



Why are we Bullish?



A photograph of a Starbucks coffee store at night. The storefront is dark with large glass windows and doors. The Starbucks logo is visible on the left. The text "STARBUCKS COFFEE" is illuminated above the entrance. The interior is visible through the glass, showing shelves of coffee products and a counter area. The text "700" is visible on the ceiling inside. The overall scene is lit with warm interior lights and cooler exterior lights.

Recent Brews

Organizational Culture & Structure

Capital Allocation

Interpretation of Financial Statements

Competitor Metrics

Moat Analysis

Growth Opportunities

Valuation



The Siren



The Wizard



The Titan



Recent Brews

Recent News

Labor Challenges

- Unionization
- Wage Increases
- Automation
- Attrition
 - 70% of hourly employees are new to Starbucks

Supply Challenges

- Product Concentration
- Coffee Inventory
 - 14-month price locked contract





Organizational Culture & Structure

Howard Schultz's Return

- **Leaked Memo**

- Highlighted Efficiencies vs. Experience
- La Marzocco Espresso machine
- Flavor Locked Packaging



Not Employees, But Partners



- Health Care
- Long-Term Incentives
- Continued Education
- Parental Leave
- Paid Time-off
- Commuter Assistance
- Partner Assistance – Financial Emergencies



Senior Officers



John Culver
*Group Pres. North
America & COO*



Kevin Johnson
Pres. & CEO



Leo Tsoi
CEO China

STARBUCKS

1912



CAPPUCCINO CAFFE

LATTE • ESPRESSO

Capital Allocation

Card & Bank

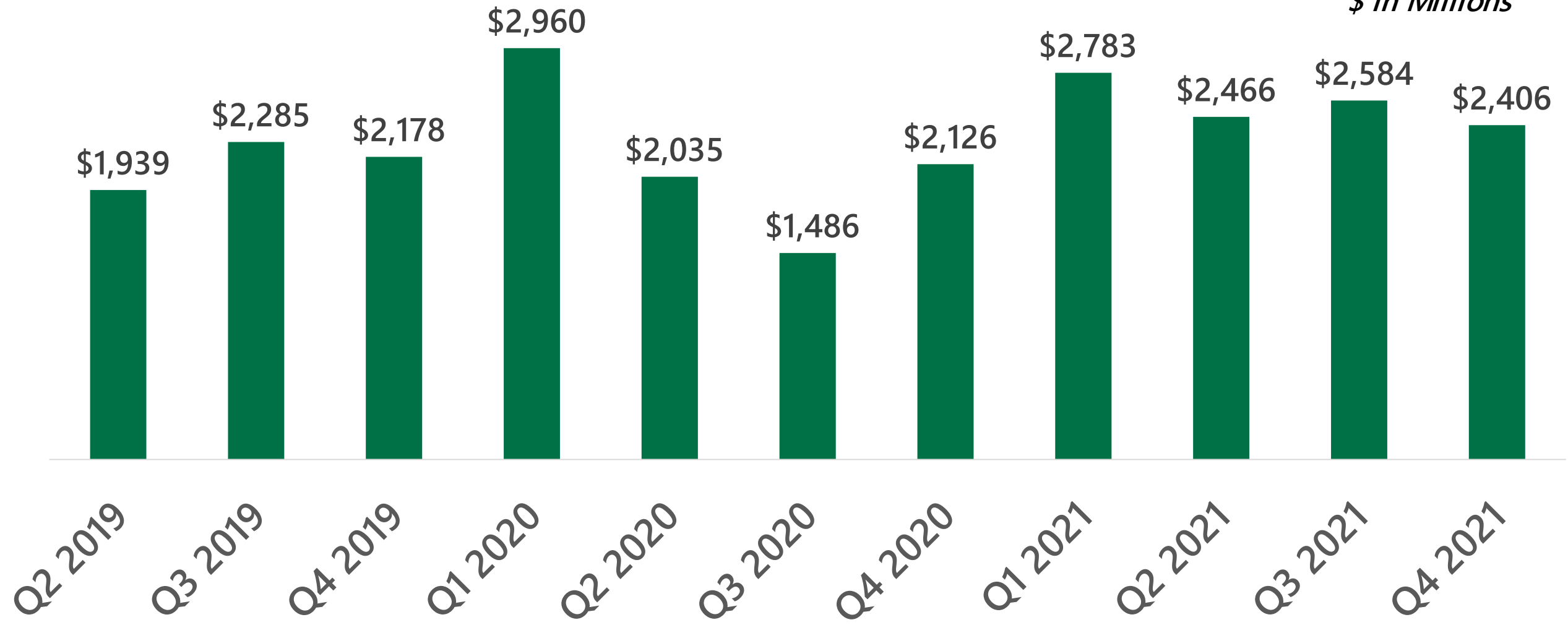
- \$3B loaded into SBUX gift cards
- Would be the 385th biggest bank
- Receives money upfront
- Liability only if used
- Mobile app
 - 25M US
 - 17.9M China



Card & Bank – *Total Dollars Loaded*



\$ in Millions



Capital Allocation – *Returning Shareholder Wealth*

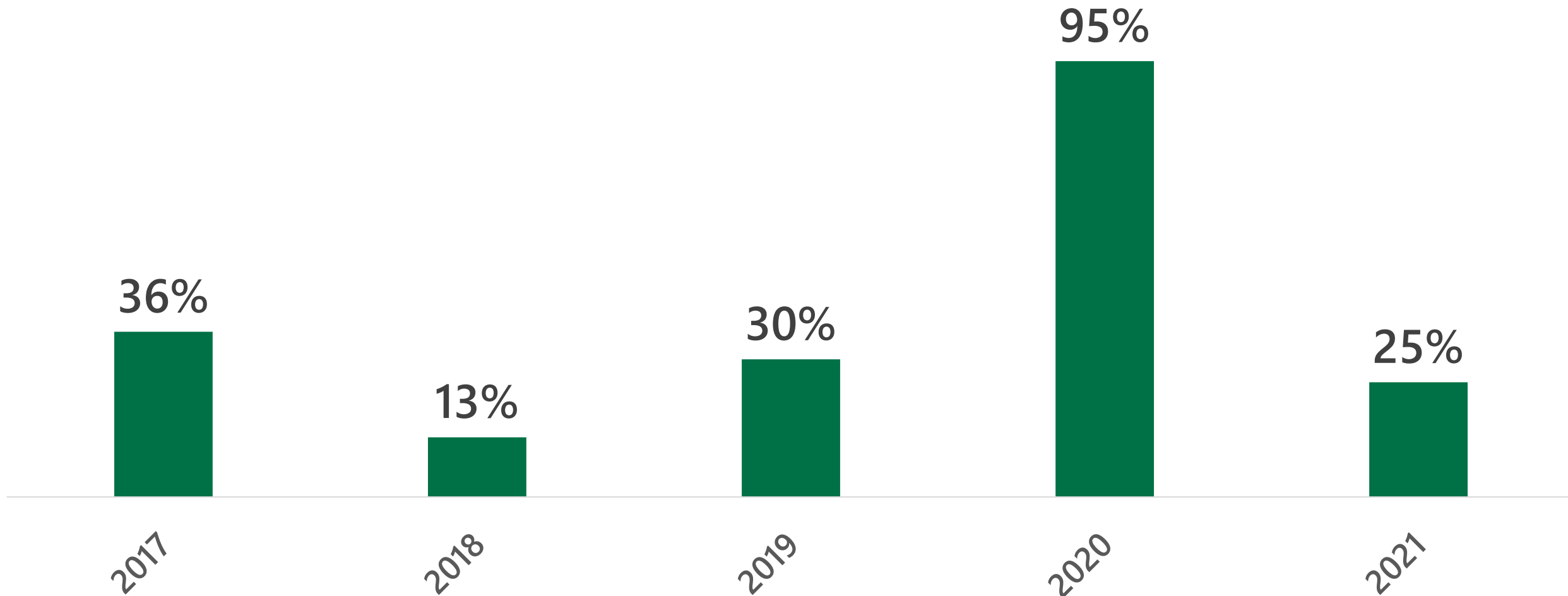
- 3-year \$20B buyback & dividend program
- 15% of the market cap
- 2/3 for repurchases
 - 10.2% of the market cap
- 1/3 for dividends
 - 5% of the market cap
 - Target 50% payout ratio



Cash Flow From Investing



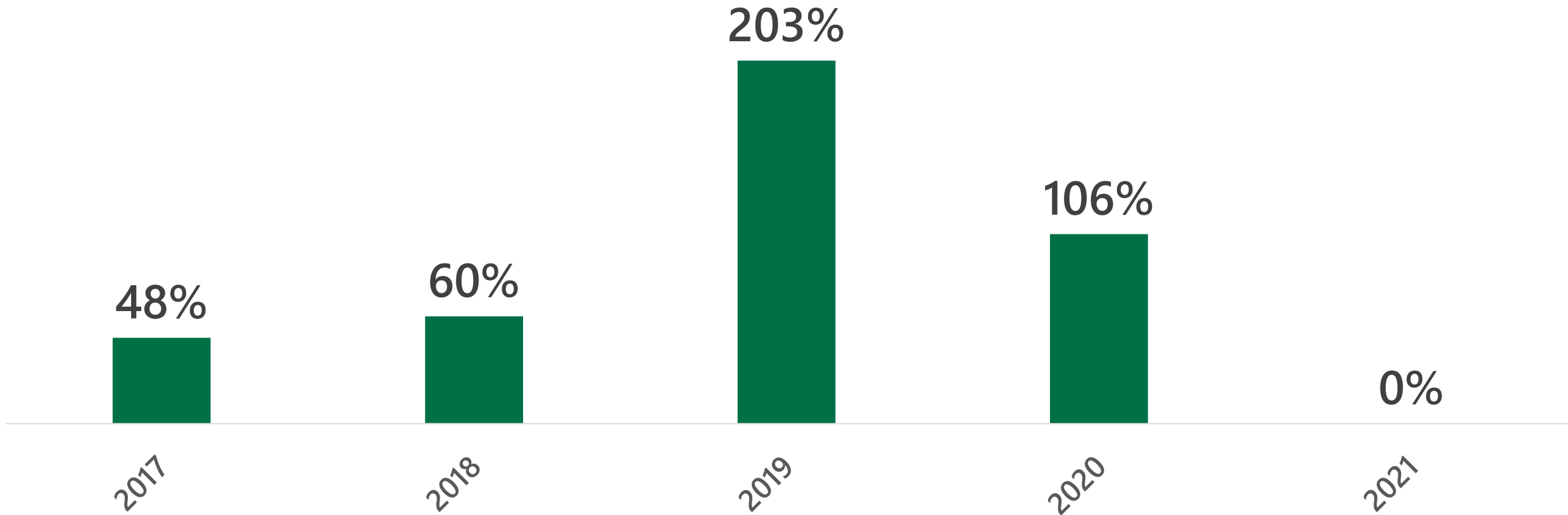
Purchase of PP&E as a % of Operating Cash Flow



