	-	56%	3%	2%	9%	4%	4%	4%	4%	4%
Tax	20%	21%	22%	22%	24%	20%	20%	20%	20%	20%
Other ST asset growth rate	-	51%	-20%	-19%	-26%	-20%	-20%	-20%	-20%	-20%
Other Operating Income/Rev	1%	1%	1%	1%	1%	1%	1%	1%	1%	1%
Other LT Liability growth rate	-	-8%	-4%	-4%	-4%	-4%	-4%	-4%	-4%	-4%
Interest Expense (Cost of debt*Net debt)	-	-	-	-	-	4%	4%	4%	4%	4%
Other non-op income	50%	59%	-127%	-8%	16%	-2%	-2%	-2%	-2%	-2%

Appendix 11 – Income Statement

Income Statement	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024F	FY 2025F	FY 2026F	FY 2027F	FY 2028F
Total Revenues:	26,508,600.00	23,518,000.00	29,060,600.00	32,250,300.00	35,975,600.00	39,213,404.00	43,134,744.40	47,879,566.28	53,146,318.58	58,460,950.43
Company-operated stores	21,544,400.00	19,164,600.00	24,607,000.00	26,576,100.00	29,462,300.00	32,292,282.04	35,711,745.14	39,869,098.49	44,514,103.32	49,239,948.83
Licensed stores	2,875,000.00	2,327,100.00	2,683,600.00	3,655,500.00	4,512,700.00	4,871,395.60	5,311,171.83	5,847,979.15	6,440,255.23	7,025,632.16
Other	2,089,200.00	2,026,300.00	1,770,000.00	2,018,700.00	2,000,600.00	2,049,726.36	2,111,827.42	2,162,488.64	2,191,960.02	2,195,369.45
-Cost of Goods sold	19,020,500.00	18,458,900.00	20,652,000.00	23,879,200.00	26,129,400.00	27,449,382.80	30,194,321.08	33,515,696.40	37,202,423.00	40,922,665.30
Gross Profit	**7,488,100.00**	**5,059,100.00**	**8,408,600.00**	**8,371,100.00**	**9,846,200.00**	**11,764,021.20**	**12,940,423.32**	**14,363,869.89**	**15,943,895.57**	**17,538,285.13**
+Other Operating Income	298,000.00	322,500.00	385,300.00	234,100.00	298,400.00	392,134.04	431,347.44	478,795.66	531,463.19	584,609.50
-Operating Expenses	3,215,600.00	3,248,400.00	3,576,000.00	3,750,200.00	4,343,200.00	5,097,742.52	6,038,864.22	6,224,343.62	7,440,484.60	8,184,533.06
EBIT	**4,570,500.00**	**2,133,200.00**	**5,217,900.00**	**4,855,000.00**	**5,801,400.00**	**7,058,412.72**	**7,332,906.55**	**8,618,321.93**	**9,034,874.16**	**9,938,361.57**
-Interest Expenses	(331,000.00)	(437,000.00)	(469,800.00)	(482,900.00)	(550,100.00)	(910,192.60)	(860,993.00)	(860,993.00)	(860,993.00)	(860,993.00)
+Other non-op income	226,700.00	(531,800.00)	608,800.00	(140,200.00)	150,600.00	147,624.29	144,707.38	141,848.11	139,045.33	136,297.93
Total EBT	4,466,200.00	1,164,400.00	5,356,900.00	4,231,900.00	5,401,900.00	6,295,844.41	6,616,620.93	7,899,177.04	8,312,926.48	9,213,666.50
-Tax expense	(871,600.00)	(239,700.00)	(1,156,600.00)	(948,500.00)	(1,277,200.00)	(1,259,168.88)	(1,323,324.19)	(1,579,835.41)	(1,662,585.30)	(1,842,733.30)
Net Income	**3,594,600.00**	**924,700.00**	**4,200,300.00**	**3,283,400.00**	**4,124,700.00**	**5,036,675.53**	**5,293,296.74**	**6,319,341.63**	**6,650,341.19**	**7,370,933.20**

