



Starbucks (NASDAQ: SBUX)

Everett Juurlink | Nikolas Karasavidis | Ali Yehia | Vishal Joshi



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Business Overview

- Starbucks Corporation is an American multinational chain of coffeehouses and roastery reserves. Founded in 1971 and headquartered in Seattle, Washington.
- Operates over 30,000 locations in more than 70 countries around the world.
- Their product mix includes handcrafted high-quality and premium priced coffees, tea, fresh food items and other beverages.
- Branded market names within their portfolio of companies includes Teavana, Tazo, Seattle's Best Coffee, Starbucks VIA, Starbucks Refreshers, Evolution Fresh, La Boulange and Verismo.

Management Team



Kevin Johnson
Chief Executive Officer

Kevin has been the CEO since April 2017. He joined Starbucks in 2009 and was appointed COO in 2015. He previously served 16 years at Microsoft and 5 years as CEO of Jupiter Networks.



Patrick Grismer
Chief Financial Officer

Patrick assumed the role of CFO in 2018. He possesses 25 years of experience as CFO at Hyatt Hotels and VP of Business Planning and Development at Walt Disney.

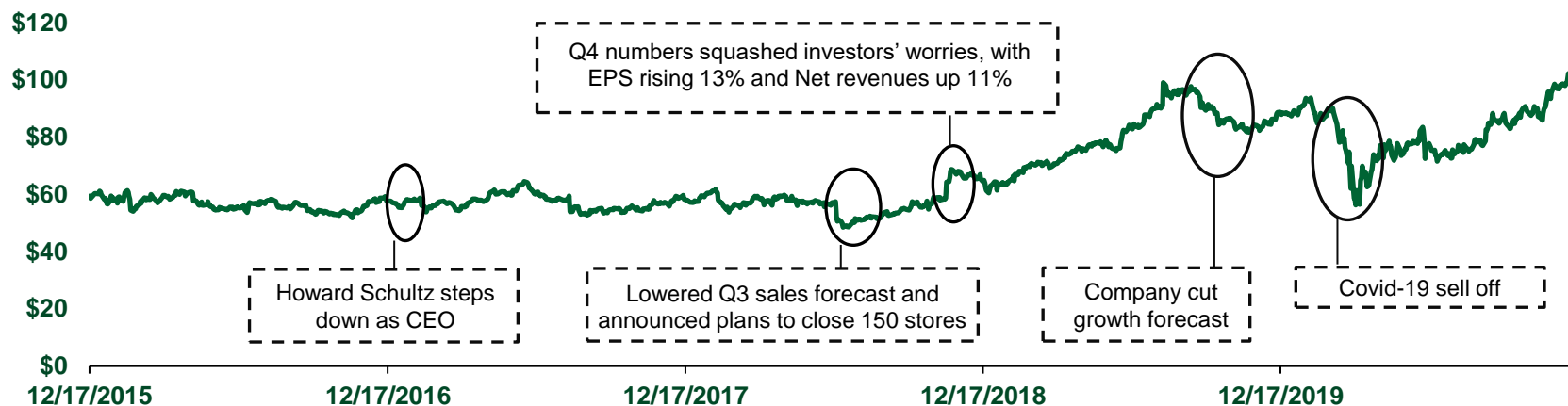


Rosalind Brewer
Chief Operating Officer

Rosalind became the COO in 2019, previously serving as the CEO of Walmart's Division Sam's Club. She is regarded as "one of corporate America's most prominent women and black female executives."



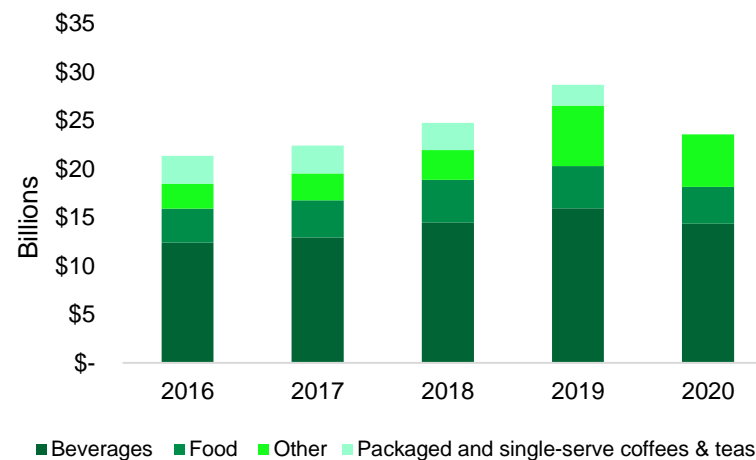
Historic Stock Price (5Y)



Key Financials (December 2020)

Share Price	\$98.82
Market Cap	\$120.89B
52 Week Range	50.02 - 106.09
Net Debt	\$20.77B
Enterprise Value	\$141.52B
EBITDA	3.10B
EV / Revenue	6.02x
EV / EBITDA	45.58x

Revenue Breakdown





Industry Overview

Industry Overview



Leading coffee harvesting countries: Brazil, Columbia, and Vietnam.