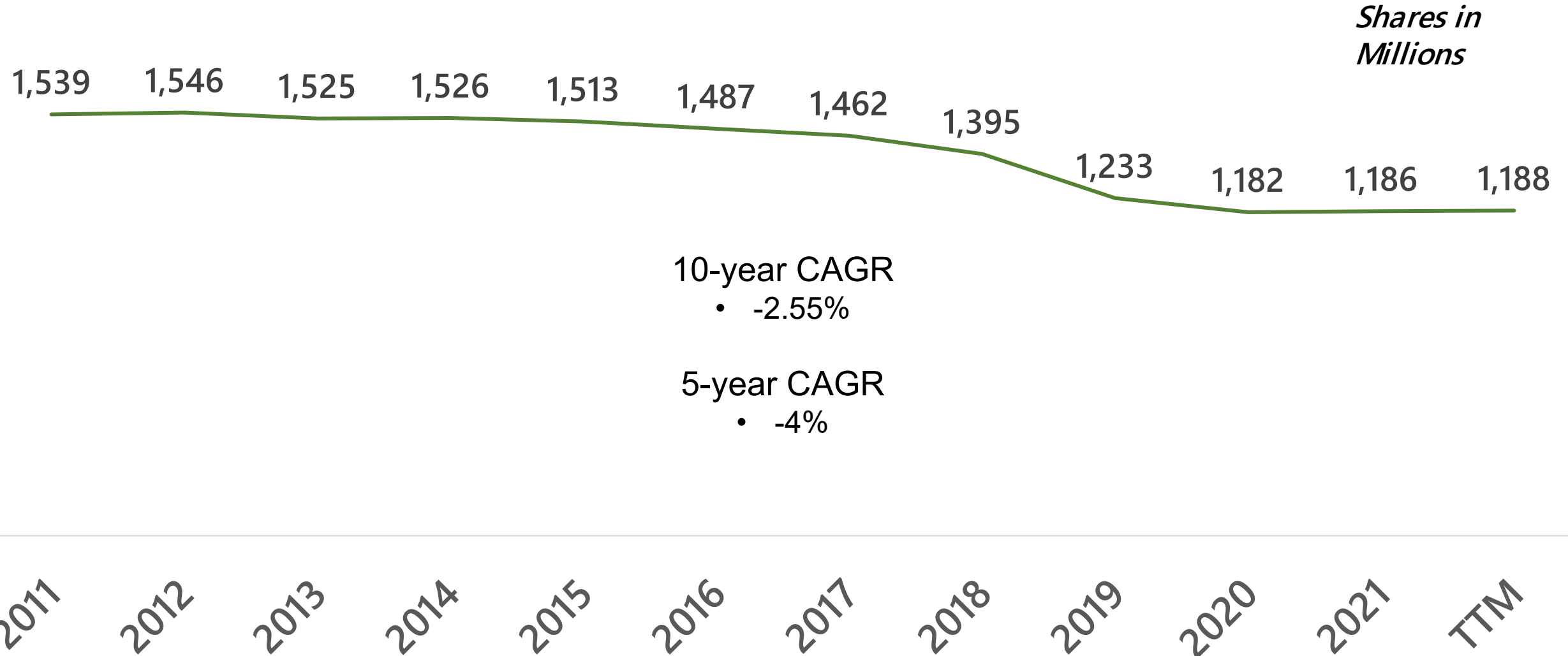
Cash Flow From Financing



Stock Repurchases as a % of Operating Cash Flow



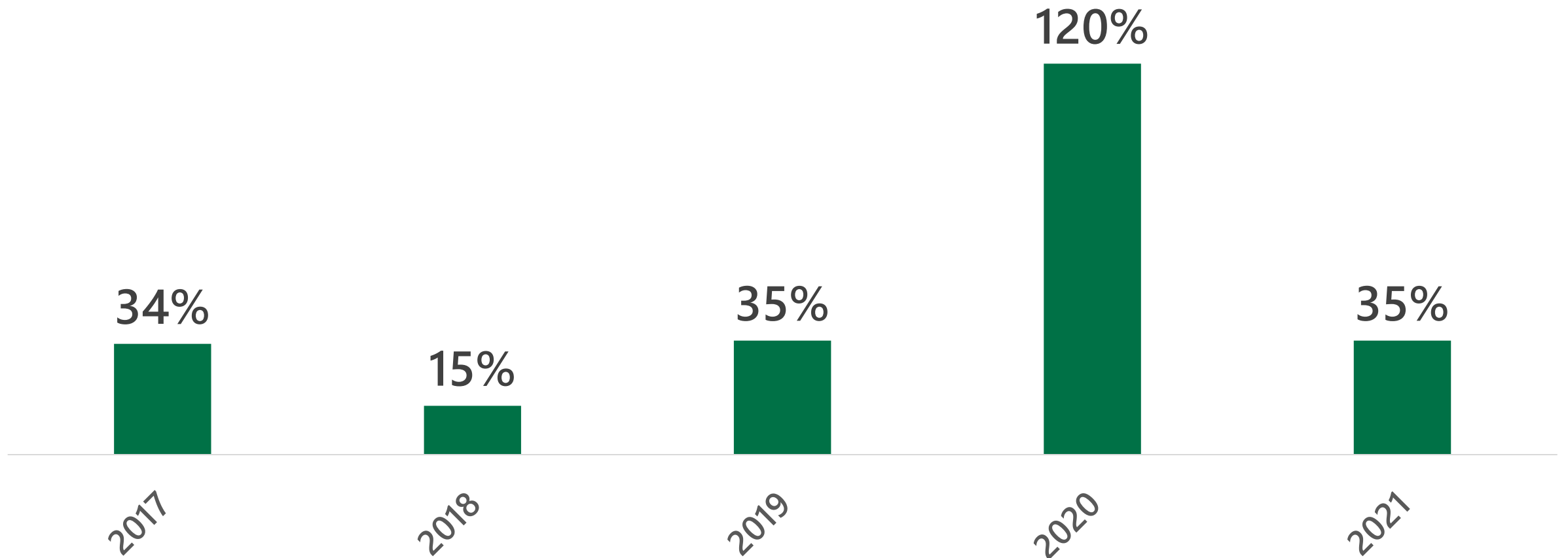
Shares Outstanding



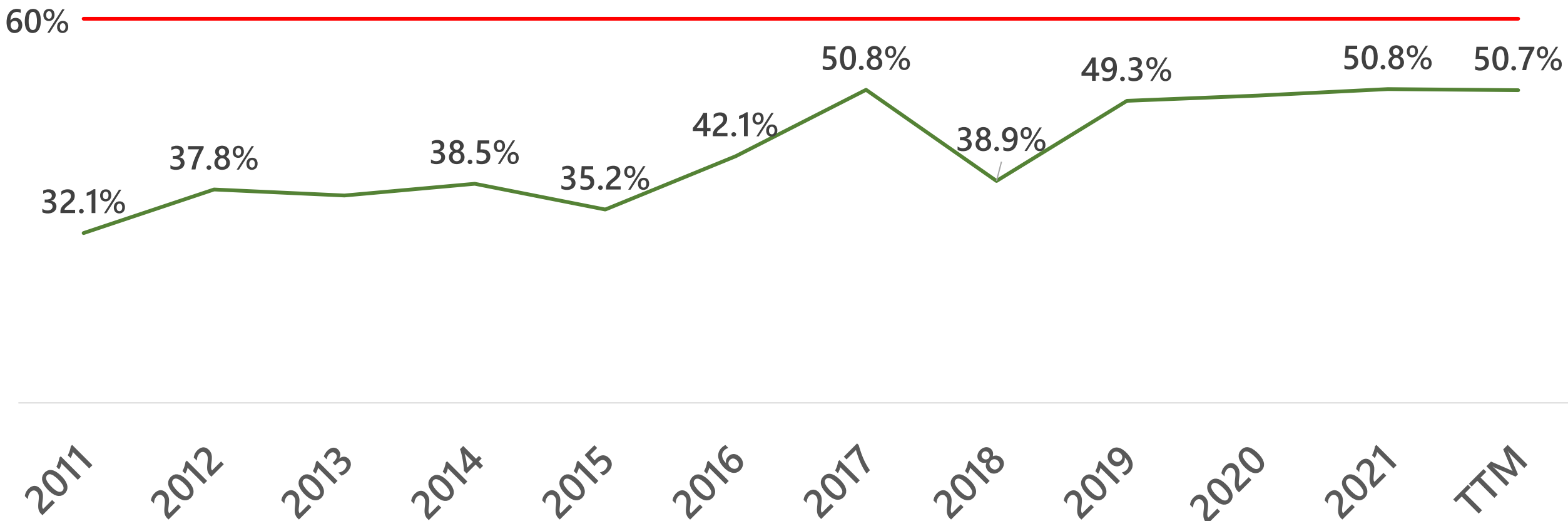
Cash Flow From Financing



Dividends as a % of Operating Cash Flow



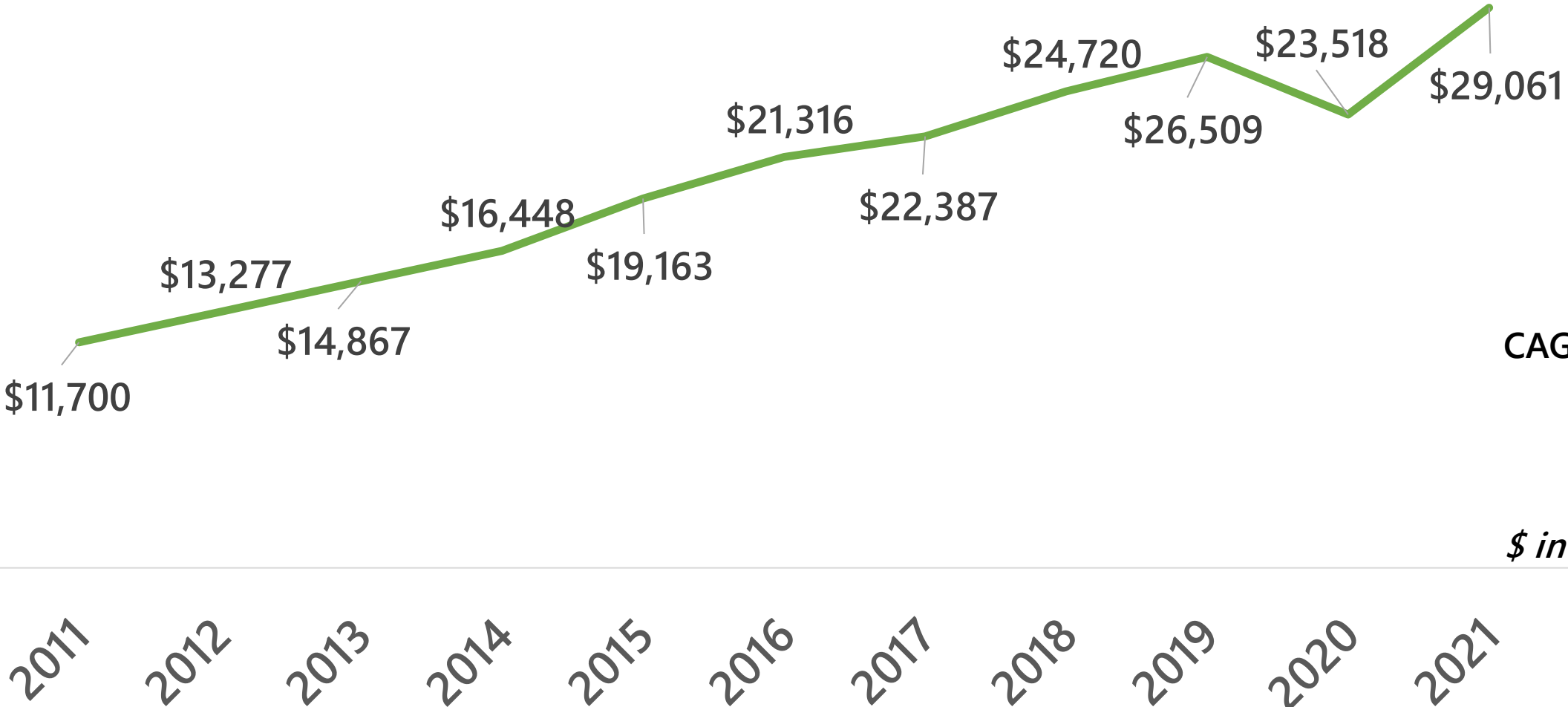