Appendix 12 – Balance Sheet

Balance Sheet	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024F	FY 2025F	FY 2026F	FY 2027F	FY 2028F
Cash & Cash Equivalents	2,757,100.00	4,632,100.00	6,617,900.00	3,182,900.00	3,953,000.00	3,921,340.40	5,607,516.77	6,703,139.28	7,971,947.79	9,938,361.57
Accounts Receivables	879,200.00	883,400.00	940,000.00	1,175,500.00	1,184,100.00	1,176,402.12	1,294,042.33	1,436,386.99	1,594,389.56	1,753,828.51
Inventory	1,529,400.00	1,551,400.00	1,603,900.00	2,176,600.00	1,806,400.00	1,921,456.80	2,113,602.48	2,346,098.75	2,604,169.61	2,864,586.57
Other ST Assets	488,200.00	739,500.00	594,600.00	483,700.00	359,900.00	287,920.00	230,336.00	184,268.80	147,415.04	117,932.03
Fixed Asset	14,273,500.00	22,289,400.00	23,064,800.00	23,625,400.00	25,722,800.00	26,751,712.00	27,821,780.48	28,934,651.70	30,092,037.77	31,295,719.28
Accumulated Dep	7,841,800.00	7,913,900.00	8,459,300.00	9,049,300.00	9,923,100.00	10,713,085.00	11,675,402.62	12,644,185.29	13,621,613.28	14,609,838.75
Fixed Asset Net	6,431,700.00	14,375,500.00	14,605,500.00	14,576,100.00	15,799,700.00	16,038,627.00	16,146,377.86	16,290,466.41	16,470,424.49	16,685,880.53
LT Investments & Receivables	220,000.00	206,100.00	281,700.00	279,100.00	247,400.00	2,744,400.00	2,744,400.00	2,744,400.00	2,744,400.00	2,744,400.00
Other LT Assets	6,914,000.00	6,986,500.00	6,749,000.00	6,104,500.00	6,095,000.00	6,095,000.00	6,095,000.00	6,095,000.00	6,095,000.00	6,095,000.00
Payables & Accruals	4,894,000.00	2,945,500.00	4,296,500.00	4,458,400.00	4,514,100.00	5,489,876.56	6,038,864.22	6,703,139.28	7,440,484.60	8,184,533.06
Short Term Debt	-	2,937,500.00	2,250,200.00	3,169,700.00	3,127,400.00	3,127,400.00	3,127,400.00	3,127,400.00	3,127,400.00	3,127,400.00
Other ST Liability	1,274,700.00	1,463,800.00	1,604,700.00	1,523,700.00	1,703,800.00	1,874,180.00	2,061,598.00	2,267,757.80	2,494,533.58	2,743,986.94
Long term Debt	11,167,000.00	22,321,300.00	21,354,900.00	20,635,100.00	21,472,400.00	21,472,400.00	21,472,400.00	21,472,400.00	21,472,400.00	21,472,400.00
Other LT Liability	8,114,900.00	7,505,800.00	7,200,800.00	6,890,200.00	6,615,600.00	6,350,976.00	6,096,936.96	5,853,059.48	5,618,937.10	5,394,179.62
Total Debt	11,167,000.00	25,258,800.00	23,605,100.00	23,804,800.00	24,599,800.00	24,599,800.00	24,599,800.00	24,599,800.00	24,599,800.00	24,599,800.00
Op CA	2,408,600.00	2,434,800.00	2,543,900.00	3,352,100.00	2,990,500.00	3,097,858.92	3,407,644.81	3,782,485.74	4,198,559.17	4,618,415.08
Op CL	4,894,000.00	2,945,500.00	4,296,500.00	4,458,400.00	4,514,100.00	5,489,876.56	6,038,864.22	6,703,139.28	7,440,484.60	8,184,533.06
Op NWC	(2,485,400.00)	(510,700.00)	(1,752,600.00)	(1,106,300.00)	(1,523,600.00)	(2,392,017.64)	(2,631,219.41)	(2,920,653.54)	(3,241,925.43)	(3,566,117.98)
Change in NWC	-	1,974,700.00	(1,241,900.00)	646,300.00	(417,300.00)	(868,417.64)	(239,201.76)	(289,434.13)	(321,271.89)	(324,192.54)
Capex	-	9,375,100.00	1,671,700.00	1,418,500.00	2,586,200.00	1,576,512.60	1,777,057.69	1,880,167.65	1,985,480.35	2,093,199.20
Total Current Asset	5,653,900.00	7,806,400.00	9,756,400.00	7,018,700.00	7,303,400.00	7,307,119.32	9,245,497.58	10,669,893.82	12,317,921.99	14,674,708.69
Total Current Liability	6,168,700.00	7,346,800.00	8,151,400.00	9,151,800.00	9,345,300.00	10,491,456.56	11,227,862.22	12,098,297.08	13,062,418.18	14,055,920.00
Total Non-Current Asset	13,565,700.00	21,568,100.00	21,636,200.00	20,959,700.00	22,142,100.00	24,878,027.00	24,985,777.86	25,129,866.41	25,309,824.49	25,525,280.53
Total Non-Current Liability	19,281,900.00	29,827,100.00	28,555,700.00	27,525,300.00	28,088,000.00	27,823,376.00	27,569,336.96	27,325,459.48	27,091,337.10	26,866,579.62
Total Assets	19,219,600.00	29,374,500.00	31,392,600.00	27,978,400.00	29,445,500.00	32,185,146.32	34,231,275.44	35,799,760.22	37,627,746.48	40,199,989.22
Total Equity	(6,231,000.00)	(7,799,400.00)	(5,314,500.00)	(8,698,700.00)	(7,987,800.00)	(6,129,686.24)	(4,565,923.74)	(3,623,996.34)	(2,526,008.80)	(722,510.39)

