

|   |  |                                 |   |   |
|---|--|---------------------------------|---|---|
| <b>Company: Starbucks Corp.</b>   | <b>Ticker: SBUX</b>                                | <b>Current Price: \$ 112.92</b> | <b>Industry: CD</b>   | <b>Sub Industry: Restaurant</b>   |
| Target Price: \$151.97<br>Stop Loss: 91\$<br>52 Week High/ Low: \$126.32 / \$ 85.09 | TTM P/E: 41.1<br>Forward P/E: 30.44<br>EPS: \$1.01 |                                 | Beta: 0.87<br>Credit Rating: BBB+ (S&P)<br>Rating Outlook: Stable | Market Cap: \$133.1b<br>Avg Vol ( 12 M): 5.64m<br>Dividend Yield: 1.59% |

#### Company Background:

Starbucks is a leading global retailer of specialty coffee, operating in 62 countries. The company sells high-quality coffees, tea, and other beverages along with a variety of fresh food items through company-operated and licensed stores. As of September 29, 2020, SBUX owned and operated 10,109 stores in the Americas (including 8,941 in the U.S.) and 6,528 stores in international markets. There were also 8,245 licensed retail stores in the Americas and 7,778 in international markets.

#### Industry Outlook:

Outlook for the S&P Consumer Discretionary, restaurants sub-industry for the next 12 months is positive. The near-term portends a favorable macroeconomic backdrop and relatively healthy consumer spending environment on the heels of stimulus checks from the U.S. government. With the return of seated dining amid the vaccine rollout, there will be a steady improvement in customer traffic accelerating in 2022 on strong pent-up demand across the industry. With a continuing focus on certain health and safety protocols in a post-pandemic world, this will likely foster contactless ordering, delivery, and payment options. More quick-service restaurants will benefit a lot due to the faster adjustment and digitalization of online shops to increase sales as well as reduce labor pressures.

#### Investment Thesis:

In late-July, after a strong 78% rebound in its Jun-Q global comparable sales as it further recovered from the pandemic, SBUX slightly raised its FY 21 target for comparable sales growth in the U.S. versus a slightly more tempered view on China. Looking further ahead, CFRA forecast the company is on track with its medium- to long-term targets of 4% to 5% growth in global comparable sales and low double-digit EPS growth, with likely further improvement in return on invested capital. In recent years, Starbucks Corporation has reinvigorated its brand by improving its services and offering premium bakery goods.

#### Investment Risks:

- The prolonged negative impact of the pandemic can cause more and more restaurants to close.
- A sharp slowdown in global consumer spending.
- Inflation in commodity [coffee] prices or labor costs [wage pressures].
- Foreign currency exposure.

#### 3-5 take away from last quarter investor call transcript:

- Starbucks Corporation's dividend will be increasing to US\$0.49 on 26th of November 2021.
- Based on the announced payment, the dividend yield for the company will be 1.6%, which is fairly typical for the industry.
- Starbucks shares are up 3.9% for the year to date while the S&P 500 index SPX, +1.15% has gained 15.7% for the period.

#### Financial Performance:

|                    | 2015   | 2016   | 2017   | 2018   | 2019   | 2020    | Last 12M |
|--------------------|--------|--------|--------|--------|--------|---------|----------|
| Revenue            | 19.16b | 21.32b | 22.39b | 24.72b | 26.51b | 23.52b  | 27.12b   |
| Operating Profit   | 3.66b  | 3.85b  | 3.96b  | 4.19b  | 4.27b  | 1.81b   | 4.10b    |
| Net Income         | 2.76b  | 2.82b  | 2.88b  | 4.52b  | 3.60b  | 0.93b   | 2.83b    |
| Revenue Growth %   | 16.51% | 11.24% | 5.02%  | 10.42% | 7.24%  | -11.28% |          |
| EBITDA%            | 18.42% | 14.71% | 0%     | -0.24% | 6.51%  | -16.08% |          |
| Operating Profit % | 19.43% | 5.42%  | 2.75%  | 5.91%  | 1.88%  | -57.6%  | 126.7%   |
| Net Income Margin  | 14.39% | 13.22% | 12.89% | 18.28% | 13.58% | 3.95%   |          |
| D/E                | 40.34  | 61.15  | 72.07  | 802.87 | -      | -       |          |
| EPS                | 34.81  | 4.40   | 3.68   | 64.47  | -9.88  | -72.95  |          |
| PE Ratio           | 15.11  | 12.14  | 15.57  | 15.33  | 15.2   | 14.61   | 12.45    |
| Current Ratio      | 1.09   | 1.05   | 1.25   | 2.20   | 0.92   | 1.06    |          |
| ROE                | 49.73  | 48.16  | 50.90  | 136.51 | -      | -       |          |
| ROA                | 23.80  | 21.07  | 20.11  | 23.46  | 16.60  | 3.82    |          |
| Dividend Per share | 30.45  | 24.87  | 23.87  | 24.29  | 22.06  | 19.83   |          |
| FCF                | 2.45b  | 3.26b  | 2.73b  | 9.96b  | 3.24b  | 0.11b   |          |