Payout Ratio





Interpretation of Financial Statements

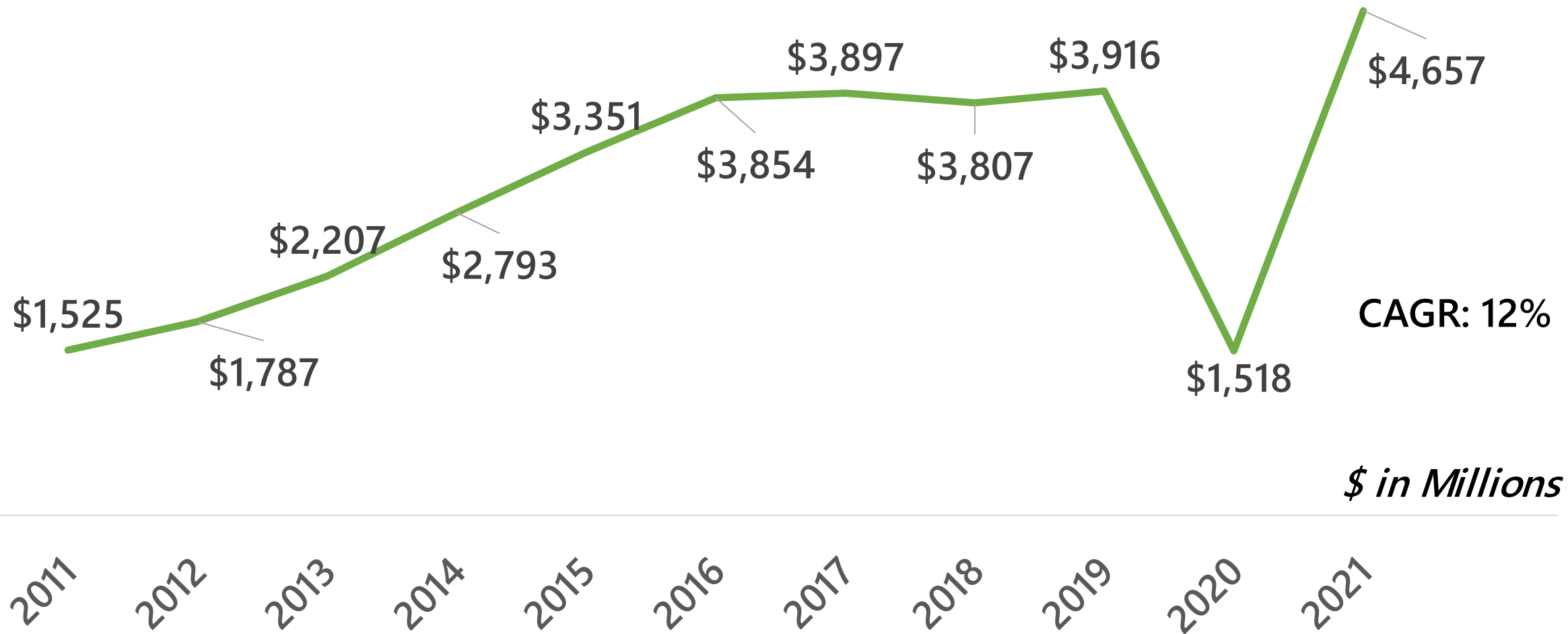
Revenue



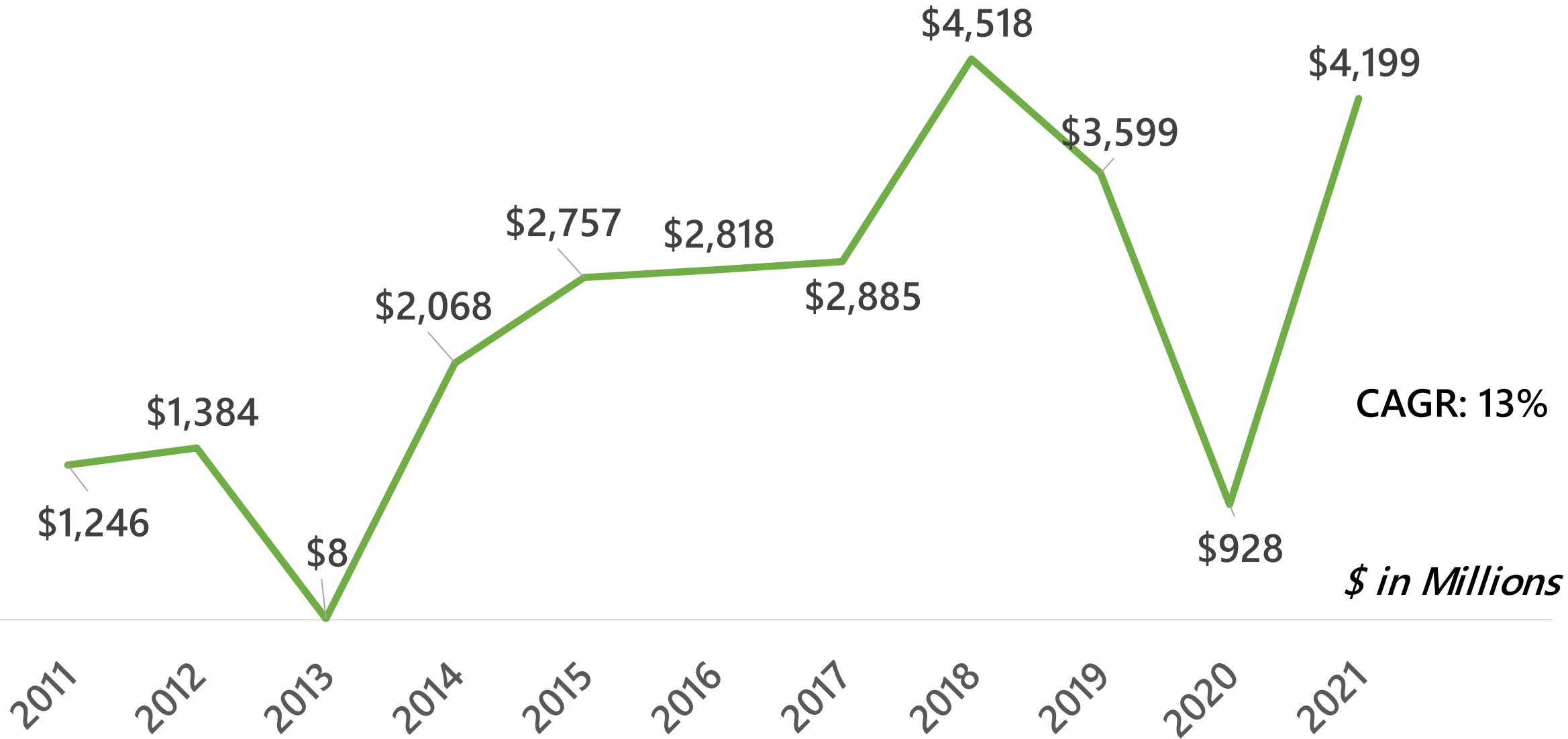
CAGR: 9%

\$ in Millions

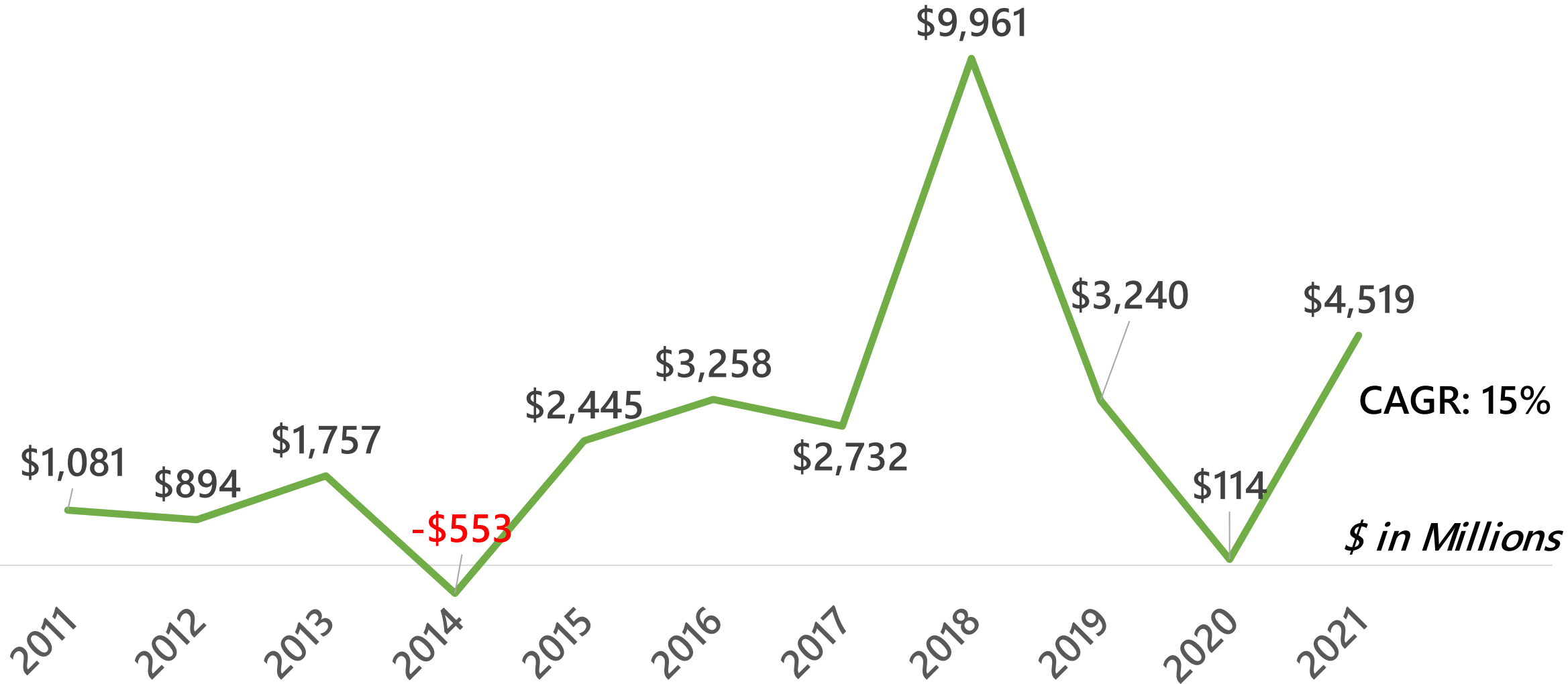
Operating Income



Net Income



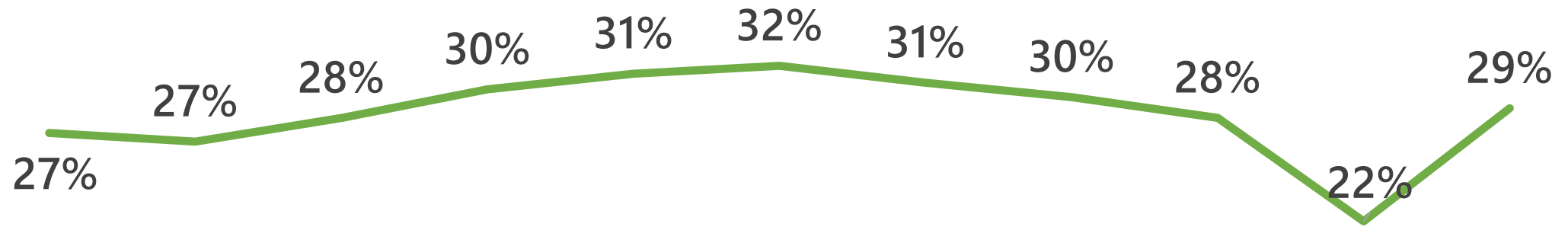
Free Cash Flow (FCF)