Strong competition in customer service, seating environment, loyalty programs, and locations.

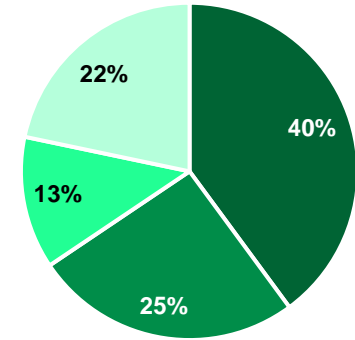


China is the fastest growing market with a 7.8% CAGR.

Competitors



Coffee Shop Market Share (US)



'Other' includes smaller local coffee shops, and non-specialty coffee shops that's are not fully divested into coffee, such as McDonald's McCafé.

- Starbucks
- Dunkin'
- JAB owned brands
- Other

Leading Number of Stores (US)

JAB



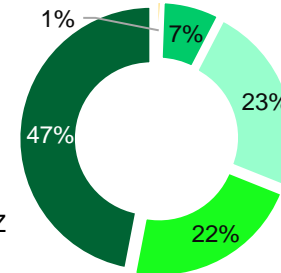
DUNKIN' BRANDS.
DNKN: BR



By Total Number of Outlets

Millennials and Gen Z Population (US)

- Greatest Generation
- Silent Generation
- Baby Boomers
- Gen X
- Millennials and Gen Z



44% of coffee in the US is consumed by Millennials

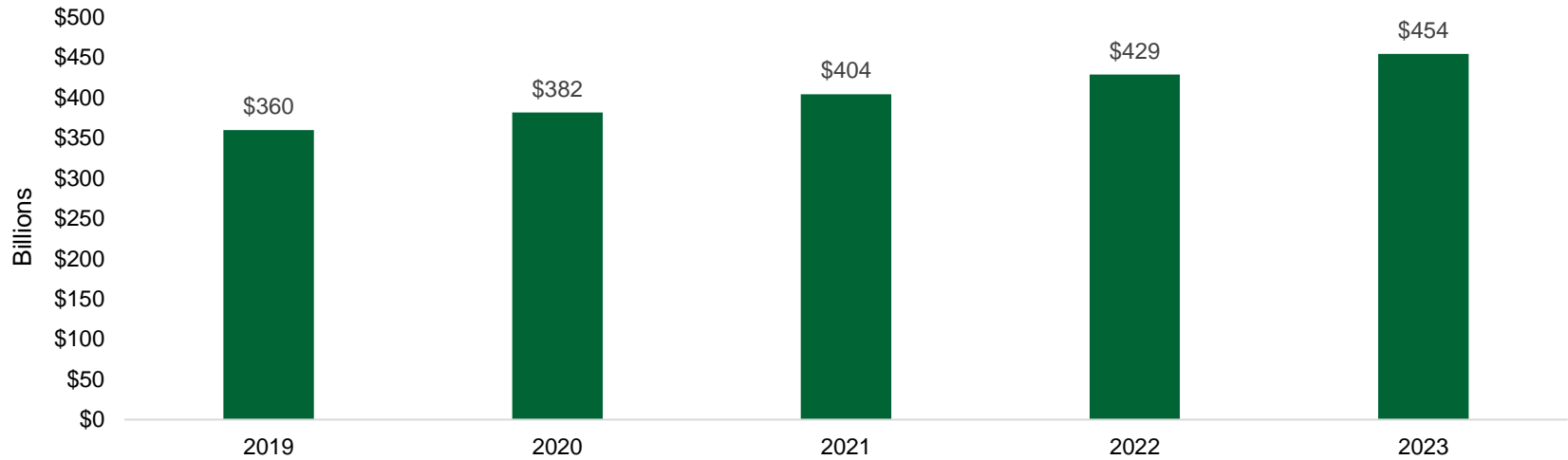
Increase in Daily Coffee Consumption (US)⁽¹⁾

Gen Z ↑ from 34% to 48%

Millennials ↑ from 51% to 60%



Global Coffee Addressable Market Size



Trends



- Third party apps used to deliver straight to consumers' homes, catering to the "stay-at-home" environment during Covid-19.