Appendix 13 – WACC

	Conservative	Base	Optimistic
WACC	0.080	0.079	0.078
Wd	0.185	0.185	0.185
We	0.815	0.815	0.815
Risk Free Rate	0.043	0.035	0.030
Beta	0.940	0.940	0.940
Expected Market Return	0.094	0.094	0.094
Effective Tax Rate	0.236	0.236	0.236
Market Cap	108,440,000	108,440,000	108,440,000
Short Term Debt	3,127,400	3,127,400	3,127,400
Long Term Debt	21,472,400	21,472,400	21,472,400
Total Debt	24,599,800	24,599,800	24,599,800
Preferred Equity	0	0	0
Company Value	133,039,800	133,039,800	133,039,800
CAPM	0.091	0.090	0.090
Note Rate	0.046	0.037	0.032

Appendix 14 – Sensitivity Analysis

		Terminal Growth				
		2.00%	2.25%	2.50%	2.75%	3.00%
WACC	7.00%	107.51	112.87	118.83	125.49	132.99
	7.50%	96.62	100.95	105.71	110.98	116.83
	7.88%	89.61	93.34	97.41	101.87	106.80
	8.00%	87.59	91.15	95.03	99.28	103.96
	9.00%	73.52	76.03	78.72	81.63	84.79