Gross Profit Margin



We want this above 40%



2011

2012

2013

2014

2015

2016

2017

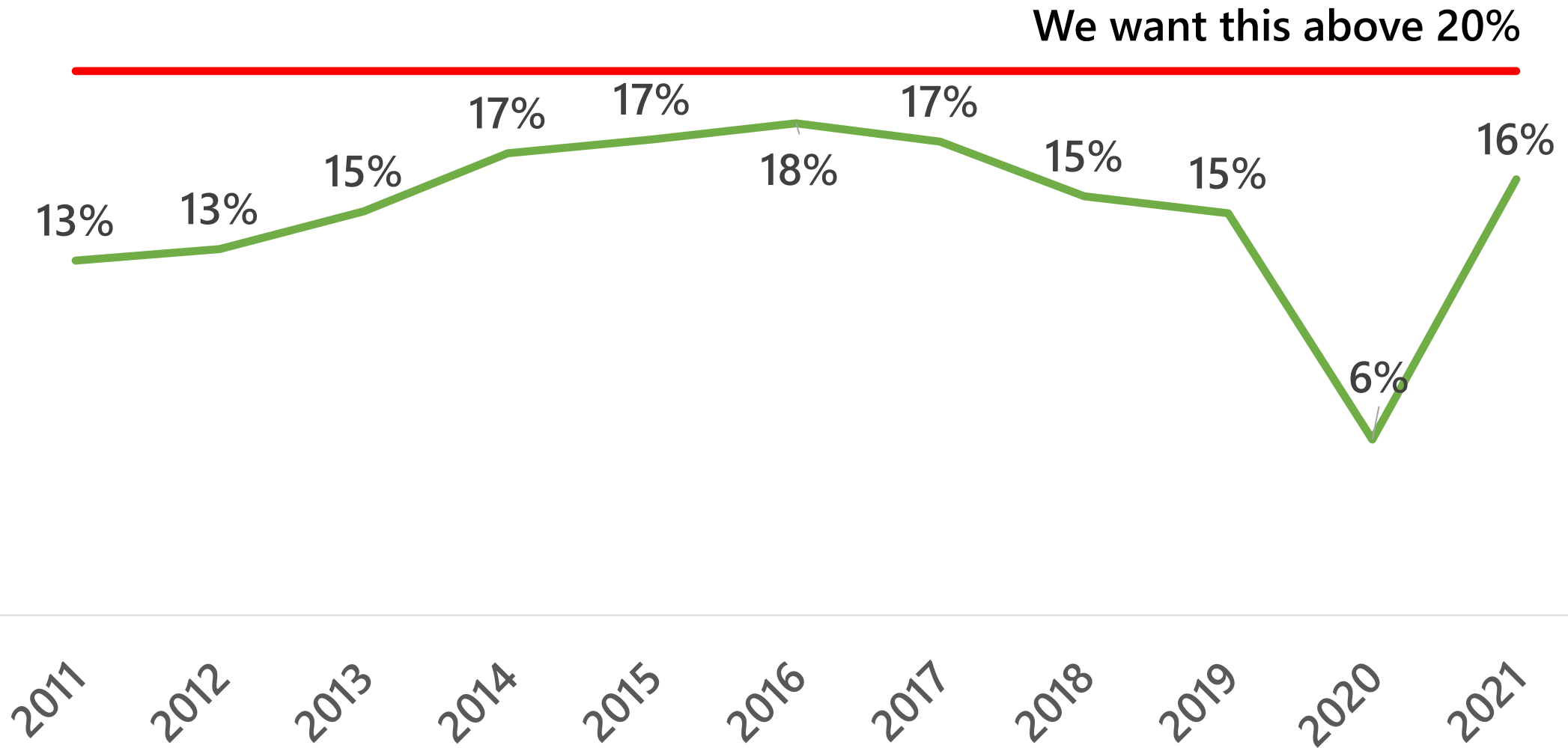
2018

2019

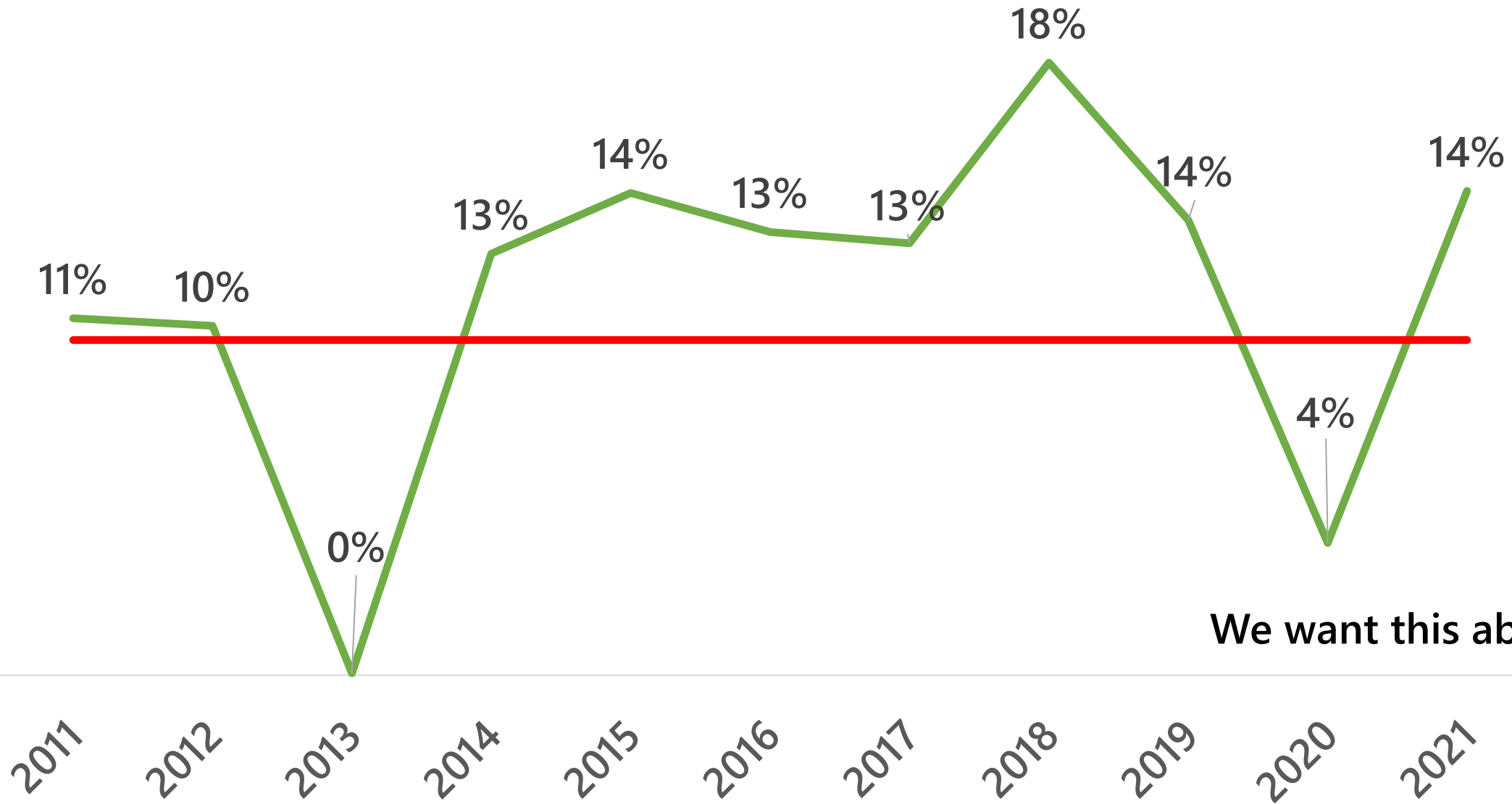
2020

2021

Operating Profit Margin



Net Profit Margin

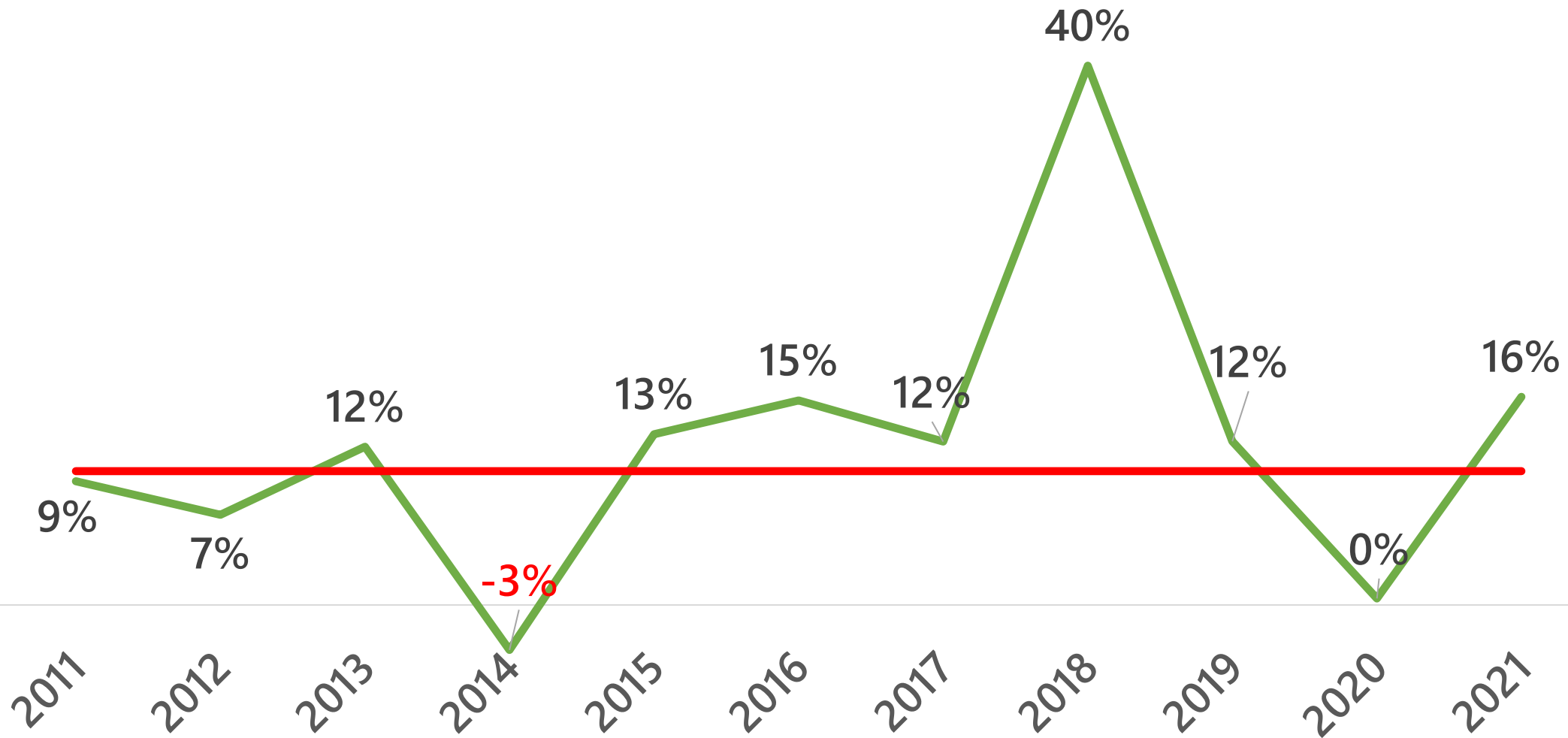


We want this above 10%

Free Cash Flow Margin

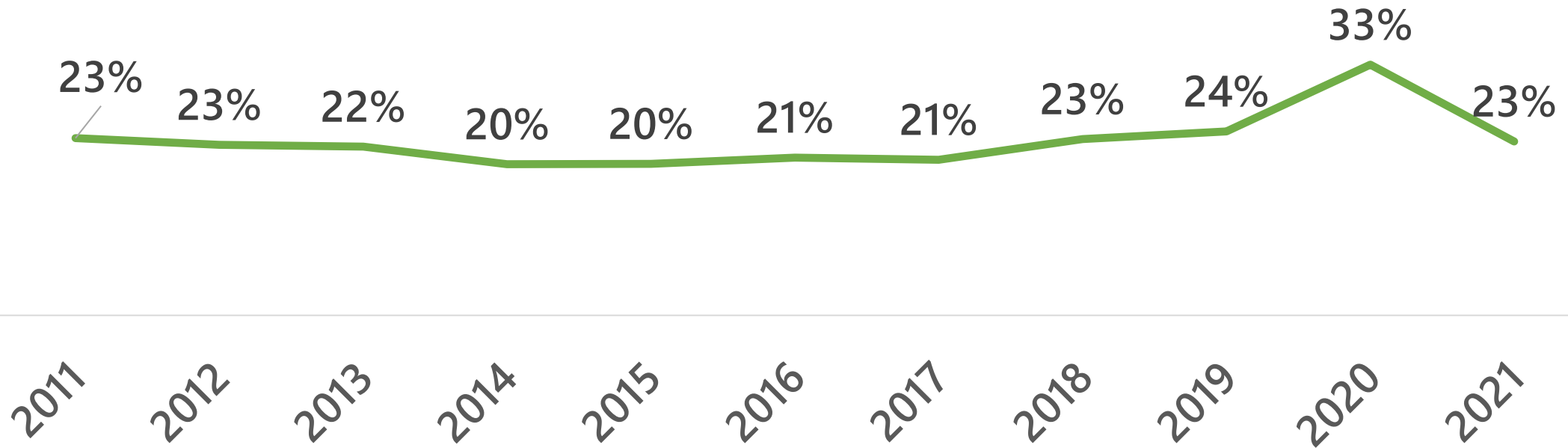


We want this above 10%

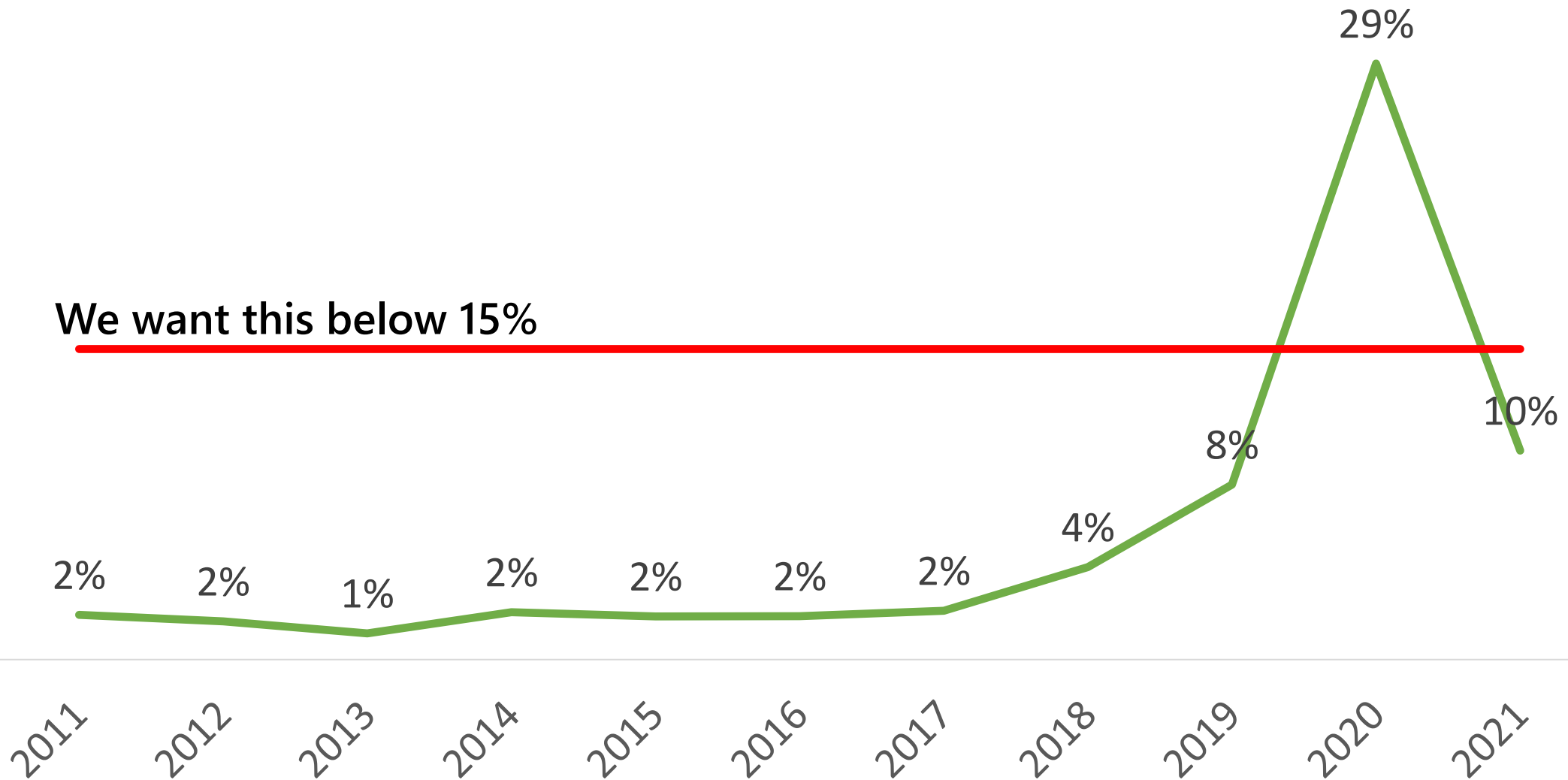


Selling, General, Admin. Expenses to Gross Profit

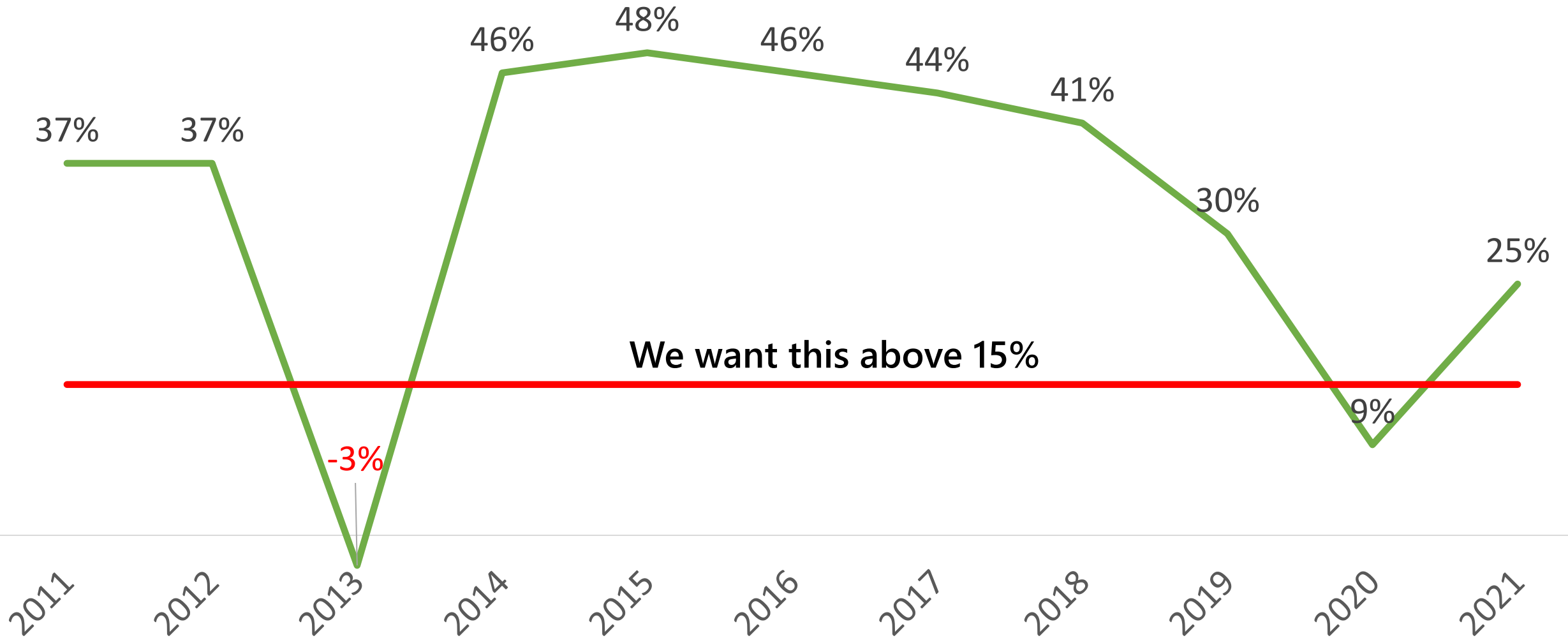
We want this below 80%



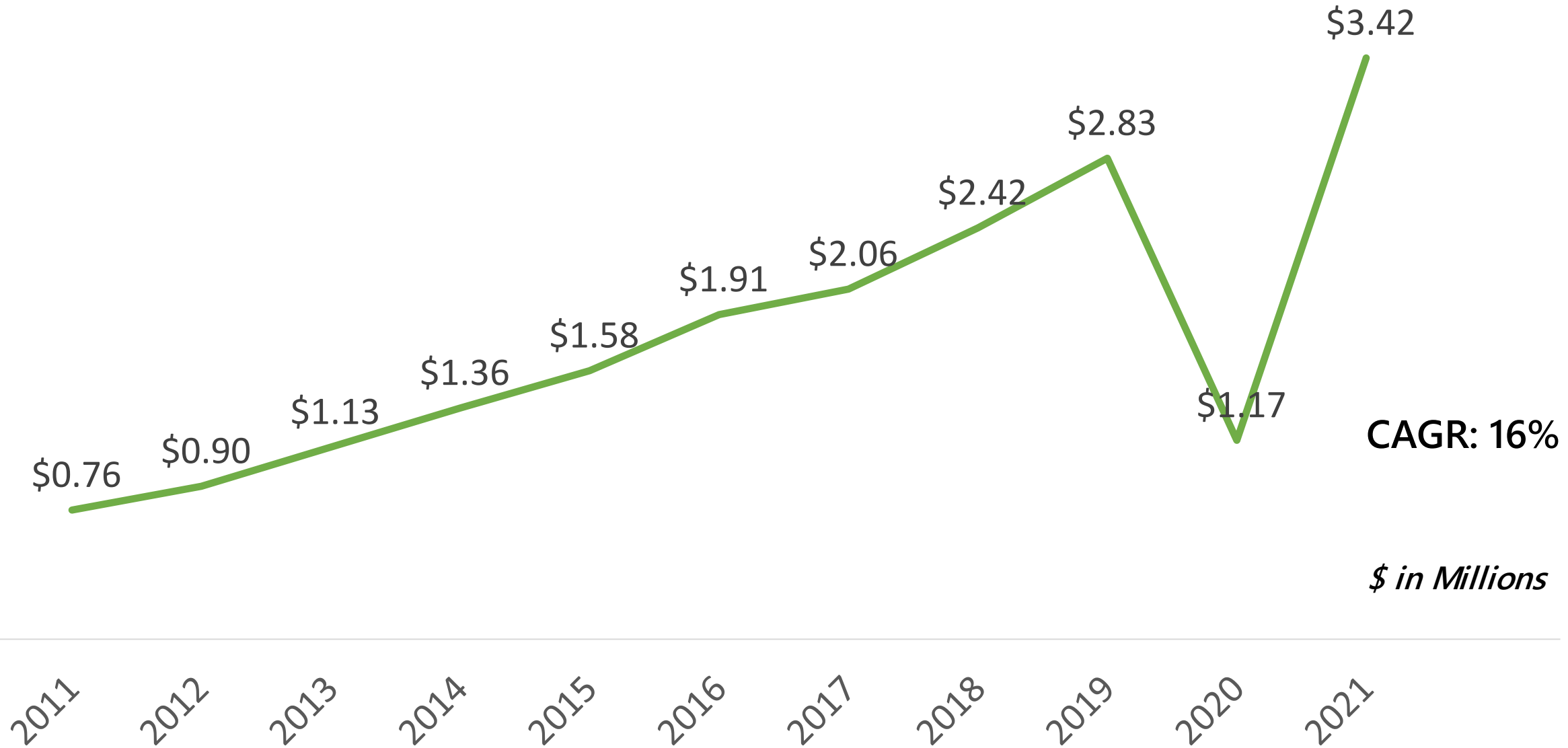
Interest Expense to Operating Income



Return on Capitol Employed



Earnings per Share



Obligation Ratio

