

Starbucks Corporation (NASDAQ: SBUX)

Sector: Restaurant



Target Price	Current Price	52 Week High	52 Week Low	P/E	Market Cap.	Dividend Yield	Beta
\$63.47	\$54.02	\$64.87	\$50.84	27.3	\$78.0 B	1.85%	1.01

Business Description

Starbucks Corporation retails, roasts, and provides its own brand of specialty coffee. The Company operates retail locations worldwide and sells whole bean coffees through its sales group, direct response business, supermarkets, and on the world wide web. Starbucks also produces and sells bottled coffee drinks and a line of ice creams. They are the world's #1 specialty coffee retailer, Starbucks has more than 25,000 coffee shops in 75 countries. The outlets offer coffee drinks and food items, as well as roasted beans, coffee accessories, and teas. Starbucks operates more than 12,700 of its own shops, which are located mostly in the US, while licensees and operate roughly 12,375 units worldwide (including many locations in shopping centers and airports). In addition, Starbucks markets its coffee through grocery stores, food service customers, and licenses its brand for other food and beverage products.

Industry Trends

The coffee industry as a whole has enjoyed a healthy 4.6% compound annual growth rate in US Dollar sales since 2012. This growth has mainly been driven by the increase in popularity of single-cup brands and single-cup sales. In 2012 single-cup sales accounted for 21% of all coffee sales, but that figure is up to 41% today. The outlook for 2018 for the entirety of the US coffee market is less promising, analysts predict a slower 2% growth rate, but international growth projections are higher. The Chinese coffee market is expected to grow as much as 5% annually in the coming years as key coffee producers and distributors double down their investments in the region. Overall the market is seeing a shift towards on-the-go coffee sales as firms continue to cater to millennials' consumption habits. These sales are expected to grow at 3% annually.

Investment Thesis

Starbucks' expansion efforts into China represent significant growth potential for the company. Opening stores in China at a rate of one every 15 hours, Starbucks is quickly moving to gain market share in the largest consumer goods market in the world. This expansion is built upon Starbucks' already world famous brand. The coffee they provide and the upscale in-store experience they offer consumers are distinct competitive advantages for the business. As such, Starbucks is an organization positioned for continued growth and success in the long run.

Valuation Assumptions

WACC: 9.00%
Terminal FCF Growth Rate: 3.0%
Upside: 17.5%
Sources: Bloomberg, Annual reports

Key Financials

Current stock price: \$54.02
Intrinsic Value: \$63.47

Corporate Social Responsibility

ESG Disclosure Score: 32.06 (Industry Average: 13.88)
Percent Female on Board: 25.00% (Industry Average: 16.67%)
Percent Ind. Directors on Board: 83.33% (Industry Average: 83.33%)

5-Year Stock Performance



Competitive Analysis

Starbucks' main competitors include Dunkin Donuts, McDonald's, Burger King, and establishments owned by Yum Brands. Dunkin Donuts is the organization which competes most directly with Starbucks, as both companies are predominantly coffee restaurants. While McDonald's and Burger King's brand are more widely known throughout the world, Starbucks is the brand that first comes to mind when consumers think "coffee."

Competitive Advantages

Starbucks' main competitive advantage is their strong brand and the brand equity they have built among customers. Starbucks today is synonymous with an upscale coffee experience. It is a place that offers free wifi for customers to come drink coffee, get work done, and enjoy the true Italian coffee shop experience that inspired Howard Schultz to take over the company in 1987. Starbucks is able to offer a consistent experience to all guests due to the organization's no-franchisee policy and its strict licensee terms. Starbucks is the market leader in the specialty-café space.

Risks

Brand recognition is a major part of Starbucks' business model. Their idea of the third place and their premium brand are key drivers of growth. If their reputation were to be tarnished you would see growth both internationally and domestically slow. This would have major implications on the valuation of the business.

Report Prepared By:

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