Appendix 15 – DCF

DCF	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024F	FY 2025F	FY 2026F	FY 2027F	FY 2028F
=EBIT	4,570,500.00	2,133,200.00	5,217,900.00	4,855,000.00	5,801,400.00	7,058,412.72	7,332,906.55	8,618,321.93	9,034,874.16	9,938,361.57
-Taxes	685,575.00	319,980.00	782,685.00	728,250.00	870,210.00	1,411,682.54	1,466,581.31	1,723,664.39	1,806,974.83	1,987,672.31
=NOPAT	3,884,925.00	1,813,220.00	4,435,215.00	4,126,750.00	4,931,190.00	5,646,730.18	5,866,325.24	6,894,657.54	7,227,899.33	7,950,689.26
+Depreciation	1,377,300.00	1,431,300.00	1,441,700.00	1,447,900.00	1,362,600.00	1,337,585.60	1,669,306.83	1,736,079.10	1,805,522.27	1,877,743.16
-Increasing in Working Capital	-	1,974,700.00	(1,241,900.00)	646,300.00	(417,300.00)	(868,417.64)	(239,201.76)	(289,434.13)	(321,271.89)	(324,192.54)
-Capital Expenditures	-	9,375,100.00	1,671,700.00	1,418,500.00	2,586,200.00	1,576,512.60	1,777,057.69	1,880,167.65	1,985,480.35	2,093,199.20
FCFF	5,262,225.00	(8,105,280.00)	5,447,115.00	3,509,850.00	4,124,890.00	6,276,220.82	5,997,776.14	7,040,003.13	7,369,213.13	8,059,425.76
Terminal Value										153,536,733.46
Discounted FCFF						5,817,757.47	5,153,532.82	5,607,187.04	5,440,648.95	5,515,578.67
Discounted Terminal Value										105,074,971.53
Value of Firm	132,609,676.48									
Value of Debt	24,599,800.00									
Value of Equity	111,962,876.48									
Number of Shares	1,136,600									
Value of stock	98.51									

12-Month target price	
Value of Firm	126,791,919.02
Value of Debt	24,599,800.00
Value of Equity	118,230,746.02
Number of Shares	1,136,600
Value of stock	104.02

Appendix 16– Scenario Analysis

	Conservative	Base	Optimistic
Implied Share Price	$ 71.01	$ 98.51	$ 123.55
12-Month-Target Price	$ 76.65	$ 104.02	$ 129.94

Appendix 17 – Ratios

	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024F	FY 2025F	FY 2026F	FY 2027F	FY 2028F
Revenue	26,508	23,518	29,060	32,250	35,975	39,932	44,724	50,539	57,109	63,962
Sales Growth (YoY)	7%	-11%	24%	11%	12%	9%	10%	11%	11%	10%
Diluted EPS	2.92	0.79	3.54	2.83	3.58	4.45	4.68	5.58	5.87	6.51
Dividend per share (USD)	1.49	1.68	1.84	2	2.16	2.27	2.38	2.50	2.63	2.76
Payout Ratio (%)	49%	207%	50%	69%	59%	51%	51%	45%	45%	42%
PROFITABILITY RATIOS										
Gross margin (%)	28%	22%	29%	26%	27%	30%	30%	30%	30%	30%
EBITDA margin (%)	20%	13%	21%	19%	19%	14%	14%	14%	14%	14%
EBIT margin (%)	15%	7%	16%	14%	15%	18%	17%	18%	17%	17%
NI margin (%)	14%	4%	14%	10%	11%	13%	12%	13%	13%	13%
ROE (%)	-142%	-13%	-64%	-13%	-49%	-82%	-116%	-174%	-263%	-1020%
ROA (%)	11%	4%	10%	9%	12%	16%	15%	18%	18%	18%
EFFICIENCY RATIOS										
Total Asset Turnover	1.2x	1.0x	1.0x	1.1x	1.3x	1.2x	1.3x	1.3x	1.4x	1.5x
Inventory Turnover	13.0x	11.9x	13.1x	12.6x	13.1x	20.4x	20.4x	20.4x	20.4x	20.4x
LEVERAGE AND LIQUIDITY RATIOS										
Current Ratio	91.7%	106.3%	119.7%	76.7%	78.2%	69.6%	82.3%	88.2%	94.3%	104.4%
Quick Ratio	83.7%	96.2%	112.4%	71.4%	74.3%	66.9%	80.3%	86.7%	93.2%	103.6%
Days of Receivable turnover		12.1	14.1	13.3	13.4	12.0	11.5	11.6	11.6	11.5
Days of Payable turnover		75.2	71.6	77.4	68.6	69.9	76.7	77.0	77.0	76.7
Debt-to-assets	450.1%	476.2%	376.2%	522.6%	512.5%	524.3%	419.6%	369.5%	326.0%	278.9%
Debt-to-capital	132.4%	126.6%	116.9%	131.1%	127.1%	119.0%	113.3%	110.1%	106.7%	101.8%
Debt-to-equity	-408.5%	-476.6%	-690.7%	-421.6%	-468.6%	-625.1%	-849.7%	-1087.9%	-1589.6%	-5663.9%
Financial leverage	-308.5%	-376.6%	-590.7%	-321.6%	-368.6%	-525.1%	-749.7%	-987.9%	-1489.6%	-5563.9%