(+) Long Term Debt	13,617
(+) Short Term Debt	999
(+) Pensions	0
(+) Leases x7	10,089
(+) Preferred stock	0
(-) Cash	6,618

(÷) Net income	\$4,199
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4.3
Years <5

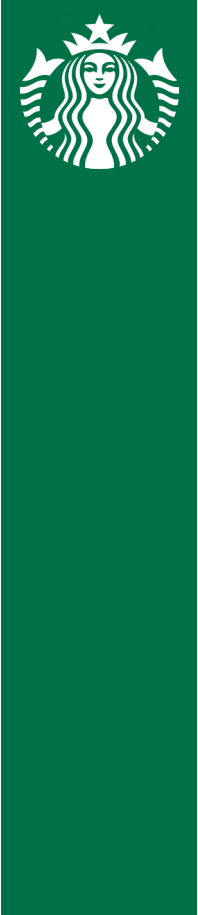


Competitor Metrics

Revenue – 2021



\$29,061M



\$22,528M



\$306M



\$885M

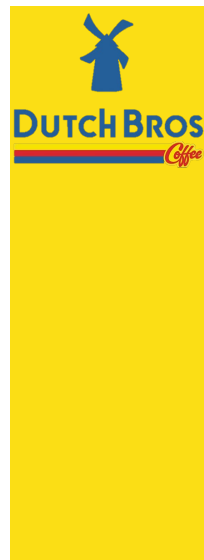
Gross Margin – 2021



28.9%



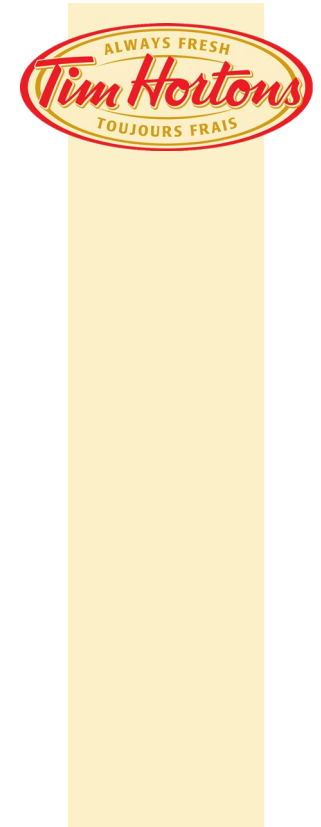
32.2%



53.7%



47.8%



Operating Margin – 2021



16.0%



42.0%



37.2%



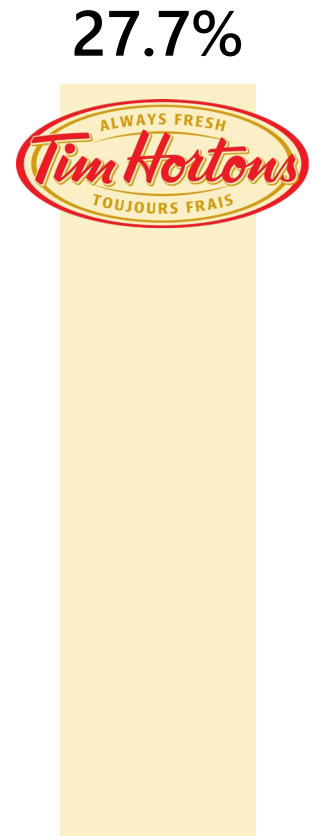
-36.5%



Net Margin – 2021



-2.1%



Return on Invested Capital (ROIC) – 2021

14.2%



16.3%



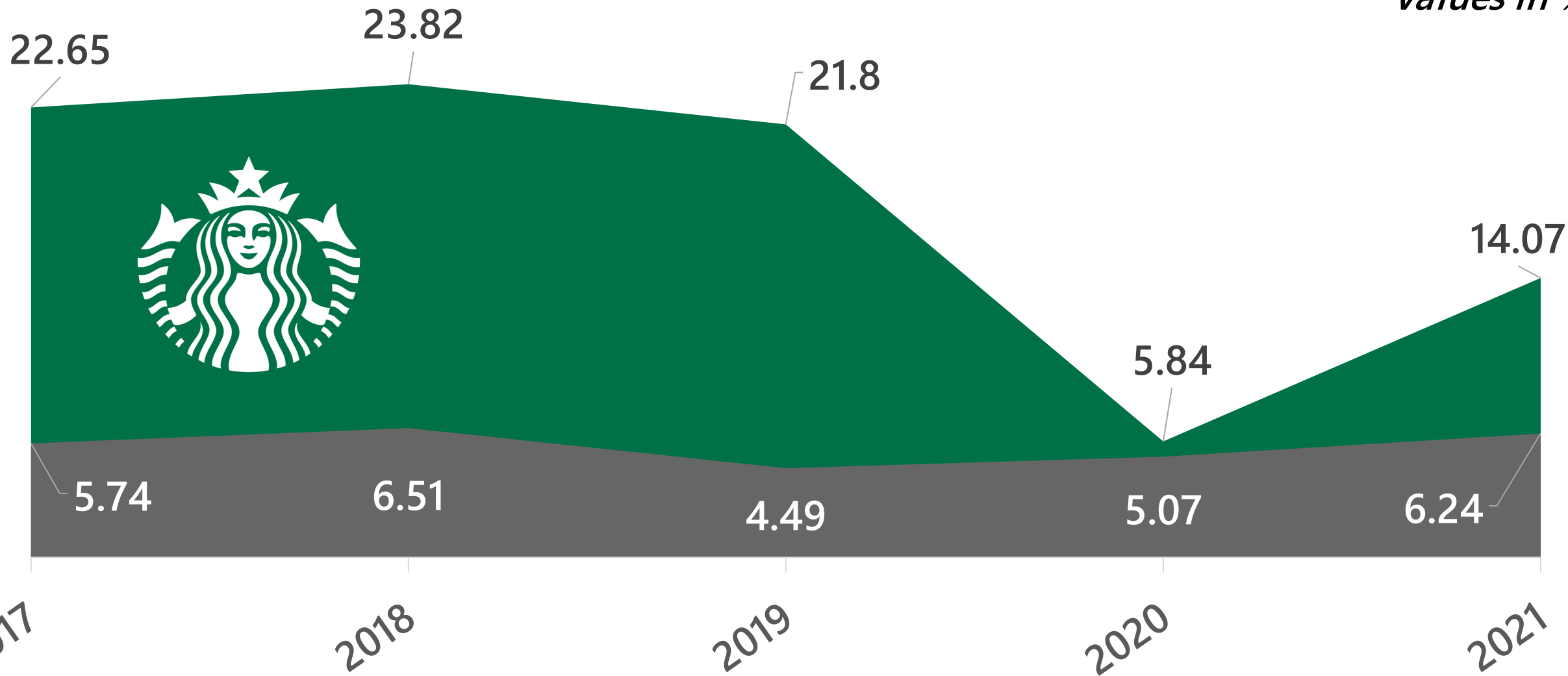
8.3%



-38.3%

