Starbucks Corporation

Long Analyst Report

Student Managed Fund

---Graduate Team

Yuqi Han & Tao Feng

Starbucks Corp (NASDAQ:SBUX)

Sector: Consumer Discretionary

Current Price	Intrinsic Value	52-Week High	52-Week Low	P/E	Market Cap	Recommendation
$ 57.51	$ 69	$ 61.43	$ 50.84	29.49	83.82 B	BUY

Exhibit 1: SBUX vs Sector vs S&P 500 Performance

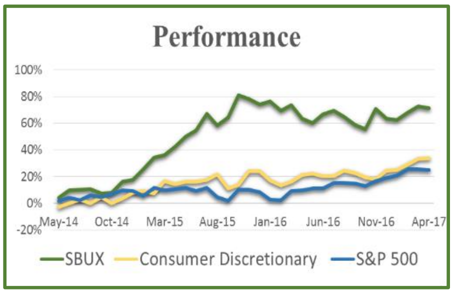


Exhibit 2: Brands under Starbucks

Exhibit 3: Stores as of Oct 2, 2016

Regions	Stores open as of Oct 2, 2016
Americas	
US	7880
Canada	1035
Brazil	104
Total Americas	9019
China/Asia Pacific	
China	1272
Japan	1140
Thailand	273
Singapore	126
Total CAP	2811
EMEA	
UK	366
France	74

EXECUTIVE SUMMARY

- **Recommendation**

We issue a BUY recommendation on Starbucks Corp, based on estimated intrinsic value of $69, a 20% of safety margin over closing price of $57.51 on April 14th 2017.

- **Investment thesis**

1) Strong Growth Potential: Company intends to grow store portfolio in 2017 by 2100 net opening stores globally and expand its footprints to more regions.
2) Technology-Initiative Strategy: Mobile Order and Pay (MOP) will stimulate more purchasing activities and elevate customer experience.
3) Creation of More Customer Occasions: Starbuck launched reserve coffee bars to target premium customers and also provides a wider range of food choices, in terms of quality and taste, to satisfy different customers' preferences to attract more traffic and visits.

BUSINESS DESCRIPTION

Starbucks Corporation is a specialty coffee maker, headquartered in Seattle, United States of America. It operates coffee store and roasts, markets and retails whole bean coffee products. It also provides tea and beverages under various brands not only Starbucks Coffee, but also Teavana, Tazo, Seattle Best Coffee etc. In addition, it offers foods and snacks. It sells packaged coffee products, such as whole coffee bean, ground coffee as well as single K-cup, instant coffee products and ready-to-drink coffee products through various channels.

Starbucks has more than 25,000 stores worldwide, with around half of its operated stores and half of licensed stores. The biggest market is Americas, including U.S., Canada, Brazil and Puerto Rico. More than 60% of the revenue come from Americas market. It also owns stores in EMEA and China/Asia Pacific (CAP) regions, with EMEA of around 7% of the total revenue and CAP of 12% of the total revenue.

Besides the revenue stream coming from the stores, Starbucks also generate revenue through Channel Development segment. It offers premium Tazo teas, whole bean and ground coffee, Starbucks and Tazo single served products; a variety of ready-to-drink products, such as Doubleshot Espresso drinks, Frappuccino drinks and products under other brands, through different channels, including supermarkets, grocery stores, convenience stores and U.S. food services accounts. Starbucks has a joint venture with Pepsi-Cola

Exhibit 3: Continued

Switzerlands	56
Austria	17
Netherlands	10
Germany	
Total EMEA	523
All Other Segments	
Teavana	355
Evolution Fresh (closed in 2017)	2
Starbucks Reserve Roastery &Tasting Rooms	1
Total	358
Total Company-Operated	**12711**

Exhibit 4: US Real Disposable Personal Income

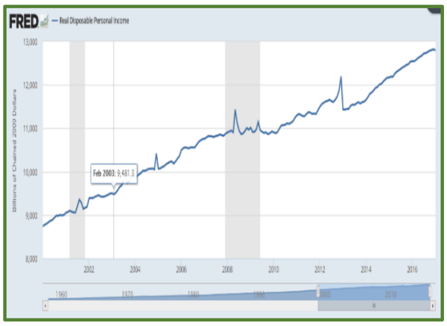


Exhibit 5: US Personal Consumption Expenditure/GDP

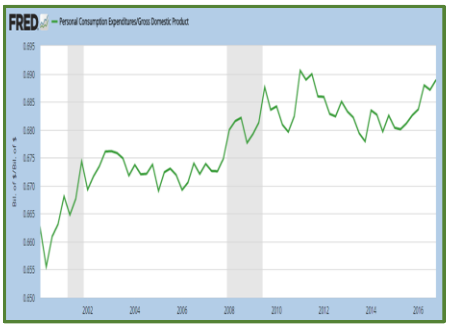
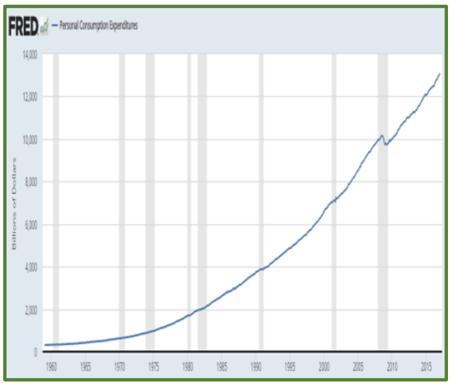


Exhibit 6: US Personal Consumption Expenditure



Company, named North American Coffee Partnership. The network benefits Starbucks to manufacture and distribute ready-to-drink products.

INDUSTRY OUTLOOK

Starbucks is in U.S. Restaurant sub-industry under Consumer Discretionary sector according to S&P Global Industry Classification Standard (GICS). Consumer discretionary sector is considered to be a leading indicator for U.S. economy. From 2009, U.S. Personal Consumption Expenditure kept increasing. Till October 2016, consumption has already amounted to 68.73% of U.S. GDP. Consumers have more disposable income in recent years. Statistics indicates an upward trend for the sector and Moody's held a positive outlook.

