

Company: Starbucks	Ticker: SBUX	Current Price: \$ 91.49	Industry: Consumer Retail	Sub Industry: Coffee / Food
Target Price: \$99.85	P/E: 23.6x		Beta: .90	Market Cap: \$104,711.8
Stop Loss:	EV/ Sales: 4.0x		Credit Rating: Baa1 (Moody's)	
52 Week High/ Low: \$ 126.32 / 78.92	PEG: 1.4x		Rating Outlook: Stable	Dividend Yield: 2.22%

Company Background:

Starbucks is a multinational coffeehouse chain and roastery, it is the world's largest coffeehouse chain founded in 1971. The chain has more than 30,000 retail stores in 83 different markets. Products that you can find in these locations include Handcrafted Beverages, Coffee, Fresh food, and consumer products such as ready to drink beverages.

Industry Outlook:

The U.S. Coffee Market is forecasted to grow at a CAGR of 8.1% (2019-2024). In terms of industry outlook, the global consumer tea and coffee market is being stimulated by five industry trends. The first being improving overall customer experience. With the Covid-19 pandemic beginning to tailor off and individuals return back to some sense of normalcy, companies like Starbucks have seen an increase in wait time. Successful companies will effectively and efficiently create a system, such as mobile ordering, to satisfy customer needs in a timely manner. Additionally, millennials are concerned with the quality of the beverage over the price. Premium brands like Starbucks will continue to succeed if the quality of the product is high and can be showcased on social media or to colleagues. In addition to mobile ordering, on the go product offerings are becoming increasingly popular. Consumer preference also is being stimulated by new and unique product offerings. Finally, consumers are concerned with where the beverage is coming from. Ethical suppliers is another area of concern that will drive consumer preference.

Investment Thesis:

We believe that SBUX is undervalued by the market and is a strong long-term position for our portfolio. The company has many avenues of growth, where we analyzed three specifically. Store and Channel Expansion, Growth at Scale, and the Premium Brand Image. Starbucks is looking to add ~2,000 gross new stores each year, expand their licensee business, and expand in China. Additionally, Starbucks is known for their elevated customer experience, beverage and coffee innovation and digital customer experience. These growth avenues continue to put Starbucks above competitors in its industry. Finally, Starbucks has an exclusive brand image that they continue to brand, raise awareness towards, and make specialized to the company itself. As Starbucks has drinks that consumers are only able to find in their chain stores, they will find themselves returning.

Investment Risks:

COVID-19 → *Mitigant*: During the last pandemic Starbucks performed very well and having an increased social media presence

International Dependency → *Mitigant*: Diversifying its growth strategy outside of China to mitigate risks

Brand Dilution → *Mitigant*: Starbucks understands their customers in all markets they operate in, they tailor their menu and store designs with culture & customers in mind

Climate Change → *Mitigant*: Hedging low supply risk with fixed priced contracts with mandatory delivery (SBUX believes risk of non-delivery is remote, same for milk & alternative milks)

Russia & Ukraine War → *Mitigant*: All assets were owned by licensees, so the impact to Starbucks is marginal

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

- Demand for Starbucks continues to build, and SBUX is fully committed to capitalizing on this momentum for the long term. Witnessed extraordinary top-line growth, and also experienced extraordinary cost pressure, which impacted our margin performance.
- Pricing strategy is driven by several factors such as inflation rates, partner investments, the future infrastructure investment, and then obviously, the future investments to continue the innovation pipeline.
- Continuous investing in aspects that drive sales in FY '23

Financial Performance:

	2017	2018	2019	2020	2021
Revenue	22,386.8	24,719.5	26,508.6	23,518.0	29,060.6
Operating Profit	3,896.8	3,810.1	3,915.7	1,599.9	4,701.6
Net Income	2,884.7	4,518.3	3,599.2	928.3	4,199.3
Revenue Growth %	5.02%	10.42%	7.24%	-11.28%	23.57%
EBITDA%	22.17%	20.70%	20.24%	13.19%	21.42%
Operating Profit %	17.41%	15.41%	14.77%	6.8%	16.18%
Net Income Margin	12.89%	18.28%	13.58%	3.95%	14.45%
D/E	72.1%	805.6%	-	-	-
EPS	\$1.97	\$3.24	\$2.92	\$0.79	\$3.57
PE Ratio	28.67x	19.39x	29.62x	110.49x	36.32x
Current Ratio	1.3x	2.2x	0.9x	1.1x	1.2x
ROE	50.8%	136.2%	-	-	-
ROA	17.0%	12.4%	11.3%	4.1%	9.7%
Dividend Per share	\$1.05	\$1.32	\$1.49	\$1.68	\$1.84
FCF	2,077.4	2,004.4	3,685.1	(1,041.9)	4,545.8