ROIC vs. Weighted Avg. Cost of Capital

Values in %



Comparable Sales Growth – '20 to '21

22.0%



11.5%



12.7%



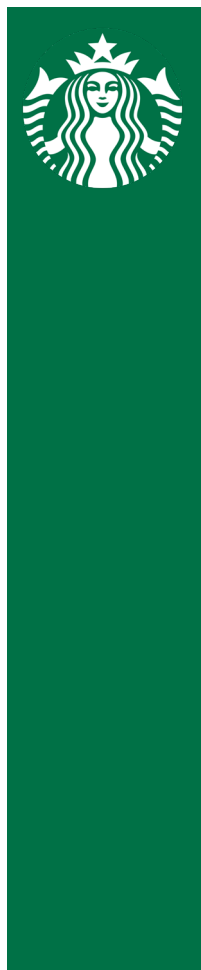
8.9%



Rewards Members – 2021



24,500,000



15,000,000



16,000,000



3,200,000



Store Count – North America '21

16,826



17,756



9,376



503



4,641



Store Count – *International* '21



17,007



20,939



0

DN
KNTM

3,200



205

Clash of the Titans



33,833 Stores

+2K in 2022



40,754 Stores



Moat Analysis

Quick-Service Coffee Industry



Quick Service Restaurants

- Highly competitive
- Low barriers to entry
- No switching costs

Common Moats

- Intangible assets
- Scale driven cost advantages



Why Can Starbucks Charge So Much?