Starbucks, together with McDonald, Carvinal Corp and Yum! Brand dominate two-thirds of the Hotels and Restaurants and Leisure sub-industry. Starbucks and McDonald represent about 60% of U.S. Restaurant industry. U.S. restaurants can be classified into three categories 1) Fast food restaurant. They can be divided more specifically into areas, for instance, burger chains, beverage chains (Starbucks Corp) and pizza chains etc. 2) Full service restaurants. They provide wide range of food menu and offer table offering. The prices are more expensive than those in fast food restaurants. Applebee's Neighborhood Grill & Bar (operated by DineEquity, Inc), Oilve Garden (operated by Darden Restaurants, Inc) belong to this category. 3) Fast casual restaurant. Restaurant provides greater variety of food choices than fast food and the prices lie between those of full service and fast food. For example, Panera Bread and Chipotle fall into this group.

Benefiting from economy recovery and increase in consumer confidence and spending, U.S. Restaurant is on an upward trend. The revenue improvement come from not only domestic market, but also international market by the recent corporate international expansion strategy implemented by many companies to boost the performance. In general, besides intensive international expansion through either organic growth or M&A, U.S. restaurants also tend to employ technology to enhance customer satisfaction. However, the performance matrices are mixed. There are still many restaurants experiencing decline in comparable store sales and traffic. Food safety and health issues have been considered a big issue. McDonald and Yum! Brands suffered a lot in China due to the expired food supply in 2014.

INVESTMENT SUMMARY

Business Model

As the largest beverage chain in the Unites States, Starbucks has its unique business model to operate the giant corporation.

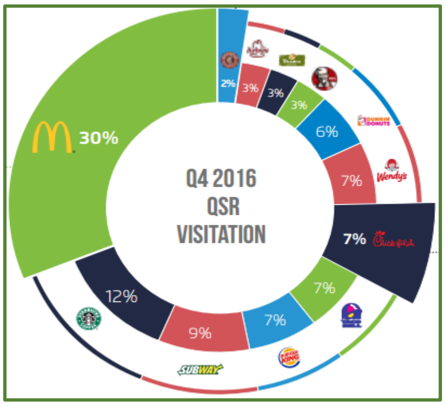
- **SWOT Analysis**

➢ **Strengths**

Strong operation management

Starbucks CEO Howard Schultz spent his life time in establishing his enterprise. He has enlarged company map across the world and has more than

Exhibit 7: 2016 Q4 Share of Foot Traffic



(Source: xAd)

Exhibit 8: Comparable Store Sales

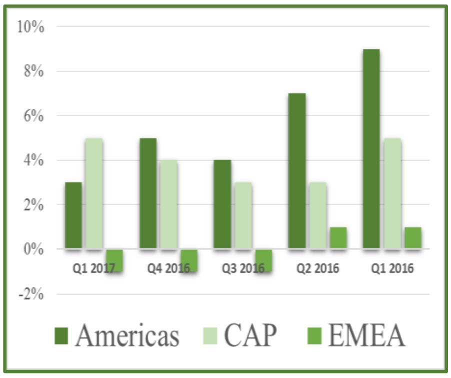


Exhibit 9: Change in Ticket

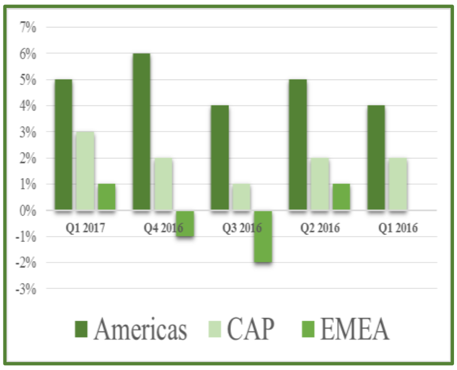
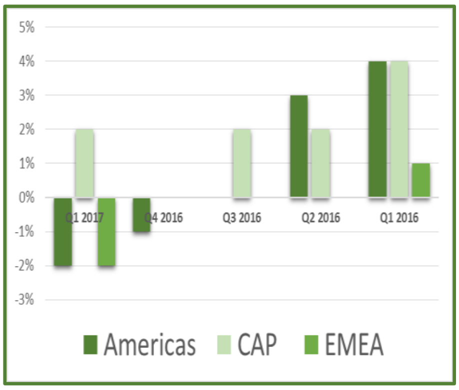


Exhibit 10: Change in Transactions



12000 company-operated stores till now. According to the latest annual report, net revenue in fiscal year 2016 grew 11% to 21.3 billion dollars and consolidated operating income increased to 16% to 4.2 billion dollars. As projected by itself, the revenue growth in fiscal year 2017 will be 8% to 10%.

Large customer base

Starbucks possesses a large customer base across the world. Its locations which have been carefully chosen attract lots of traffic. Instead of expanding regular store, it also focuses on targeting specific customers by opening high end stores, such as Starbucks Reserve Roastery and Tasting Rooms. In order to improve customer satisfaction and convenience, it also starts to expand Drive Through stores.

- **Weaknesses**

Food issues

To U.S. restaurant, food safety issue is a common concern. Before serving food for customers, baristas need to check with customers whether they have food allergies. Starbucks is also vulnerable to food supply. They are responsible for keeping food safe for every item sold.

- **Opportunities**

Global expansion

Starbucks achieves global expansion mainly through opening new stores and cooperates with licensed stores. As of October 2016, the announcement date of annual report, Starbucks has almost 1300 company-owned stores in China and more than 2800 stores in CAP areas. Benefiting from the high popularity and enthusiasm for the products, Starbucks is very likely to achieve high growth rate in CAP areas.