#### Discounted Cash Flow

|                        | 2011-15 | 2016-20 |
|------------------------|---------|---------|
| Avg Revenue growth     | 9.28%   | 9.73%   |
| Avg EBITDA Margin      | 17.60%  | 21.8%   |
| Avg Net Income Margin  | 9.61%   | 12.38%  |
| Avg Debt/Equity        | 26.29%  | 187.22  |
| Avg FCF / Margin       | 5.3%    | 16.29%  |
| Cost of Debt           |         | 5.19%   |
| Tax Rate               |         | 21%     |
| Cost of Equity         |         | 6.05%   |
| WACC                   |         | 4.82%   |
| Perpetuity growth rate |         | 2.0%    |

#### Analyst Opinion

| Buy:38            | Hold: 11     | Sell:1     |
|-------------------|--------------|------------|
| Rating            |              | Target     |
| S&P Net Advantage |              | Strong Buy |
| Morning Star      |              | ***        |
| Value Line        | Timeliness:2 | \$120-145  |

#### Relative Valuation

|                  | Starbucks Corp(SBUX) | Chipotle Mexican Grill, Inc.(CMG) | Darden Restaurants, Inc.(DRI) | Domino's Pizza, Inc(DPZ) | Industry Avg.* |
|------------------|----------------------|-----------------------------------|-------------------------------|--------------------------|----------------|
| P/E              | 47.01                | 88.98                             | 33                            | 38.3                     | 30.25          |
| P/B              | --                   | 24.35                             | 6.92                          | --                       | 1.44           |
| Dividend Yield   | 1.71                 | --                                | 2.8                           | --                       | 1.71           |
| PEG Ratio        | 1.20                 | 1.61                              | 1.61                          | 2.74                     | 1.96           |
| EPS              | 1.01                 | 20.55                             | 6.25                          | 12.40                    | 0.71           |
| Revn Grth        | (11.28)              | 30%                               | (7.8)                         | 5.4%                     | (10.69)        |
| NI Grth          | 305%                 | 16.47%                            | --                            | (1.20%)                  | 107%           |
| Operating Margin | 22.5%                | 16.4%                             | 14.7%                         | --                       | 19%            |
| Debt / Equity    | --                   | 1.96                              | 2.78                          | --                       | 206.23%        |
| Market Cap       | 133.144b             | 51.374b                           | 20.32b                        | 17.5b                    | 3.41b          |
| Revenue TTM      | 27.117b              | 6.843b                            | 7.1961b                       | 4.340b                   | 11.37B         |
| Net Income TTM   | 1.38b                | 0.586b                            | 0.629b                        | 0.485b                   | 49.16M         |

#### Total Return

|              | SBUX   | Con. Elec. Sec | S&P 500 |
|--------------|--------|----------------|---------|
| YTD          | 5.48   | 7.45           | 2.70    |
| 2020         | 30.97  | 33.38          | 13.69   |
| Last 3 Years | 110.81 | 15.24          | 17.14   |
| Last 5 Years | 129.2  | 17.84          | 13.69   |

#### CSR Characteristics

|                                | SBUX | Industry |
|--------------------------------|------|----------|
| Governance Disclosure Score    | 59   | 47       |
| ESG Disclosure                 | 45   | 24       |
| Social Disclosure Score        | 34   | 34       |
| Environmental Disclosure Score | 44   | 38       |

Prepared by Yukun Zhang, Ruosu Chen (Oct 4, 2021) using Bloomberg, Value Line, S&P Net Advantage, Morning Star, Yahoo Finance

|   |         |        |        |        |       |  |
|---|---------|--------|--------|--------|-------|--|
| FCF TTM   | 4.6282b | 0.501b | 0.923b | 0.588b | 1.66b |  |
| *Industry Avg. NI Grth, Operating Margin, Revenue TTM, FCF TTM includes companies listed. |         |        |        |        |       |  |