Intangible Assets



Pricing Power

- \$7.18 SBUX
- \$4.94 MCD
- \$3.75 Dunkin
- \$2.02 Luckin



Brand Power

- Premium & high-quality coffee
- Service & experience
- Everywhere & Consistent
- Reward members
 - 25M US
 - 17.9M China

Intangible Assets

International Replication

- 17K operated & licensed stores
- 80 global markets

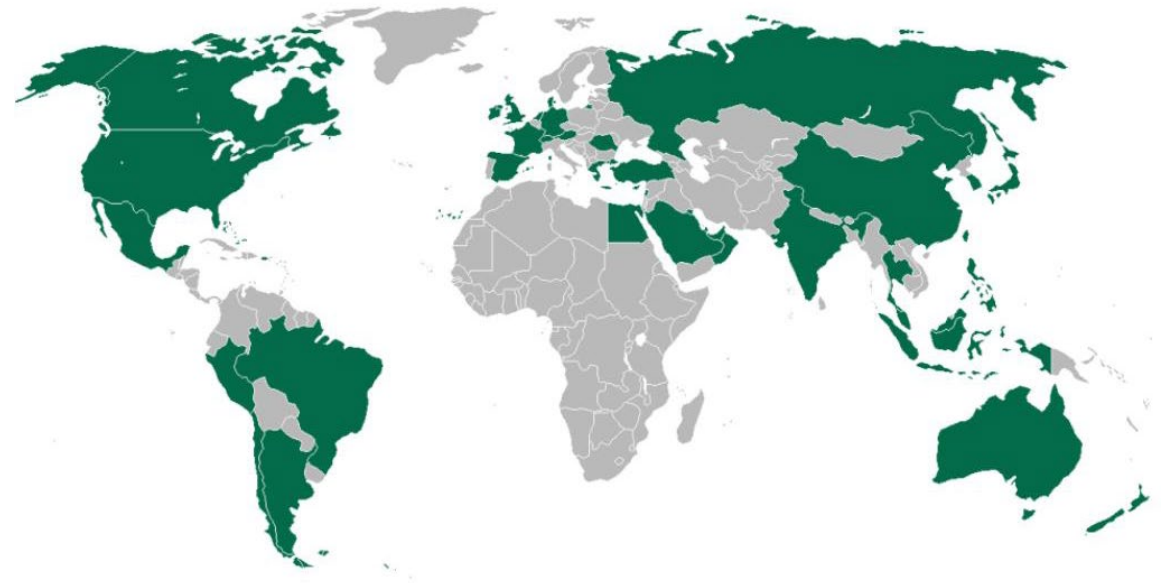
Relationships

- Nestlé 190 country footprint
- PepsiCo vast distribution system
- Alibaba 950M active users (Ele. me delivery)



Cost Advantages

- 33K restaurants worldwide
- Able to buy ingredients and disposables at favorable prices
- Technology yields efficiency
- Spends less as a % of revenue on marketing
 - SBUX 1.1% of sales
 - MCD 4% of sales
 - Dunkin 5% of sales





Growth Opportunities

Growth Opportunities



Top Line Growth Drivers:

- Transaction Volume
- Price Increases
- New Unit Openings

Bottom Line Growth Drivers:

- Improving unit economics
- Increased operating leverage
- Data-driven marketing campaigns



Top Line Results:

- Increased Comparable Store Sales
- Store Count Growth
- Double-digit Annual Revenue Growth

Bottom Line Results:

- Higher operating margins
- Increased Return on Invested Capital

Transaction Volume

Data Analytics

- Usage of data analytics increases customer loyalty by optimizing menu to generate higher sales
- Targeted promotional activity allows SBUX to drive volumes toward underutilized parts of the day
- Nearly 22 million active loyalty members drive 50% of sales
- Loyalty members spend as much as 3x that of non-loyalty program participants

Omnichannel Offering

- Ability to order online and pick up in store, curbside, or drive-thru generates higher sales



Price Increases

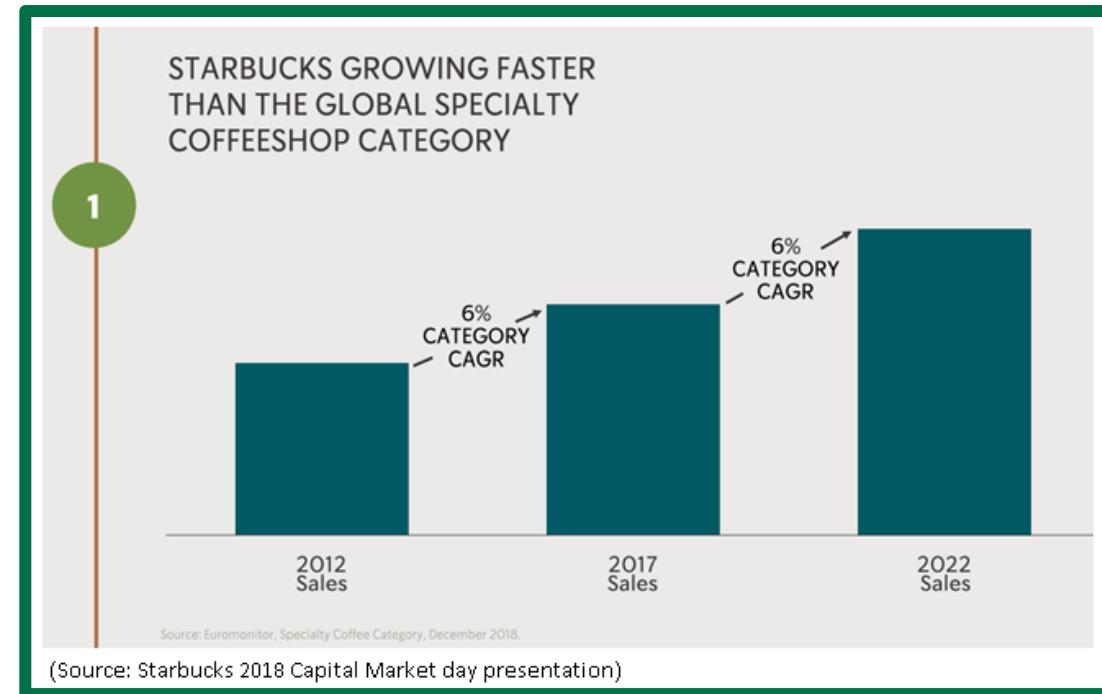


Historical Price Increases

- SBUX has raised prices by 6.8% annually for the last 5 years
- Increasingly specified drinks command a premium from SBUX

Increased Average Ticket

- Avg ticket has grown mid single digits in the past five years
- Consumers are purchasing higher priced drinks



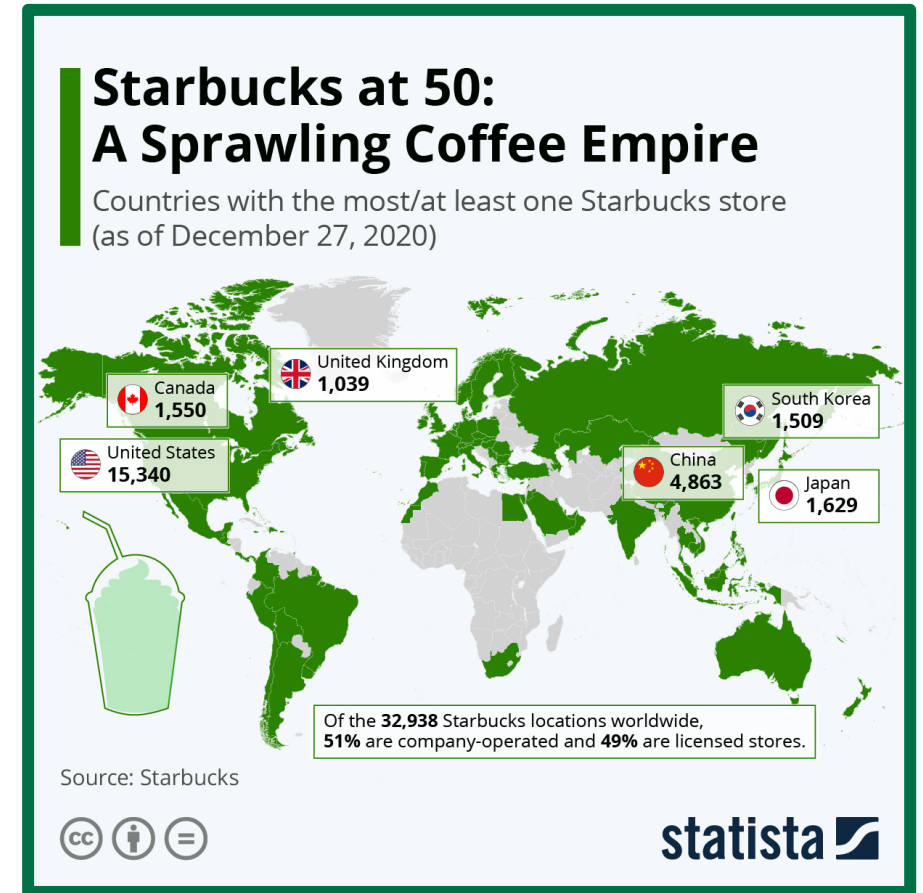
Store Growth

International Unit Expansion

- SBUX has been very successful at replicating stores internationally
- One of the most widely adopted platforms in China and Asia Pacific
- Estimated domestic customer base of 75 million people, implying penetration of 33%
 - China has the fastest growing middle class in the world, which would lead to higher volumes and prices throughout stores