Technology Initiative

In order to improve the customer satisfaction, Starbucks initiated Mobile Order and Pay to reduce customer waiting time especially in rush hour. Mobile transactions have accounted for one quarter of the total transactions in U.S. and 6% of global transactions in Q4 2016. Even though recent same store sales in Q1 2017 declined to 3% in US, explained by CEO that MOP transferred the queue from inside store to online purchase so that customers still had to wait somehow, the initiative of technology is still a way to boost performance if management can address the current problem. Now in China, Starbucks has partnership with the biggest social media platform, WeChat, enabling mobile payment an easy and fast way to purchase coffee.

- **Threats**

More alternative beverages and strong competition

Customers' preference swift all the time. More and more boutique and local brands and retailer form strong competition to Starbucks. For example, instead of waiting long line for a cup of coffee, customers prefer to change another coffee shop with similar price and taste to save time. In addition,

Exhibit 11: Revenue and Growth

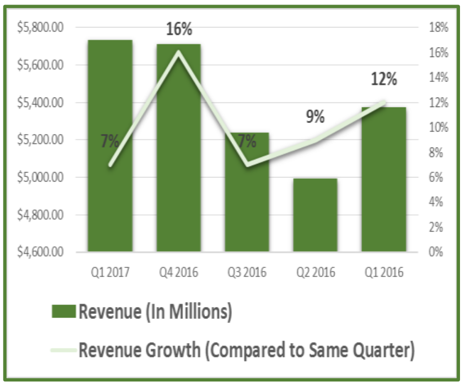


Exhibit 12: Earning Per Share (EPS)

Exhibit 13: Operating Income Compared to Same Quarter

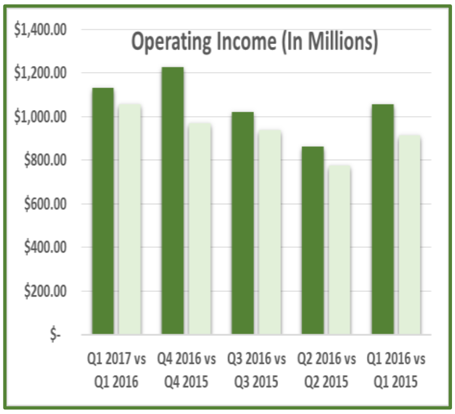
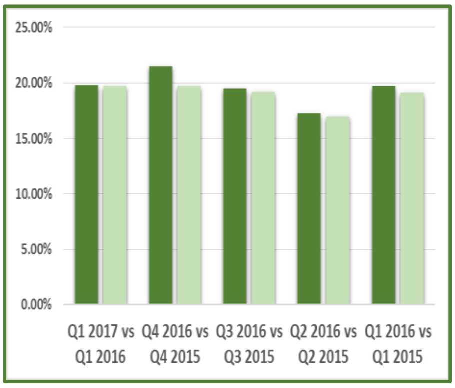


Exhibit 14: Operating Margin Compared to the Same Quarter



people have arose the awareness of healthy eating. More of them prefer to buy fresh juice, low fat beverages rather than coffee drink with milk. However, this will not pose a big threat to Starbucks because coffee is kind of necessities to customers nowadays.

Quality and availability of supply for Arabica Coffee beans

Supply for Starbucks comes from different regions. Stability of supply of high quality Arabica coffee beans is crucial to Starbucks. Arabica coffee beans are from Africa, Indonesia, Central and South America. Supply from those markets enable the menu complete. Shortage from certain markets could affect the customer choice and product prices

Competitive Strategy and Plan

Grow the store portfolio; double store in China

Starbucks is always engaging in expanding its store portfolio worldwide. According to Starbucks views ahead, it set its goal of 2100 net new store globally. In addition, in November 2016, Howard Schultz named Chinese CEO to take care of daily management in China market and planned to double the stores to 5000 from the existing 2300 stores in next 5 years. In India, Starbucks also cooperates with Tata Group to build Teavana brand, a company which was acquired by Starbucks in 2012, aiming to take advantage the huge market opportunities for tea product. Besides introducing Teavana tea bars in Starbucks stores, company also intends to launch standalone Teavana stores.

Company estimated the consolidated revenue growth rate to be 8% when compared to 53 -weeks in fiscal year 2016 and to be 10% when exclude the extra week. They expect to achieve same store sales growth rate of mid-single digit number in fiscal year 2017.

Create more customer occasions.

Apart from expanding the regular stores, Starbucks also endeavors to create more occasions to attract the traffic and improve customer experience. Till now, they have about 1000 reserve coffee bars in Starbucks stores. They also opened one Starbucks Reserve Roastery and Tasting Rooms in New York City and plans to open another one in Shanghai in 2017 and third one in Japan in 2018. Their efforts to open the premium stores helps to target high end customers and elevate experience.

In addition, Starbucks keeps developing the variety and taste of food menu. For instance, they initiated Sous Vide egg bitesn to the breakfast menu, which has less fat and satisfy customers' healthy preference.

Cut non-coffee and tea stores and focus on its core business

Starbuck acquired Evolution Fresh in 2011. Since then, it had been expanding standalone fresh juice stores in America. However, in recent months, it decided to close the last two standalone locations and focus on its ready-to-drink product. Customers can still purchase bottled drinks from Evaluation

Exhibit 15: Wine Product in Starbucks Evening Program

Exhibit 16: Revenue Segments

Net revenue (In Millions)	1-Jan-17	27-Dec-15
Company-operated stores	$ 4,469.30	$ 4,210.60
Licensed stores	$ 602.30	$ 540.60
CPG, foodservice and other	$ 661.20	$ 622.30