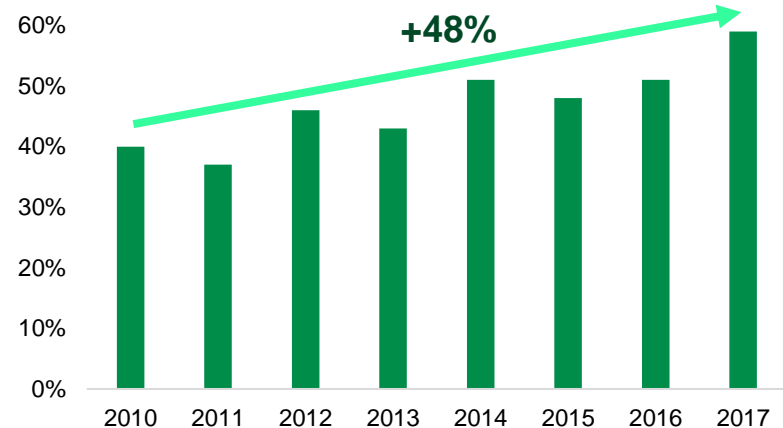


- Mobile and online ordering solutions allow consumers to order and pay in advance.
- Caters for the "on the go" customers who use drive-through, pickup, or delivery.



- Expansion of specialty coffee offerings, such as nitro coffee, non-dairy alternatives, cold brews, and seasonal beverages are increasing in demand due to Millennial and Gen Z preferences.

Specialty Coffee Sold (as % of US Coffee Industry)

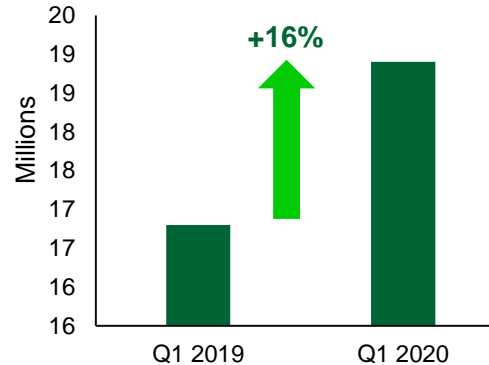




E-Commerce Shift

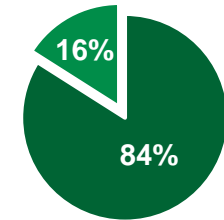
- Starbucks and Alibaba's partnership will provide synergies in fulfilling orders, payments, and deliveries, while also providing Starbucks with exposure to over 500 million new potential customers.
- Uber Eats partnership to deliver Starbucks in the US.
- Starbucks Reward program updates will enable more online payment options and loyalty incentives.
 - 26% of transactions (FY20) have been through the mobile app and delivery services.
- As consumers adapt to the contactless experience due to Covid-19, e-commerce will become a habitual component of their consumption.

Active Users on Starbucks Mobile App



Active users - people who have used the app 2+ times in the past 90 days

Market Share of Delivery Services (in Sales)

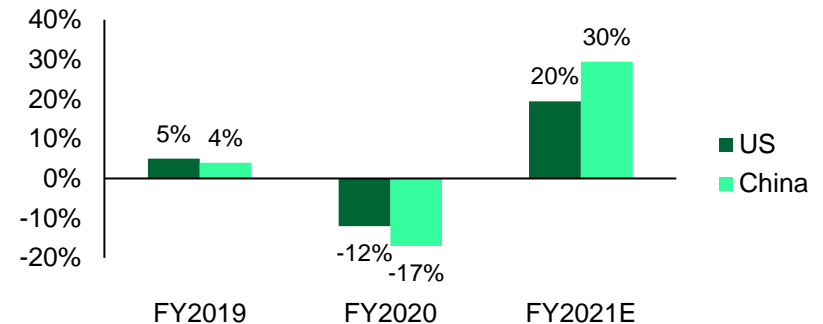


■ Starbucks ■ Dunkin

Short term: “Social Recession” Recovery

- Starbucks is a leading “third place”; a location for people to gather and socialize.
- The pandemic and lockdowns have caused a “social recession”, as consumers are less likely to leave their homes.
- With China expected to recover by Q1' FY21, and the US' recovery⁽¹⁾ expected by Q2' FY21, the need for a “third place” will be more prominent than ever.