Discounted Cash Flow

	2018-2021	2022-2033
Avg Revenue growth	6.51%	7.81%
Avg EBITDA Margin	13.29%	19.49%
Avg NOPLAT Margin	9.94%	15.00%
Avg FCF / Margin	3.72%	14.37%
Tax Rate		23%
WACC		8.75%
Perpetuity growth rate		3%

Analyst Opinion

Buy: 16	Hold: 15	Sell: 0
	Rating	Target
CNNMoney	Buy	\$114.50
Bloomberg	Buy	\$110.64
Yahoo Finance	Buy	\$113.55

Relative Valuation

Total Return %

Company Information		Financial Metrics			Valuation Metrics					
Ticker	Firm	Market Cap	Net Debt	Enterprise Value	EV/EBITDA	EV/EBIT	EV/Sales	P/E	PEG	P/B
SBUX	Starbucks Co	\$104,711.8	\$55,690.1	\$154,401.9	12.8x	23.6x	4.0x	27.9x	1.4x	--
MCD	McDonald's	\$183,219.5	\$44,026.9	\$229,895.4	16.7x	22.5x	9.9x	24.8x	2.4x	--
SBM	J.M. Smucker Co	\$14,554.0	\$4,246.8	\$18,800.8	12.9x	13.2x	2.4x	19.9x	1.1x	1.8x
KDP	Keurig Dr Pepper Inc	\$54,024.7	\$12,709.0	\$66,733.7	17.8x	21.1x	5.3x	25.8x	2.8x	2.5x
FARM	Farmer Bros Co	\$151.2	\$14.2	\$245.4	29.3x	--	0.8x	--	--	1.5x
JVA	Coffee Holding Co	\$25.3	\$3.8	\$32.1	17.3x	11.5x	4.5x	10.7x	--	0.3x
Top Quartile		\$92,040.0	\$17,944.8	\$109,984.9	13.8x	13.2x	2.8x	19.9x	1.3x	1.1x
Mean		\$59,777.8	\$13,567.3	\$73,345.1	17.3x	19.5x	4.5x	21.8x	2.0x	1.6x
Bottom Quartile		\$3,786.9	\$1,147.4	\$4,884.3	17.8x	22.8x	5.2x	25.8x	2.6x	2.0x

Company Information		Operation Metrics									
Ticker	Firm	EBIT Margin	Gross Margin	Net Margin	ROE	ROIC	Return on Assets	Inventory turnover	AR turnover	Total asset turnover	Inventory days
SBUX	Starbucks Co	18.11%	29.03%	14.45%	-65.78%	36.84%	14.59%	12.7x	29.5x	1.0x	28.7
MCD	McDonald's	43.27%	65.35%	31.45%	-121.44%	16.52%	14.17%	289.5x	11.7x	0.4x	1.3
SBM	J.M. Smucker Co	17.82%	39.22%	10.39%	10.19%	5.64%	4.98%	5.2x	14.8x	0.5x	69.6
KDP	Keurig Dr Pepper Inc	24.69%	54.70%	15.45%	9.00%	4.80%	4.23%	9.9x	11.6x	0.3x	52.6
FARM	Farmer Bros Co	-9.45%	25.37%	-12.21%	-38.45%	-15.60%	-11.41%	4.1x	10.2x	1.1x	86.6
JVA	Coffee Holding Co	3.95%	25.06%	3.50%	4.55%	4.28%	3.18%	2.9x	7.6x	1.6x	126.0
Top Quartile		23.20%	50.83%	15.95%	8.54%	13.80%	11.97%	11.3x	14.0x	1.1x	34.7
Mean		16.42%	39.79%	10.07%	-33.18%	8.79%	4.99%	53.8x	14.2x	0.8x	61.1
Bottom Quartile		7.42%	26.28%	5.22%	-67.45%	4.43%	3.45%	4.4x	10.6x	0.4x	83.9

	SBUX	Con. Disc..	S&P 500
YTD	-21..38%	-8.83%	-4.28%
2021	38.03%	65.87%	52.34%
Last 3 Years	30.06%	67.17%	68.70%
Last 5 Years	75.27%	121.83%	110.68

CSR Characteristics

	SBUX	Peers
ESG Disclosure:	52.14	50.91
Governance Disclosure Score	93.74	82.70
Social Disclosure Score	24.03	32.77
Environmental Disclosure Score	38.48	51.09

Prepared by Team Blue (Apr. 1, 2022) using Bloomberg, Value Line, S&P Net Advantage, Morning Star, Yahoo Finance