Aggressive Store Building

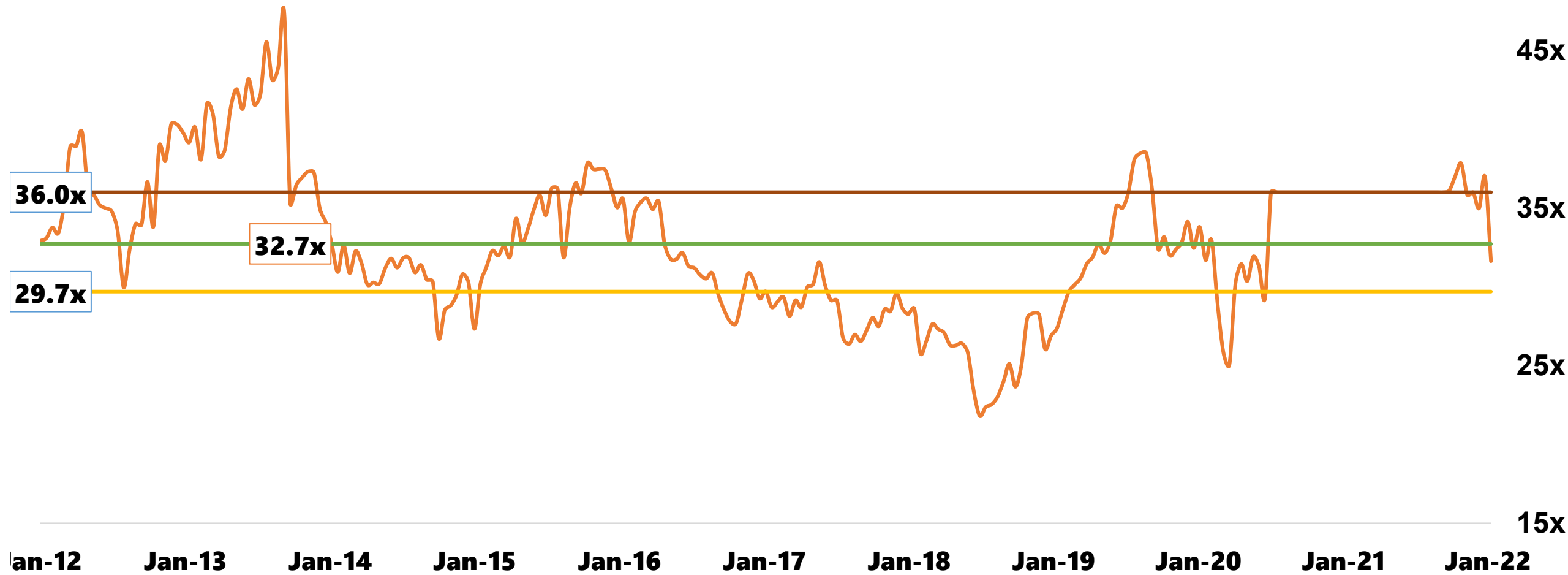
- Store count has grown at an annual rate of 6.5% in the past 10 years
- Management expects that 75% of unit growth will be international and overall store growth will be around 6%



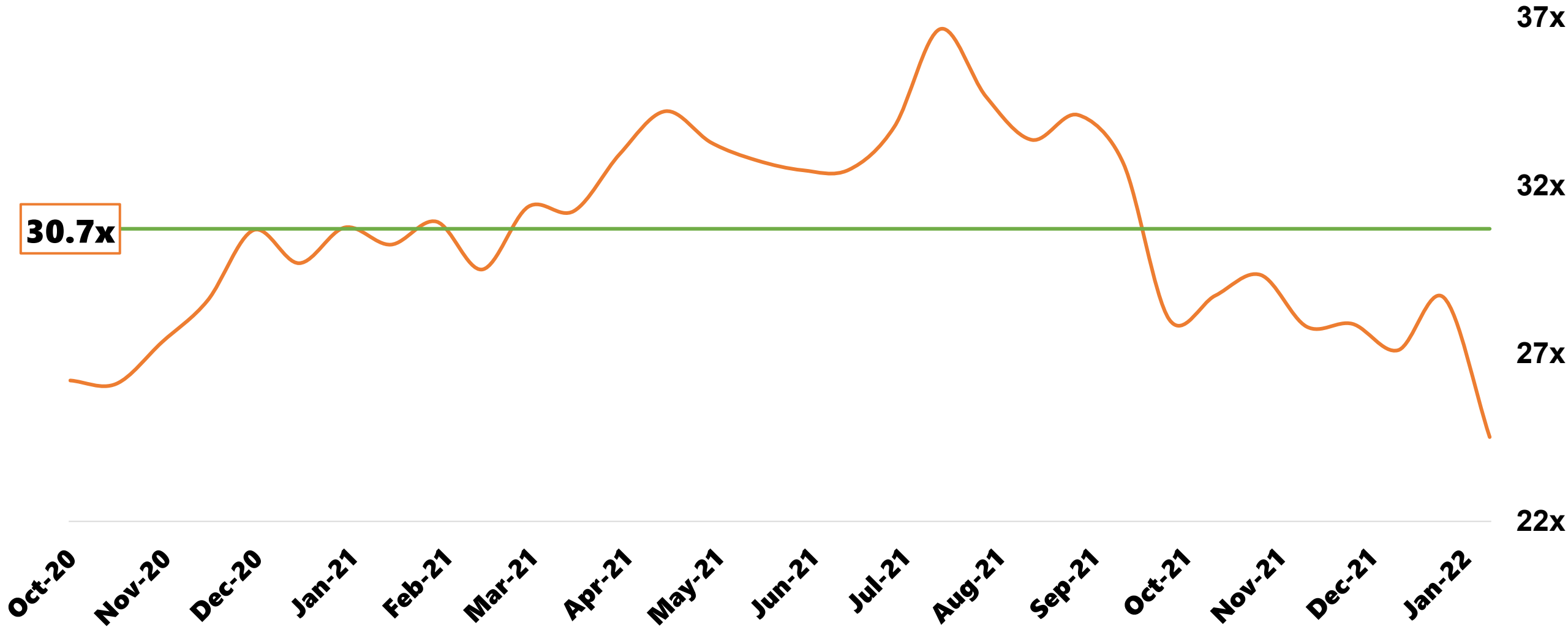


Valuation

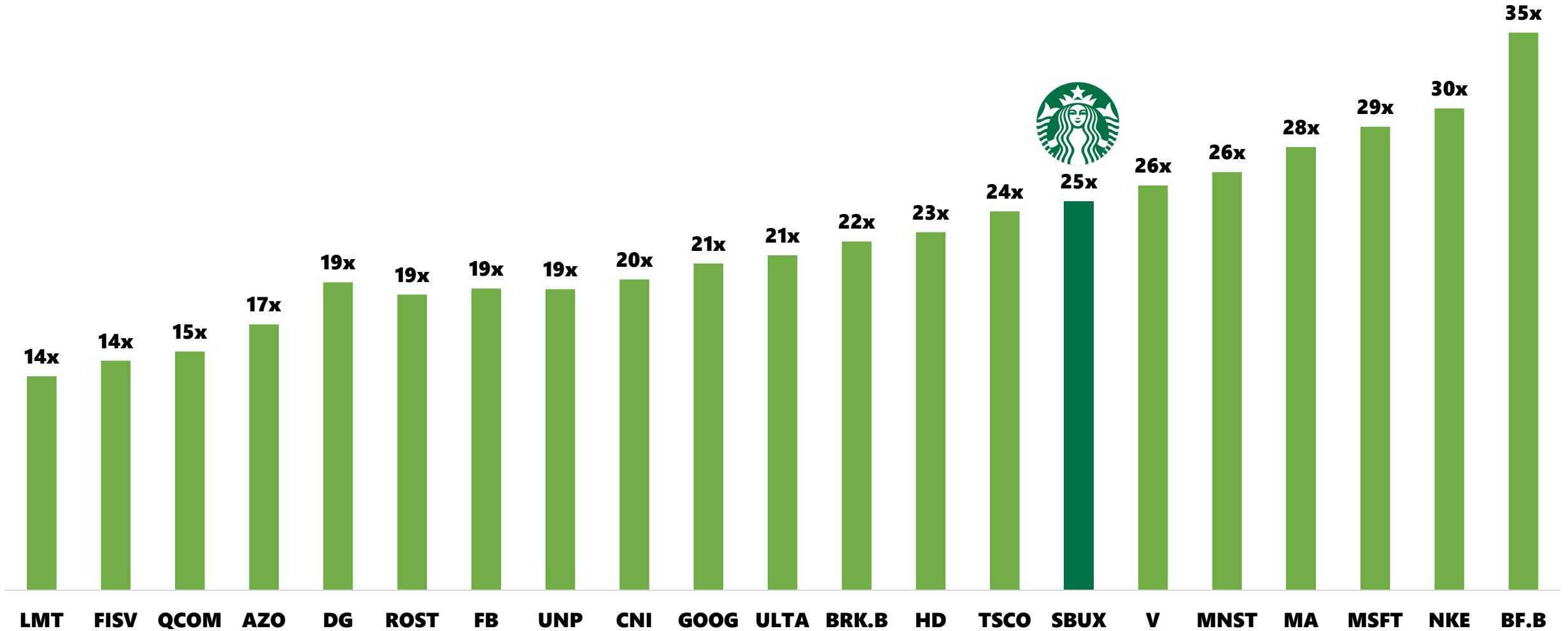
Historical Price/Earnings



Forward Price/Earnings



Forward P/E vs Portfolio



5 Year Forecast



Base Case Expectations:

FY 2022:

Top Line

- Comp. store sales to be high single digits
- Increased pricing action to offset inflation
- Adding 2000 new stores, representing 6% store growth
 - 75% of these new stores will be outside the US
- Total Revenue Growth of 12%

Bottom Line

- Near term margin pressure from \$1 billion impact in wage hikes
- 17% operating margin



Long-Term:

Top Line

- Store growth of 6% annually
- 8-10% annual revenue growth

Bottom Line

- Operating margin between 18%-19%
- \$13.2 billion in buybacks decreasing share count by 10% in the next 3 years

Five-Year EPS Model



Ticker: SBUX		5 Year EPS Forecast										
Price: \$98.05									Total Return Price	PV	5 YR Return	Annual Return
								P/E				
Bear	EPS	Current	2021	2022	2023	2024	2025	22.0x	\$120.45	\$78.29	22.8%	4.2%
		\$3.24	\$3.34	\$3.70	\$4.11	\$4.56	\$5.07	28.0x	\$150.85	\$98.04	53.9%	9.0%
			3%	11%	11%	11%	11%	34.0x	\$181.25	\$117.80	84.9%	13.1%
Base	EPS	Current	2021	2022	2023	2024	2025	22.0x	\$132.19	\$85.92	34.8%	6.2%
		\$3.24	\$3.43	\$3.88	\$4.39	\$4.96	\$5.60	28.0x	\$165.79	\$107.75	69.1%	11.1%
			6%	13%	13%	13%	13%	34.0x	\$199.39	\$129.59	103.4%	15.3%
Bull	EPS	Current	2021	2022	2023	2024	2025	22.0x	\$144.89	\$94.17	47.8%	8.1%
		\$3.24	\$3.53	\$4.06	\$4.67	\$5.37	\$6.18	28.0x	\$181.95	\$118.26	85.6%	13.2%
			9%	15%	15%	15%	15%	34.0x	\$219.01	\$142.34	123.4%	17.4%

Discount rate: 9%

Sensitivity Analysis



Total RoR Sensitivity				
		Est. EPS growth rate		
		9%	12%	14%
P / E	22.0x	4.5%	6.4%	8.4%
	28.0x	9.3%	11.4%	13.4%
	34.0x	13.4%	15.5%	17.7%

\$3.24

Conclusion



Investment Need-to-Knows



- Long-term oriented management team
- Healthy financials which were slightly disrupted by the pandemic
- Increasingly stronger competitive advantage
- Plenty of growth opportunities, especially with data analytics usage and international growth prospects
- Valuation Levels Below Historical average

Conclusion

- SBUX is predictable, consistent, and understandable
- Widening moat
- Trading at reasonable levels of valuation

Therefore...

- Recommend to **HOLD SBUX**
 - Potentially increase our position if stock price keeps dropping



To inspire and nurture the human spirit - one person, one cup and one neighborhood at a time.

Projected EPS Growth