Starbucks Comparable Store Sales Growth



7 Source: Edison Trends, Starbucks Investor Relations
 (1) “Recovered” is defined as Starbucks’ same-store comparable sales at or above pre-pandemic levels.



Chinese Expansion

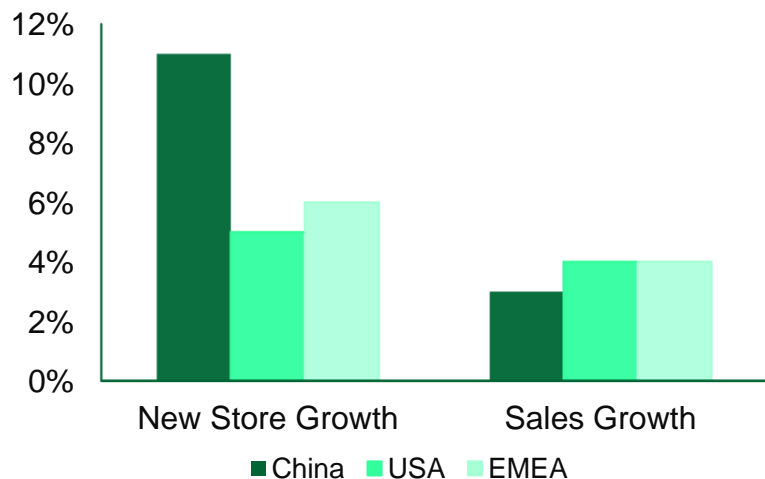


- Starbucks plans on reaching 55,000 locations worldwide by 2030. Starbucks currently has 31,256 retail locations worldwide, 4123 retail locations in China, and is opening 600 new stores in 2021



- Chinese coffee consumption rate is low on a per capita basis; however, market value of the coffee industry is currently operating at US equivalent of \$15.8B with Chinese coffee consumption growing 20% annually

Investor Day Estimates (FY23)



Company filings have declared China Starbucks biggest growth market and thus continue to expand, despite lower same store sales growth

China vs Domestic Comparison

China

- Per capita consumption of 6.2 cups / year
- 11.6% CAGR 2020-2025
- Market Size: \$15.8 B USD
- SBUX Locations: 4123
- Rev Contribution 2.58 B USD

USA

- Per capita consumption of 680.68 cups / year
- 4.8% CAGR 2020-2025
- Market Size: \$47.5 B USD
- SBUX Locations: 8791
- Rev Contribution 16.87 B USD



Risks



Supply Shocks: Availability and prices of arabica coffee beans are subject to significant volatility



Brand Damage: Starbucks value proposition involves utilizing high-value brand as a competitive advantage to sell higher priced products than competition

Catalysts



Economic Recovery: Consumer confidence and spending accelerated recovery leading into 2021 leaves Starbucks positioned to capitalize on consumer spending habits



Global Reopening: As demonstrated by Chinese re-opening, global boom in consumer discretionary sectors is expected to occur in other operating regions worldwide

Mitigating Factors



Supplier relationships: Arabica coffee does not trade on futures markets. Using fixed price & price-to-be-fixed contracts, Starbucks develops supplier relationships to secure inventory at controlled costs. Due to large size of purchases and vertical integration of company, suppliers are more willingly to negotiate favourable deals



Supply Chain Integration: Long standing focus on vertical integration vs outsourcing. Centralized control over entire supply chain from coffee bean growers to distribution, allowing Starbucks to maintain significant oversight on operations

Comparable Analysis

North American based restaurant Industry with >2bil market cap



Comparable Analysis

Company Name	Ticker	Equity Value(B)	Enterprise Value(M)	Revenue		EBITDA		EV / EBITDA		Price to Sales
				TTM (M)	2021 (E)	TTM (M)	2021 (E)	TTM	2021 (E)	
Dunkin Brands Group Inc	DNKN	8.78	11,582	1,307	1,380	418	460	27.71x	21.50x	6.71x
McDonalds	MCD	160.31	182,083	19,090	21,974	9,174	11,124	19.85x	16.37x	8.33x
Yum Brands Inc	YUM	31.83	37,567	5,603	6,259	1,886	2,142	19.92x	17.54x	5.81x
Resturant Brands Int	QSR	28.74	39,284	4,954	5,504	1,894	2,237	20.74x	17.56x	3.74x
Mean				7,739	8,779	3,343	3,991	22.05x	18.24x	6.15x
Median				5,279	5,882	1,890	2,190	20.33x	17.55x	6.26x
Starbucks	SBUX	121.27	132,860	23,518	28,548	3,021	6,077	43.98x	21.86x	5.32x