Exhibit 17: Return on Equity

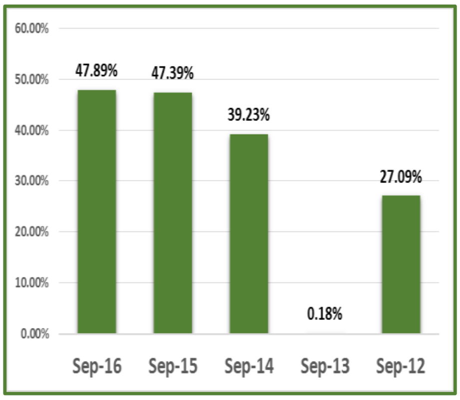
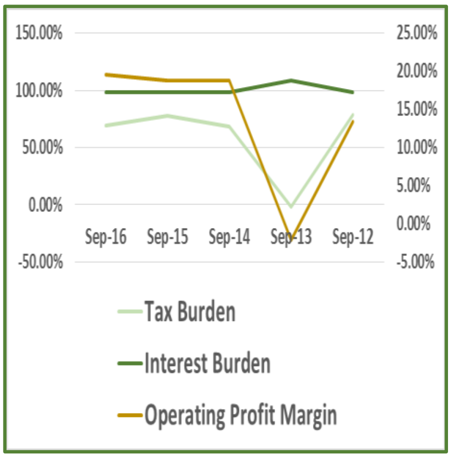


Exhibit 18: Tax Burden, Interest Burden and Operating Margin



Fresh. Cutting stores indicates Starbucks intends to save the energy on store management for the non-coffee and tea line and focus more on its core business. In addition, early in January 2017, Starbucks stopped serving bear and wine in Evening program in more than 400 stores in United States. They relocated the services into Roastary store to target the right customer and create the biggest synergy effect.

Loyalty program remains a boost for sales

Even though in last year, the revamped loyalty program hammered the performance, the spend-based program is good for customers who spend more on one product compared to that under transaction-based program. On one hand, customers have incentive to purchase more for more rewards, a boost for sales. On the other hand, the revenue will be recognized only when the products are redeemed by rewards. Therefore the revenue could be higher in the future period.

Channel development is a strong driver for performance

Customer Packaged Goods (CPG) is a segment for revenue stream. In US, Starbucks has a joint venture with Pepsi-Cola Company, named North American Coffee Partnership. The network benefit Starbucks to manufacture and distribute ready-to-drink products. Starbucks also operates with local companies, for example, in China Tingyi Holding Corp to develop local channels. The availability of ready-to-drink beverage provides convenience for customers whose access to store is limited by locations.

Financial Analysis

- **DuPont Analysis**

We looked through Return on Equity (ROE) in the past five year and it is not difficult to spot that ROE took on significant upward trend. Till the end of fiscal year in 2016, return to shareholder was up to 47.89%. The reason for extreme data in 2013 is because Starbucks paid compensation to Kraft Company due to early termination of contract. Starbucks claimed that Kraft did not make their best to sell Starbucks packaged products, but still willing to pay dispute fee and they were very confident about their cash flows. This can be proved by the quick recovery of the income data in 2014, even higher than that in 2012.

However, returns in 2015 and 2016 are close. Tax burden is one of the reasons to blame. Effective tax rate increased from 29% to 32%. Asset turnover was slightly lower than that in 2015, meaning that Starbucks was less efficient in generating revenue. A major cause could be the new open stores in different locations haven't achieved full capacity and it still allows some time to attract traffic and visits.

Benefiting from low debt level, Starbucks has minor interest burden and financial leverage also increased from 2015 to 2016. All data, except from the year of dispute in 2013, are stable and healthy.

Exhibit 19: Asset Turnover and Financial Leverage

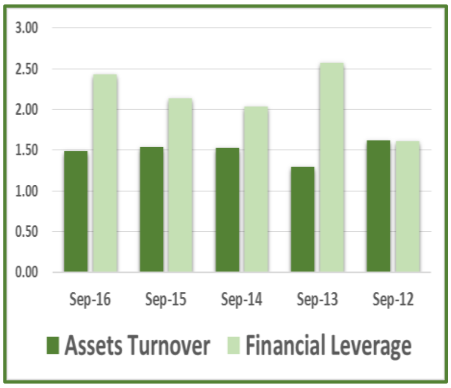


Exhibit 20: Liquidity Analysis

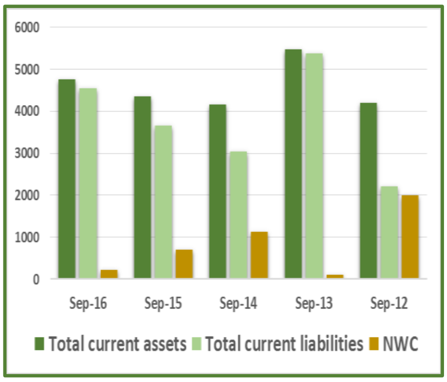


Exhibit 21: Cash flow generated from operations (In Millions)

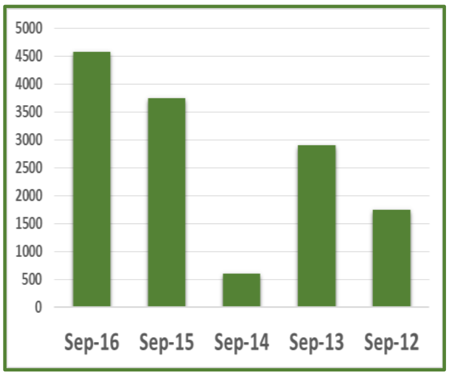
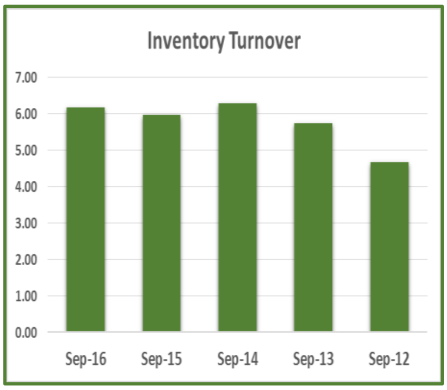


Exhibit 22: Inventory Analysis



- **Liquidity Analysis**

Current ratio and net working capital (NWC), two of which have the same elements, showed that Starbucks came across some problems in short term operation management. NMC declined significant from 699 to 213 million dollars. In 2016, it was the first time when Starbucks has short time debt since 2008. It concerns a little, but won't affect too much to performance because cash flows generated from operating activities increased dramatically from 2015 to 2016. (Pics)

- **Inventory Analysis**

Turnover ratio increased from 5.96 to 6.18 in 2016. The company was more efficient to turn inventory into sales, indicating a better inventory management. As learnt from an expert in Weather Company, a company acquired by IBM, the big data analytics of weather forecast has helped Starbucks to save tons of money. The temperature forecast helped them better arrange inventory in terms of hot and cold drinks preparation.