Appendix 18 – DDM

Dividend Discount Model (DDM)

($ in millions, except per share data)

Two-Stage Model Assumptions

	Stage 1	Stage 2
Dividends Per Share (DPS) – Current Period		$2.16
Cost of Equity (Ke)		9.0%
Dividend Growth Rate (g):	5.0%	3.0%

Stage 1 Dividends	Year 0	Year 1	Year 2	Year 3	Year 4	Year 5
		Stage 1				
Dividends Per Share (DPS)	$2.16	$2.27	$2.38	$2.50	$2.63	$2.76
Cost of Equity (Ke)	9.0%	9.0%	9.0%	9.0%	9.0%	9.0%
Present Value (PV) of Dividend	**$2.16**	**$2.08**	**$2.00**	**$1.93**	**$1.86**	**$1.79**

Share Price Calculation	
PV of Sum of Stage 1 Dividends	$9.66
Year 5 Dividend × (1 + Stage 2 Growth Rate)	$2.84
Stage 2 Terminal Value	$47.09
PV of Stage 2 Terminal Value	$30.56
Value Per Share ($)	$40.22

Appendix 19 – Relative Valuation

Segments	Companies
US	
China	
Global	

Competitors	Market Cap 2024 (million)	EV (million)	P/E Ratio 2022	P/E Ratio 2023	P/E Ratio 2024F	EV/EBITDA 2022	EV/EBITDA 2023	EV/EBITDA 2024F	EV/S 2022	EV/S 2023	EV/S 2024F
US											
McDonald's (McCafé)	214,990.83	262,238.80	31.65	25.60	23.94	19.1	17.1	17.98	9.79	9.38	9.83
Restaurant Brands International (RBI)	23,787.19	38,818.30	20.69	20.04	22.56	17.9	16.6	14.03	5.01	5.09	5.35
Yum! Brands	38,914.43	49,180.00	27.70	23.96	23.89	21.3	19.3	18.28	6.85	6.74	6.52
Average			26.68	23.20	**23.46**	19.43	17.67	**16.76**	7.21	7.07	**7.23**
Median			27.70	23.96	**23.89**	19.10	17.10	**17.98**	6.85	6.74	**6.52**
China											
Luckin Coffee	6,433.40	6,846.20	112.61	19.08	**10.38**	10.08	5.73	4.56	3.55	2.02	**1.36**
Global											
Cafe Coffee Day (India)	12305.4 (INR)	28087.60	-375.88	-318	5.23	22.6	0.2	1.2	3.75	2.95	2.80
Compass Group PLC (UK)	36791.13 (GBP)	40423.10	34.5	28.6	22.79	20.5	16.3	12.61	1.6	1.3	1.22
Figaro Coffee Group, Inc. (Philippines)	3718.5 (PHP)	3848.31	12.1	7.7	8.5	8.3	2.7	3.38	1.6	0.6	0.77
Average			-109.76	-93.90	**12.17**	17.13	6.40	**5.73**	2.32	1.62	**1.60**
Median			12.10	7.70	**8.50**	20.50	2.70	**3.38**	1.60	1.30	**1.22**

Starbucks Relative Valuation	P/E	EV/EBITDA	EV/S
2024 Multiple	22.20	12.50	2.70
2024 Metric	5,078,415,780	8,395,998,320	39,213,404,000
EV * Multiple		104,949,979,000	105,876,190,800
Market Cap	112,740,830,316	80,350,179,000	81,276,390,800
Implied Share Price	**99.58**	**70.97**	**71.79**