Comps Valuation

Industry Multiple	
EV/EBITDA	22.05x
Starbucks Valuation	
EBITDA 2021	6,077
EV	134,022
(-) Total Debt	16,348
(+) Cash	4,350
Market Cap	122,024
Shares Outstanding	1,191
Implied Share Price	102.46
SBUX Current Share Price (Dec 1 st)	98.82
SBUX Implied Movement (%)	3.68%

Summary



- Starbucks trades at a premium compared to industry comparables



- Pandemic related expenses & revenue loss reflected in TTM. Expectation of return to historical mean heading towards new year



- Starbucks boasts one of the lowest P/S ratios across industry participants

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Sources: Company material, Refinitiv, Finviz

- Dunkin Brands Group was acquired in Nov, 2020 and is no longer a public company
- Valuation calculated by applying a 2020 industry multiple to 2021 EBITDA estimates via refinitiv

LEXINGWORTH



Discounted Cash Flow Analysis

Gordon Growth Method

PV of Forecast Period	8,018
<i>% of Enterprise Value</i>	24.1%
Terminal Value	
Terminal Year UFCF	2,310
Perpetuity Growth Rate	2.3%
Terminal Value	40,324
PV of Terminal Value	25,259
<i>% of Enterprise Value</i>	75.9%
Enterprise Value	33,276
Less: Net Debt	(18,212)
Equity Value	15,064
Fully Diluted Shares Outstanding	117
Implied Share Price	\$128.35
Current Share Price	\$98.82
Implied Margin of Safety	29.9%

Terminal Multiple Method

Cumulative PV of Free Cash Flow	8,018
<i>% of Enterprise Value</i>	20.6%
Terminal Value	
Terminal Year EBITDA	5,190
EBITDA Multiple	9.5x
Terminal Value	49,305
PV of Terminal Value	30,884
<i>% of Enterprise Value</i>	79.4%
Enterprise Value	38,902
Less: Net Debt	(18,212)
Equity Value	20,690
Fully Diluted Shares Outstanding	117
Implied Share Price	\$176.28
Current Share Price	\$98.82
Implied Margin of Safety	78.4%

Sensitivity Analysis

Terminal Growth Share Price Sensitivity (\$)

		WACC				
		7.1%	7.6%	8.1%	8.6%	9.1%
Terminal Growth	1.3%	140.64	116.10	95.17	77.13	61.40
	1.8%	162.88	134.41	110.46	90.03	72.41
	2.3%	189.70	156.14	128.35	104.97	85.02
	2.8%	222.67	182.34	149.58	122.45	99.62
	3.3%	264.19	214.56	175.18	143.20	116.71

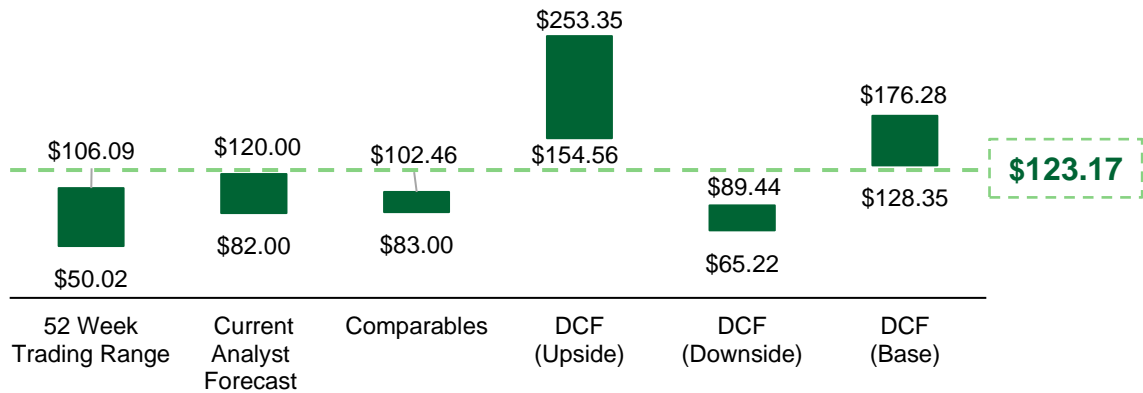
Exit Multiple Share Price Sensitivity (\$)