Valuation

- **Discounted Cash Flow Model**

Our DCF assumptions include a short-term revenue growth rate of 9.98% (10%), a terminal free cash flow growth rate of 3.0% (perpetuity growth rate of 3.0%) , and a WACC (weighted average cost of capital) of 6.9%. After taking the consideration of the U.S. long-term GDP growth rate and the average of Starbucks' growth over the last 5 years, we decided to use 3% as our perpetuity growth rate. Another reason for using a slightly higher growth rate as 3% is that Starbucks is expanding its business in emerging market, like China. Our WACC of 6.9% was found by using the weighted average cost of Starbucks' Debt and Equity. The cost of debt getting from Moody's 10 year Corp yield curve is 4.62%, while the cost of equity calculated from CAPM is 8.53%. Combine those two costs with D/E ratio of 29%, we calculated WACC to be 6.9%.

The value of the stock we got from DCF model is $69.82. Since it is the most theoretically sound valuation model, we assume $69.82 to be Starbuck's intrinsic (fair) value. Our full DCF model, including a sensitivity analysis, can be found in Appendix.

Terminal Year Free Cash Flow	$ 4,915
WACC	6.90%
Implied Perpetuity Growth Rate	3%
Terminal Value	$129,792
PV of Cash Flows	$ 10,476
PV of Terminal Value	$ 99,387
Enterprise Value	$ 109,863
Less: Total Debt	$ 8109.2
Implied Equity Value	$ 101,753
Fully Diluted Shares Outstanding	$ 1457.4
Implied Share Price	**$ 69.84**

Peer Group Comparison

Exhibit 23: Relative Valuation

	SBUX	Dunkin Brands	McDonald's	Panera Bread	Industry Avg.*
Forward 12M P / E	23.6	20	19.5	34.7	24.45
Dividend Yield	1.55%	2.30%	2.81%	0.00%	1.67%
TTM EPS	1.95	$2.11	$5.44	$6.18	$3.92
Revn Grth (3Yr Avg)	12.80%	5.10%	-4.30%	5.40%	4.75%
Net Income Growth	22.13%	86.60%	3.49%	0.00%	28.06%
Operating Margin	19.60%	50.00%	31.50%	8.60%	27.43%
Market Cap	84.6B	4.9B	96.81b	7.1B	48.4B
Revenue TTM	21.31B	0.89B	24.62B	2.80B	12.4B
Price /Sales	4.00	5.90	4.60	2.60	4.28

Starbucks is the second largest company in U.S. Restaurant industry, following McDonald's Corp. Dunkin' Brands Group Inc and Panera Bread Co also serve coffee and food products, but they have lower market capitalization. Industry Average only includes above listed companies.

Exhibit 24: Change in Foot Traffic from Q3 to Q4 2016

(Source: xAd)

Exhibit 25: Risk Axis

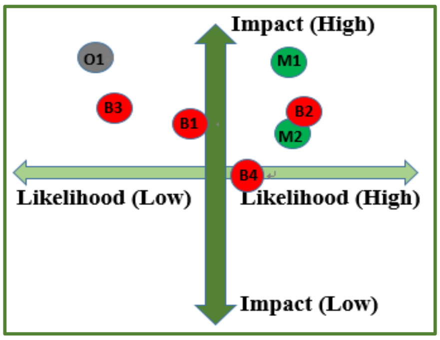
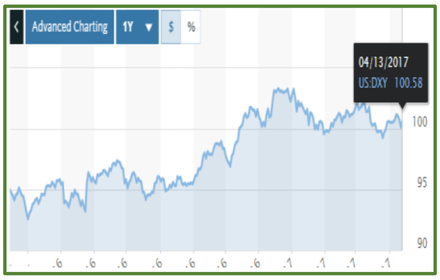


Exhibit 26: U.S. Dollar Index



INVESTMENT RISKS

- **Market risk**

Economic environment change (M1)

U.S. restaurant industry is highly dependent on customer spending. Nowadays, U.S. economy is in recovery, however, people are uncertain about policies under Trump Administration. Economy is likely to turn down again due to some unfavorable policies. If it happens, consumer disposable income will be affected, hurting Starbucks performance to a large extent.

Headwind of U.S. dollar spot rate (M2)

Recent interest rate hikes drive up US dollar index. One of Starbucks strategy is to expand global market. However, U.S. dollar strength has adverse influence on revenue recognition for Starbucks. In addition, there is consensus in the market that Federal Reserve may raise interest rate three more times in year 2017. China market is a main revenue growth driver, but U.S. dollar appreciation to Chinese Renminbi will hurt the income statement though China is intentionally trying to stabilize Chinese currency.

- **Business risk**

Leadership change (B1)

Starbucks former CEO Howard Schultz stepped back from the position to executive chairman of the company and former President and Chief Operating Officer Kevin Johnson took over the CEO position. The change will not affect the business too much since Howard will still be involving with business operation and strategies. However, no one is able to guarantee how the new CEO will lead Starbucks. His position took effective at the beginning of April 2017. We are looking forward to seeing how he will carry the good tradition and combine his own management style to Starbucks.

