



Starbucks

Esam, Ellie, Sam, Diego Add Your Name

Company Overview

- ◆ Premier roaster, marketer, and retailer of specialty coffee in the world.
- ◆ Formed in 1985
- ◆ Operates in 84 markets
- ◆ Ticker Symbol: SBUX





The Bear Thesis

Starbucks has historically been a great business with a wide moat

Ability to scale not as strong as in the past

- Higher financing costs
- Risk of unionization

The tailwinds are slowing

Trades at a rich premium relative to peers and the overall market

Our Investment

- ◆ Quantity of Shares Held - 350 Shares
- ◆ Average Price Per Share - \$54.30 for a total cost of \$19,005
- ◆ Current Price - \$97.73
- ◆ Current Market Value - $\$97.73 * 350 = \$34,205.50$
- ◆ Weight - Approximately 2.5% of our Portfolio

Our Investment

Yesterday

\$19,005

Today

\$34,205

Result

80% Price Appreciation

\$686 Approx. Dividend

115% Position Gain





Expired Green Tea Matcha Anyone?

Old Food & Drink Sold

Earnings Report – 2021 Q4

- ◆ Partial Pandemic Recovery – Store openings were countered by store closures.
- ◆ Distributor Disruptions – PepsiCo and Nestle supply chain issues
- ◆ China – Regional shutdowns and significant capital investment required for expansion.

China

- ◆ Re-investment will remain elevated for foreseeable future
- ◆ Rising real estate prices, supply chain issues, government control
- ◆ Management Guidance – Expect non-linear progression, projected headwinds



To Implement Shareholder Plan

SBUX will issue debt
while remaining below
the target of 3x rent
adjusted EBITDA.

◇ Wage Increases

\$15 minimum.

5%-10% Raise for Partners

\$25-50 Hourly Barista Wage

◇ Capital Allocation

Commitment to return \$20B over 3 yrs.

2/3 Share Repurchase 1/3 Dividend

Headwinds?



- ◇ Management guided 1% operating margin for 2022Q1.
- ◇ Increased labor costs
 - 65% Turnover Rate
 - 70% Hourly Workers New
 - Union Strike Successful Against SBUX
- ◇ Inflation
- ◇ Discontinuation of Government Subsidies

Food for Thought

- ◆ Is this an attractive exit point?
- ◆ Is there an easier decision?
- ◆ Is this the BEST use of our capital?