		WACC				
		7.1%	7.6%	8.1%	8.6%	9.1%
Exit Multiple	8.5x	164.25	156.29	148.58	141.10	133.86
	9.0x	178.89	170.53	162.43	154.58	146.96
	9.5x	193.54	184.77	176.28	168.05	160.07
	10.0x	208.18	199.01	190.13	181.52	173.17
	10.5x	222.82	213.25	203.98	194.99	186.28



Recommendation

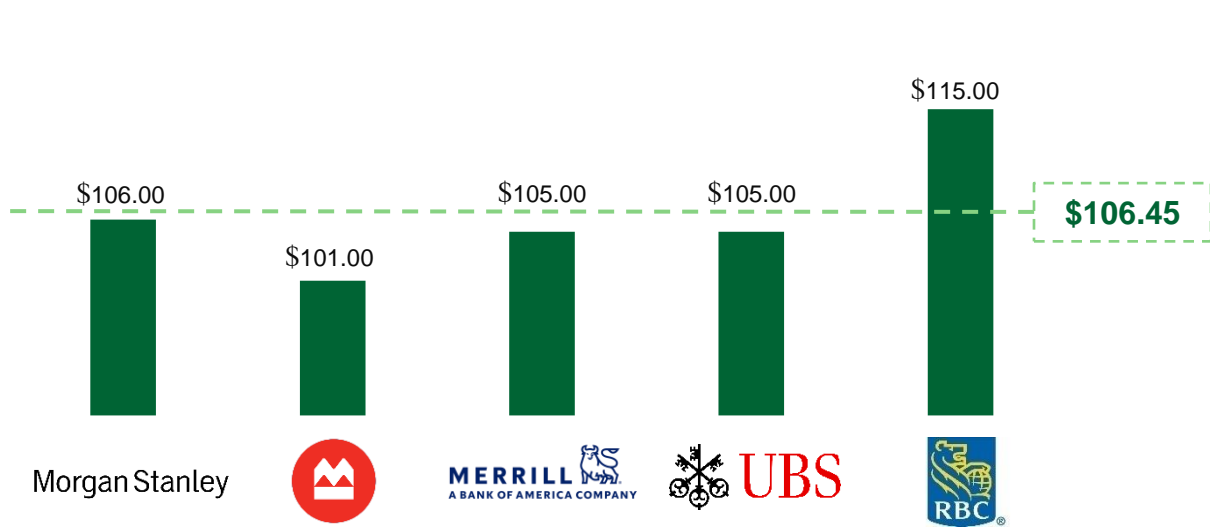
Football Field Analysis



Analysis	Average	Weight
52 Week Trading Range	\$78.06	10%
Current Analyst Forecast	\$101.00	10%
Comparables	\$92.73	20%
DCF (Upside)	\$203.96	20%
DCF (Downside)	\$77.33	20%
DCF (Base)	\$152.32	20%

Weighted Average Share Price: \$123.17

Selected Broker Price Targets



Price Target: \$123.17

Implied Margin of Safety: 24.6%

Recommendation: Buy

This report has been prepared for informational purposes only without regard to any particular user's investment objectives or financial situation. This report constitutes neither a recommendation to enter into a particular transaction nor a representation that any investment is suitable or appropriate for you. It is important to note that past performance does not indicate guarantee of future gain.

A photograph of a Starbucks coffee shop interior. In the foreground, a Starbucks employee in a dark cap and green apron is partially visible on the left. In the background, another employee in a dark cap and red apron is working at a counter. The wall features several menu boards with prices and a promotional poster for 'ALEXANDRIA' drinks. Shelves with Starbucks cups are visible above the menu boards. The scene is lit with warm, indoor lighting.