Exhibit 27: Coffee C Future Price

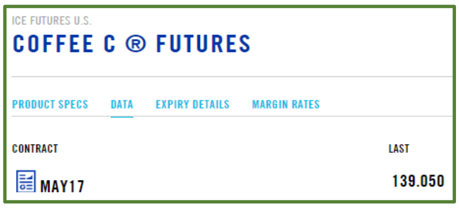


Exhibit 27: Cost of Goods Sold

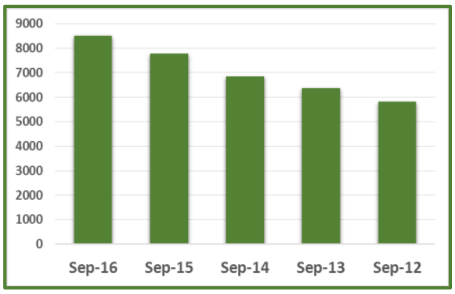
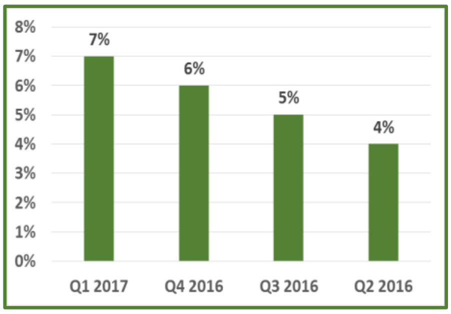


Exhibit 28: U.S Company-Operated Mobile Transactions



Comparable sales below expectation (B2)

Though company is engaging in international expansion, U.S. is still the biggest segment in generating revenue. Starbucks forecasted the comps growth rate at around 5%, however, the 3% comps growth rate fell out of analysts' expectation. Looking back, the comps since Q3 2016 were not satisfactory at all earnings announcement. There is a possibility that management will fail to achieve its target.

Increase of cost of Arabica coffee (B3)

There is no doubt that coffee beans are the primary materials for Starbucks. They also pay close attention to the quality of Arabica coffee beans. The cost of Arabica coffee bean is linked to 'C' price, which similar to a base price for coffee, and the price is subject to fluctuation, especially when coffee is a tradable commodity in future market. Even though Starbucks keeps hedging and locking the price, the potential general upward trend will still elevate the cost of material.

Customers concern on potential hire of Refugee (B4)

Starbucks announced its intention to hire 10,000 refugee in the next five years, showing attitude against Present Trump's executive order barring immigrants from seven Muslim countries. Majority of people support Chairman's move, however, there are still a few customers showing concern, which could be a slight impact on performance.

- **Operational risk (O1)**

Technology initiative related risk

Mobile Order and Pay (MOP) contributes to 27% of U.S. company-operated transactions. However, the rapid technology initiative development pose a potential threat to customers' personal information, such as credit card information etc. Operational risk could involve the leakage of customer private information, a huge impact to Starbucks reputation. As more and more people order online, Starbucks should keep a close eye on cyber security.

Appendix A: Q1 FY 2017 Consolidated Income Statement

	Quarter Ended			Quarter Ended	
	Jan 1, 2017	**Dec 27, 2015**	**% Change**	**Jan 1, 2017**	**Dec 27, 2015**
Net revenues:				**As a % of total net revenues**	
Company-operated stores	4469.3	4210.6	6.1	78	78.4
Licensed stores	602.4	540.6	11.4	10.5	10.1
CPG, foodservice and other	661.2	622.3	6.3	11.5	11.6
Total net revenues	**5,732.90**	**5,373.50**	**6.7**	**100**	**100**
Cost of sales including occupancy costs	2,295.00	2,186.20	5	40	40.7
Store operating expenses	1,638.20	1,506.20	8.8	28.6	28
Other operating expenses	145.4	146.2	(0.5	2.5	2.7
Depreciation and amortization expenses	249.7	235.5	6	4.4	4.4
General and administrative expenses	356.4	305.5	16.7	6.2	5.7
Total operating expenses	4,684.70	4,379.60	7	81.7	81.5
Income from equity investees	84.4	64.1	31.7	1.5	1.2
Operating income	**1,132.60**	**1,058.00**	**7.1**	**19.8**	**19.7**
Interest income and other, net	24.1	8.1	197.5	0.4	0.2
Interest expense	(23.8	(16.5	44.2	(0.4	(0.3
Earnings before income taxes	1,132.90	1,049.60	7.9	19.8	19.5
Income tax expense	381.4	361.9	5.4	6.7	6.7
Net earnings including noncontrolling interests	751.5	687.7	9.3	13.1	12.8
Net earnings/(loss) attributable to noncontrolling interests	(0.3)	0.1	nm	—	—
Net earnings attributable to Starbucks	**751.8**	**687.6**	**9.3**	**13.1%**	**12.8%**
Net earnings per common share - diluted	**0.51**	**0.46**			
Weighted avg. shares outstanding - diluted	1,470.50	1,503.30			
Cash dividends declared per share	**0.25**	**0.20**			
Supplemental Ratios:					
Store operating expenses as a percentage of company-operated store revenues				36.7%	35.8%
Effective tax rate including noncontrolling interests				33.7%	34.5%

Appendix B: DuPont Analysis

	Sep-16	Sep-15	Sep-14	Sep-13	Sep-12
Return on Equity	47.89%	47.39%	39.23%	0.18%	27.09%
Tax Burden	68.88%	78.08%	68.54%	-2.26%	78.91%
Interest Burden	98.06%	98.06%	97.92%	108.92%	98.15%
Operating Profit Margin	19.57%	18.79%	18.73%	-2.18%	13.44%
Assets Turnover	1.4875	1.5397	1.5296	1.2930	1.6182
Financial Leverage	2.4354	2.1392	2.0396	2.5708	1.6087

Appendix C: Financial Ratios (In Millions except for per share data)

Liquidity Analysis	Sep-16	Sep-15	Sep-14	Sep-13	Sep-12
Total current assets	4760	4353	4169	5471	4200
Total current liabilities	4547	3654	3039	5377	2210
NWC	213	699	1130	94	1990
Inventory Analysis					
Cost of revenue	8511	7788	6859	6382	5813
Inventories	1378	1306	1091	1111	1242
Inventory Turnover	6.18	5.96	6.29	5.74	4.68
Profitability Analysis					
Revenue	21316	19163	16448	14892	13300
Operating income	4172	3601	3081	-325	1787
Net income	2818	2757	2068	8	1384
Operating Margin	19.57%	18.79%	18.73%	-2.18%	13.44%
Net Income Margin	13.22%	14.39%	12.57%	0.05%	10.41%
Earnings Per Share					
Basic	1.91	1.84	1.38	0.01	0.92
Diluted	1.9	1.82	1.35	0.01	0.9
Cash Flow					
Operating cash flow	4575	3749	608	2908	1750
Capital expenditure	-1440	-1304	-1161	-1151	-856
Free cash flow	3135	2445	-553	1757	894