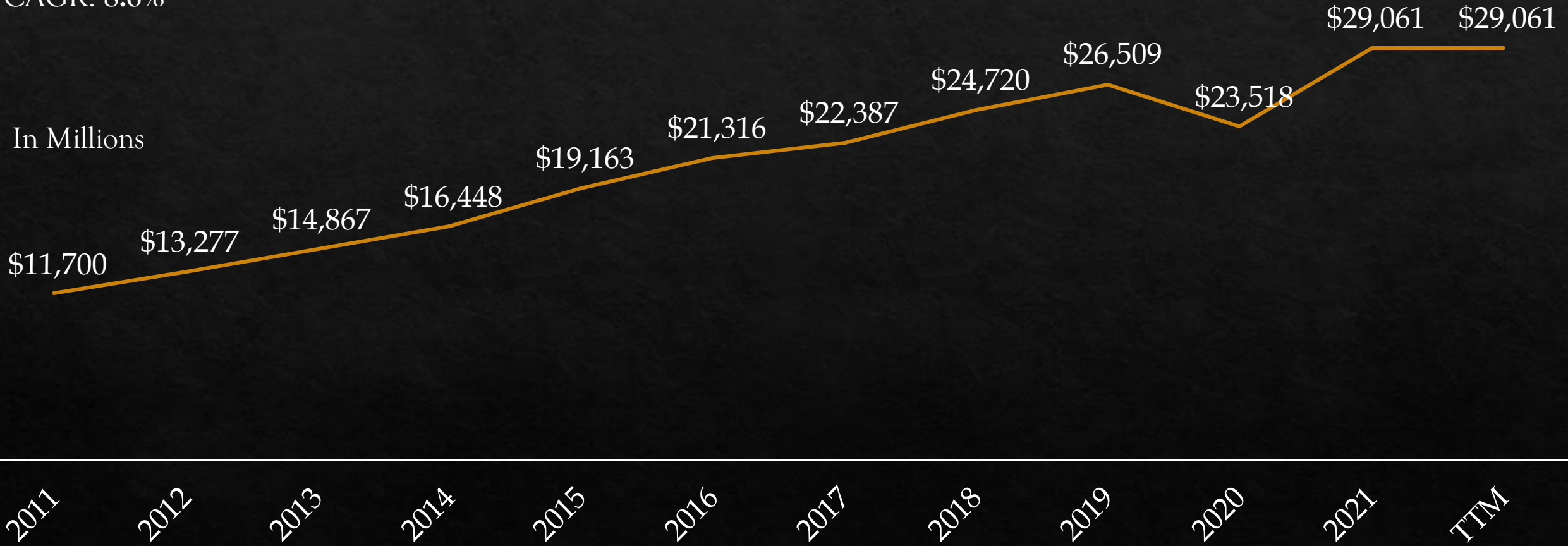
IOFS



Revenue

CAGR: 8.6%

In Millions



Net Income

CAGR: 11.7%

In Millions



Cash Flow From Operations

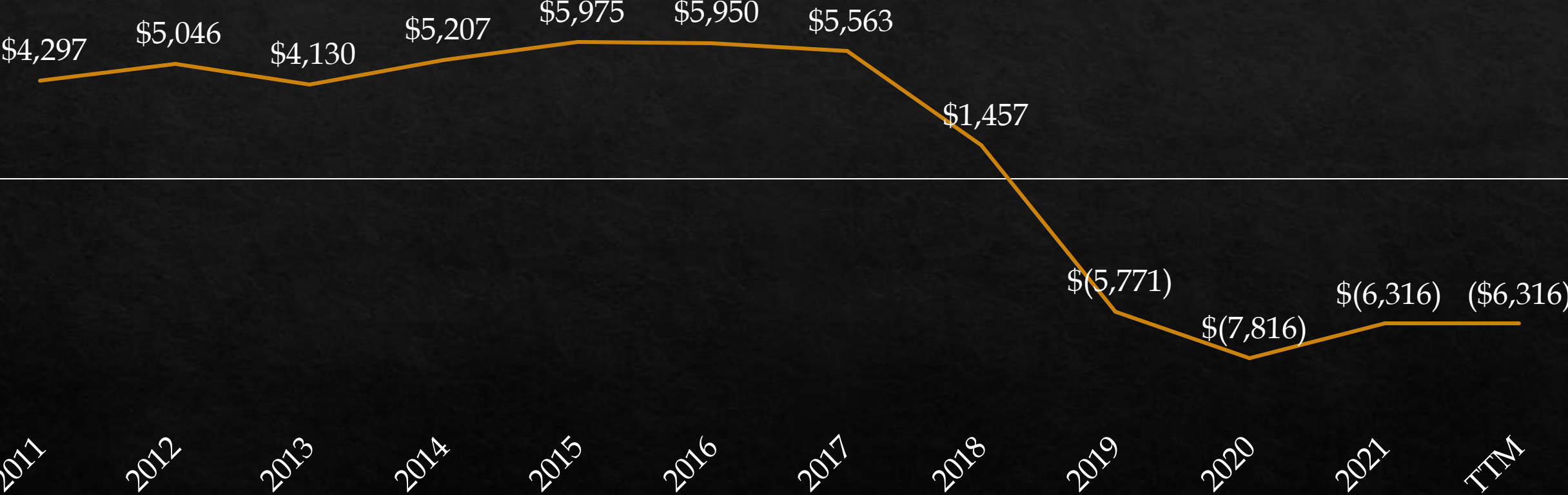
CAGR: 12.7%

In Millions