Appendices



Exhibit 2: DCF Base Assumptions

Assumptions	2021E	2022E	2023E	2024E	2025E	2026E	Supplementary Inputs	
Revenue Growth	20.0%	18.0%	15.0%	12.0%	10.0%	10.0%	Terminal Growth Rate	2.25%
EBITDA Margin	17.0%	15.0%	13.0%	11.0%	10.0%	10.0%	Exit Multiple	9.5x
Tax Rate	18.2%	19.8%	19.8%	20.0%	21.2%	21.2%		
AR, % of Revenue	8.0%	7.4%	6.8%	6.2%	5.6%	5.0%		
Inventories, % of Revenue	7.0%	7.5%	8.0%	8.5%	5.5%	5.5%		
AP, % of Revenue	4.5%	4.5%	4.5%	4.0%	4.0%	4.0%		
Additions to PP&E, % of sales	7.0%	7.0%	7.0%	6.5%	5.0%	5.0%		
PP&E Depreciation, % of gross	4.5%	5.0%	5.0%	4.5%	4.5%	4.5%		
Other D&A, % of Gross	5.0%	6.0%	6.0%	6.0%	6.0%	7.0%		

Exhibit 3: Historical & Forecasted Income Statement

Operating Model										
	Historical				Forecast					
Income Statement	FY2017	FY2018	FY2019	FY2020	2021E	2022E	2023E	2024E	2025E	2026E
Revenue	22,369	24,720	26,509	23,518	28,222	33,301	38,297	42,892	47,182	51,900
Operating expenses, excld. D&A	(17,167)	(19,531)	(20,982)	(20,453)	(23,424)	(28,306)	(33,318)	(38,174)	(42,463)	(46,710)
EBITDA	5,202	5,189	5,527	3,065	4,798	4,995	4,979	4,718	4,718	5,190
D&A	(792)	761	(730)	(1,464)	(2,117)	(2,669)	(2,926)	(3,074)	(3,367)	(3,959)
EBIT	4,410	5,950	4,797	1,601	2,680	2,326	2,053	1,644	1,351	1,231
Income tax expense	(1,433)	(1,262)	(872)	(240)	(488)	(461)	(406)	(329)	(286)	(261)
EBIAT	2,977	4,688	3,926	1,362	2,192	1,866	1,647	1,315	1,065	970
Revenue Growth	-	10.5%	7.2%	(11.3%)	20.0%	18.0%	15.0%	12.0%	10.0%	10.0%
EBITDA Margin	23.3%	21.0%	20.8%	13.0%	17.0%	15.0%	13.0%	11.0%	10.0%	10.0%
% Tax Rate	32.5%	21.2%	18.2%	15.0%	18.2%	19.8%	19.8%	20.0%	21.2%	21.2%



Exhibit 4: Debt & WACC

Capital Structure	Total Value	Weight
Equity	\$121,219.0	86.94%
Debt	\$18,212.0	13.06%
Preferred Equity	-	0.00%
Total	\$139,431.0	100.00%

WACC Analysis

10-Year U.S. Treasury	1.0%
Market Risk Premium	9.9%
Beta	0.810
Cost of Equity	9.0%
Cost of Preferred Equity	-
Cost of Debt	2.4%
Tax Rate	15.0%
After-Tax Cost of Debt	2.0%
WACC	8.1%

Exhibit 5: DEBT & WACC

Equity Analysis

Price:

Current Trading Price	\$98.82
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Shares Outstanding:

Shares O/S	1,173,692,873.74
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Cost Breakdown:

10-Year U.S. Treasury	1.0%
Market Risk Premium	9.9%
5Yr Levered Beta	0.81
2Yr Levered Beta	
Manual Beta	0.77

Cost of Equity	1.0%
Total Weight	\$115,984,329,783.0
Total Value	\$1,159,843.30



Exhibit 6: Sensitivity Analysis

Terminal Growth Total Return Sensitivity (%)

		WACC				
		7.1%	7.6%	8.1%	8.6%	9.1%
Terminal Growth	1.3%	42.3%	17.5%	(3.7%)	(22.0%)	(37.9%)
	1.8%	64.8%	36.0%	11.8%	(8.9%)	(26.7%)
	2.3%	92.0%	58.0%	29.9%	6.2%	(14.0%)
	2.8%	125.3%	84.5%	51.4%	23.9%	0.8%
	3.3%	167.3%	117.1%	77.3%	44.9%	18.1%

Exit Multiple Total Return Sensitivity (%)

		WACC				
		7.1%	7.6%	8.1%	8.6%	9.1%
Exit Multiple	8.5x	66.2%	58.2%	50.4%	42.8%	35.5%
	9.0x	81.0%	72.6%	64.4%	56.4%	48.7%
	9.5x	95.8%	87.0%	78.4%	70.1%	62.0%
	10.0x	110.7%	101.4%	92.4%	83.7%	75.2%
	10.5x	125.5%	115.8%	106.4%	97.3%	88.5%