Appendix D: Discounted cash flow Models

	Historical Period					Projection Period			
DCF Model	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**
Revenue and Margin ($millions)									
Revenue	$ 14,867	$ 16,448	$ 19,163	$ 21,316	$ 22,906	$ 25,191	$ 27,705	$ 30,470	$ 33,511
% growth	11.78%	10.63%	16.51%	11.24%	7.46%	9.98%	9.98%	9.98%	9.98%
COGS	$ 10,668	$ 11,497	$ 13,199	$ 14,576	$ 15,663	$ 17,226	$ 18,945	$ 20,835	$ 22,915
Gross Margin	$ 4,198	$ 4,951	$ 5,963	$ 6,740	$ 7,243	$ 7,965	$ 8,760	$ 9,635	$ 10,596
Gross Margin %	28.24%	30.10%	31.12%	31.62%	31.62%	31.62%	31.62%	31.62%	31.62%
Operating Expenses									
SG&A	937.9	991.3	1183.1	1360.6	1360.6	1360.6	1360.6	1360.6	1360.6
% margin	6.31%	6.03%	6.17%	6.38%	6.38%	6.38%	6.38%	6.38%	6.38%
R&D	0	0	0	0	0	0	0	0	0
% margin	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Other Operating Expenses	2964.5	437.1	522.4	545.4	545.4	545.4	545.4	546.4	547.4
Total Operating Expenses	3902.4	1428.4	1705.5	1906	1906	1906	1906	1907	1908
Free Cash Flow									
EBITDA	$ 330	$ 3,830	$ 4,535	$ 5,202	$ 5,703	$ 6,432	$ 7,074	$ 7,780	$ 8,557
% margin	2.22%	23.28%	23.66%	24.40%	24.90%	25.53%	25.53%	25.53%	25.53%
Depreciation & Amortization	$ 656	$ 748	$ 934	$ 1,030	$ 1,107	$ 1,217	$ 1,339	$ 1,472	$ 1,619
EBIT	$ (325)	$ 3,081	$ 3,601	$ 4,172	$ 4,685	$ 5,325	$ 5,856	$ 6,441	$ 7,083
% margin	-2.19%	18.73%	18.79%	19.57%	20.45%	21.14%	21.14%	21.14%	21.14%
Taxes	$ 806	$ 1,084	$ 1,123	$ 1,089	$ 1,223	$ 1,390	$ 1,529	$ 1,681	$ 1,849
% tax	-247.79%	35.20%	31.19%	26.11%	26.11%	26.11%	26.11%	26.11%	26.11%
NOPAT	$ (1,132)	$ 1,997	$ 2,478	$ 3,083	$ 3,462	$ 3,935	$ 4,327	$ 4,759	$ 5,234
Plus:Depreciation & Amortization	$ 656	$ 748	$ 934	$ 1,030	$ 1,030	$ 1,030	$ 1,030	$ 1,030	$ 1,030
Less: Change in Working Capital	-1895.7	1035.9	-807.1	-109.3	-109.3	-109.3	-109.3	-109.3	-109.3
Less: Capital Expenditures	-1151.2	-1160.9	-1303.7	-1440.3	-1597.9	-1673.6	-1673.6	-1673.6	-1673.6
Free Cash Flow	1757.1	-553.1	2445.4	*3134.8*	*2496.1*	$ 3,021	$ 4,278	$ 4,772	$ 4,915
Discount Factor						0.94	0.88	0.82	0.77
PV of Free Cash Flow						**$ 2,826.08**	**$ 3,743.53**	**$ 3,906.25**	**$ 3,763.72**

Terminal Value Calculation	
Terminal Year Free Cash Flow	$ 4,915
WACC	6.90%
Implied Perpetuity Growth Rate	3%
Terminal Value	$129,792
Implied Equity Value and Share Price	
PV of Cash Flows	$ 10,476
PV of Terminal Value	$ 99,387
Enterprise Value	$ 109,863
Less: Total Debt	$ 8109.2
Implied Equity Value	$ 101,753
Fully Diluted Shares Outstanding	1457.4
Implied Share Price	**$ 69.82**

Discounted Cash Flow		
	2010-2015	**2016-2020**
Avg Revenue growth	12.25%	10.00%
Avg EBITDA Margin	17.52%	15.00%
Avg Net Income growth	5.04%	5.00%
Cost of Debt (Moody's 10 Year Corp yield)		4.62%
Tax Rate		34.00%
Cost of Equity (CAPM)		8.53%
Average D/E ratio		29.73%
WACC		6.90%

Assumptions	
WACC	6.90%
ST Revenue Growth Rate	10.00%
Terminal FCF Growth Rate	3.00%

Sensitivity Analysis						
				WACC		
	$ 69.82	5.90%	6.40%	6.90%	7.40%	7.90%
Growth Rate	2.00%	$ 68.50	$ 60.90	$ 54.85	$ 49.93	$ 45.83
	2.50%	$ 79.09	$ 69.16	$ 61.48	$ 55.38	$ 50.40
	3.00%	$ 93.33	$ 79.85	$ 69.82	$ 62.07	$ 55.90
	3.50%	$ 113.51	$ 94.22	$ 80.61	$ 70.48	$ 62.66
	4.00%	$ 144.31	$ 114.59	$ 95.12	$ 81.37	$ 71.15