Exhibit 7: Bull Gordon Growth Method

PV of Forecast Period	8,313
<i>% of Enterprise Value</i>	22.9%
<u>Terminal Value</u>	
Terminal Year UFCF	2,565
Perpetuity Growth Rate	2.3%
Terminal Value	44,764
PV of Terminal Value	28,039
<i>% of Enterprise Value</i>	77.1%
Enterprise Value	36,352
Less: Net Debt	(18,212)
Equity Value	18,140
Fully Diluted Shares Outstanding	117
Implied Share Price	\$154.56
Current Share Price	\$98.82
Implied Margin of Safety	56.4%

Exhibit 8: Bull Terminal Multiple Method

Cumulative PV of Free Cash Flow	8,313
<i>% of Enterprise Value</i>	17.3%
<u>Terminal Value</u>	
Terminal Year EBITDA	6,661
EBITDA Multiple	9.5x
Terminal Value	63,276
PV of Terminal Value	39,635
<i>% of Enterprise Value</i>	82.7%
Enterprise Value	47,948
Less: Net Debt	(18,212)
Equity Value	29,736
Fully Diluted Shares Outstanding	117
Implied Share Price	\$253.35
Current Share Price	\$98.82
Implied Margin of Safety	156.4%

Exhibit 9: Bull Sensitivity Analysis

Terminal Growth Share Price Sensitivity (\$)

Terminal Growth	WACC				
	7.1%	7.6%	8.1%	8.6%	9.1%
1.3%	168.10	140.91	117.73	97.74	80.33
1.8%	192.79	161.23	134.69	112.07	92.55
2.3%	222.56	185.36	154.56	128.64	106.55
2.8%	259.16	214.44	178.12	148.05	122.76
3.3%	305.25	250.20	206.55	171.09	141.72

Exit Multiple Share Price Sensitivity (\$)

Exit Multiple	WACC				
	7.1%	7.6%	8.1%	8.6%	9.1%
8.5x	237.44	227.47	217.81	208.44	199.37
9.0x	256.24	245.75	235.58	225.73	216.18
9.5x	275.03	264.02	253.35	243.02	233.00
10.0x	293.82	282.30	271.13	260.31	249.82
10.5x	312.62	300.57	288.90	277.60	266.64



Exhibit 10: Bear Gordon Growth Method

PV of Forecast Period	7,776
<i>% of Enterprise Value</i>	24.9%
Terminal Value	
Terminal Year UFCF	2,145
Perpetuity Growth Rate	2.3%
Terminal Value	37,437
PV of Terminal Value	23,450
<i>% of Enterprise Value</i>	75.1%
Enterprise Value	31,226
Less: Net Debt	(18,212)
Equity Value	13,014
Fully Diluted Shares Outstanding	117
Implied Share Price	\$110.88
Current Share Price	\$98.82
Implied Margin of Safety	12.2%

Exhibit 11: Bear Terminal Multiple Method

Cumulative PV of Free Cash Flow	7,776
<i>% of Enterprise Value</i>	26.0%
Terminal Value	
Terminal Year EBITDA	3,727
EBITDA Multiple	9.5x
Terminal Value	35,406
PV of Terminal Value	22,178
<i>% of Enterprise Value</i>	74.0%
Enterprise Value	29,954
Less: Net Debt	(18,212)
Equity Value	11,742
Fully Diluted Shares Outstanding	117
Implied Share Price	\$100.04
Current Share Price	\$98.82
Implied Margin of Safety	1.2%

Exhibit 12: Bear Sensitivity Analysis

Terminal Growth Share Price Sensitivity (\$)

		WACC				
		7.1%	7.6%	8.1%	8.6%	9.1%
Terminal Growth	1.3%	122.32	99.52	80.08	63.30	48.69
	1.8%	142.97	116.53	94.27	75.29	58.91
	2.3%	167.87	136.70	110.88	89.15	70.62
	2.8%	198.49	161.03	130.59	105.38	84.17
	3.3%	237.03	190.93	154.36	124.65	100.03

Exit Multiple Share Price Sensitivity (\$)

		WACC				
		7.1%	7.6%	8.1%	8.6%	9.1%
Exit Multiple	8.5x	91.90	85.93	80.15	74.54	69.11
	9.0x	102.41	96.16	90.10	84.22	78.52
	9.5x	112.93	106.39	100.04	93.89	87.93
	10.0x	123.45	116.61	109.99	103.56	97.34
	10.5x	133.96	126.84	119.93	113.24	106.75