Appendix E: FY 2016 Income Statement

STARBUCKS CORP (SBUX) INCOME STATEMENT					
Fiscal year ends in September. USD in millions except per share data.	**Sep-16**	**Sep-15**	**Sep-14**	**Sep-13**	**Sep-12**
Revenue	21316	19163	16448	14892	13300
Cost of revenue	8511	7788	6859	6382	5813
Gross profit	12805	11375	9589	8510	7486
Operating expenses					
Sales, General and administrative	7425	6608	5630	5224	4719
Restructuring, merger and acquisition					
Other operating expenses	1208	1166	878	3611	980
Total operating expenses	8633	7774	6508	8835	5700
Operating income	4172	3601	3081	-325	1787
Interest Expense	81	70	64	28	33
Other income (expense)	108	372	143	124	305
Income before taxes	4199	3903	3160	-230	2059
Provision for income taxes	1380	1144	1092	-239	674
Net income from continuing operations	2819	2759	2068	9	1385
Other	-1	-2	0	0	-1
Net income	2818	2757	2068	8	1384
Net income available to common shareholders	2818	2757	2068	8	1384
Earnings per share					
Basic	1.91	1.84	1.38	0.01	0.92
Diluted	1.9	1.82	1.35	0.01	0.9
Weighted average shares outstanding					
Basic	1472	1496	1506	1499	1509
Diluted	1487	1513	1526	1525	1546
EBITDA	5310	4907	3972	454	2672

Appendix F: FY 2016 Balance Sheet

STARBUCKS CORP (SBUX) BALANCE SHEET					
Fiscal year ends in September. USD in millions except per share data.	**Sep-16**	**Sep-15**	**Sep-14**	**Sep-13**	**Sep-12**
Assets					
Current assets					
Cash					
Cash and cash equivalents	2129	1530	1708	2576	1189
Short-term investments	134	81	135	658	848
Total cash	2263	1611	1844	3234	2037
Receivables	769	719	631	561	486
Inventories	1378	1306	1091	1111	1242
Deferred income taxes		382	317	277	239
Prepaid expenses	350	334	286	288	196
Total current assets	4760	4353	4169	5471	4200
Non-current assets					
Property, plant and equipment					
Gross property, plant and equipment	10573	9642	8581	7782	6903
Accumulated Depreciation	-6040	-5554	-5062	-4582	-4244
Net property, plant and equipment	4534	4088	3519	3200	2659
Equity and other investments	1496	664	833	555	576
Goodwill	1720	1575	856	863	399
Intangible assets	516	520	274	275	144
Deferred income taxes	885	829	903	967	97
Other long-term assets	418	416	199	185	145
Total non-current assets	9569	8093	6584	6045	4020
Total assets	14330	12446	10753	11517	8219
Liabilities and stockholders' equity					
Liabilities					
Current liabilities					
Short-term debt	400				
Accounts payable	731	684	534	492	398
Taxes payable	368	259	272	125	138
Accrued liabilities	1266	1205	1003	3733	838
Deferred revenues			794	654	510
Other current liabilities	1782	1506	436	374	325
Total current liabilities	4547	3654	3039	5377	2210
Non-current liabilities					
Long-term debt	3202	2348	2048	1299	550
Deferred revenues					
Minority interest	7	2	2	2	6
Other long-term liabilities	690	625	392	358	345

Total non-current liabilities	3899	2975	2442	1659	900
Total liabilities	8446	6628	5481	7036	3110
Stockholders' equity					
Common stock	2	2	1	1	1
Additional paid-in capital	41	41	39	282	39
Retained earnings	5950	5975	5207	4130	5046
Accumulated other comprehensive income	-108	-199	25	67	23
Total stockholders' equity	5884	5818	5272	4480	5109
Total liabilities and stockholders' equity	14330	12446	10753	11517	8219

Appendix G: FY 2016 Cash Flow

STARBUCKS CORP (SBUX) Statement of CASH FLOW					
Fiscal year ends in September. USD in millions except per share data.	**Sep-16**	**Sep-15**	**Sep-14**	**Sep-13**	**Sep-12**
Cash Flows From Operating Activities					
Net income	2819	2759	2068	9	1385
Depreciation & amortization	1030	934	748	656	581
Investment/asset impairment charges					
Investments losses (gains)			-70		
Deferred income taxes	266	21	10	-1046	61
Stock based compensation	218	210	183	142	154
Accounts receivable	-56	-83	-80	-68	-90
Inventory	-68	-208	14	152	-273
Prepaid expenses		50	5	76	-20
Accounts payable	47	138	60	89	-105
Accrued liabilities		124	-2660	88	24
Income taxes payable		88	310		
Other working capital	429	170	141	140	61
Other non-cash items	-111	-454	-122	2671	-26
Cash Flows From Investing Activities					
Investments in property, plant, and equipment	-1440	-1304	-1161	-1151	-856
Property, plant, and equipment reductions					
Acquisitions, net		-284		-502	-129
Purchases of investments	-1586	-567	-1652	-786	-1749
Sales/Maturities of investments	778	628	2015	1040	1796
Other investing activities	25	7	-19	-27	-42
Net cash used for investing activities	-2223	-1520	-818	-1411	-974

Cash Flows From Financing Activities					
Debt issued	1254	848	748	750	
Debt repayment		-610		-35	
Common stock issued	161	192	140	247	237
Common stock repurchased	-1996	-1436	-759	-588	-549
Excess tax benefit from stock based compensation	123	132	114		
Dividend paid	-1178	-929	-783	-629	-513
Other financing activities	-114	-454	-84	147	80
Net cash provided by (used for) financing activities	-1750	-2256	-623	-108	-746
Effect of exchange rate changes	-4	-151	-34	-2	10
Net change in cash	599	-178	-867	1387	40
Cash at beginning of period	1530	1708	2576	1189	1148
Cash at end of period	2129	1530	1708	2576	1189
Debt issued	1254	848	748	750	
Free Cash Flow					
Operating cash flow	4575	3749	608	2908	1750
Capital expenditure	-1440	-1304	-1161	-1151	-856
Free cash flow	3135	2445	-553	1757	894

Appendix H: Historical Prices

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