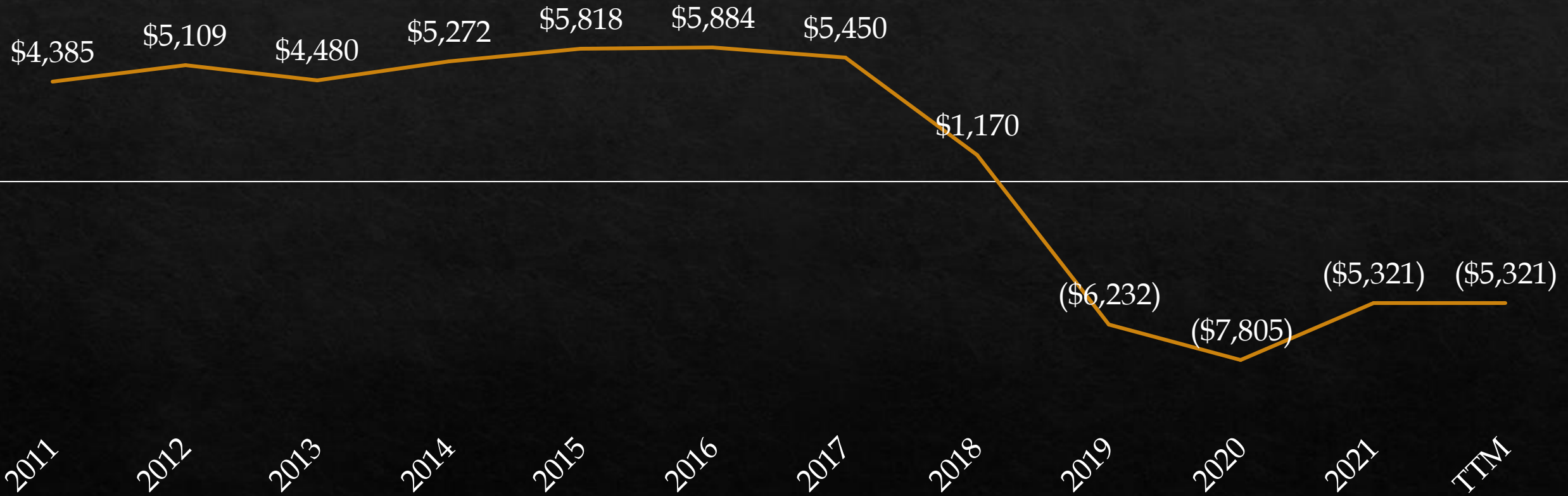
Retained Earnings

In Millions



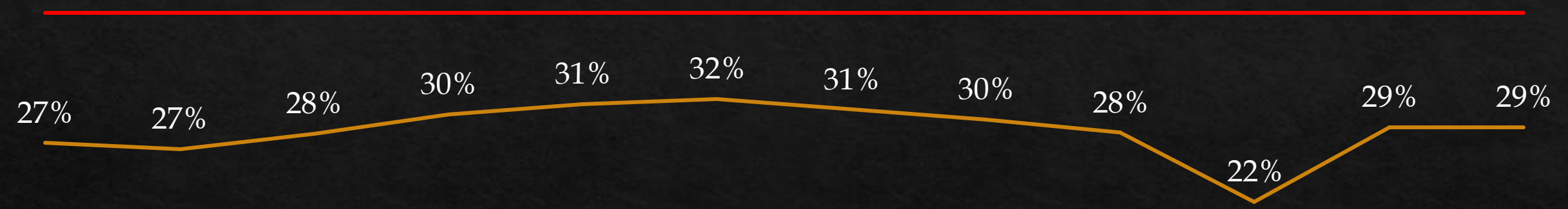
Shareholders Equity

In Millions



Gross Profit Margin

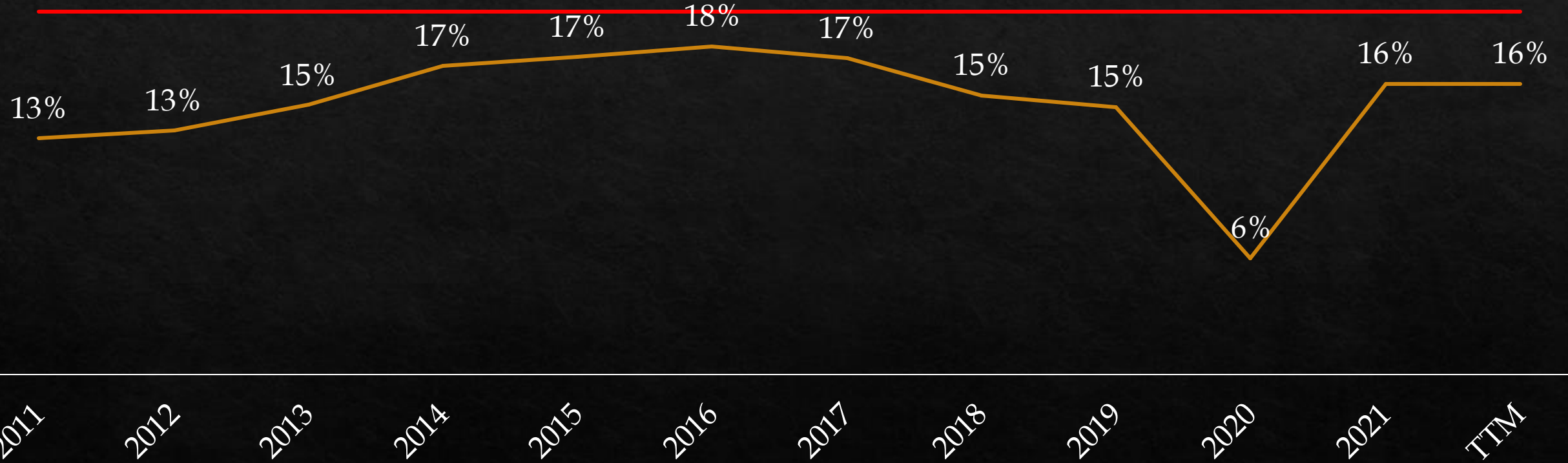
Above 40%



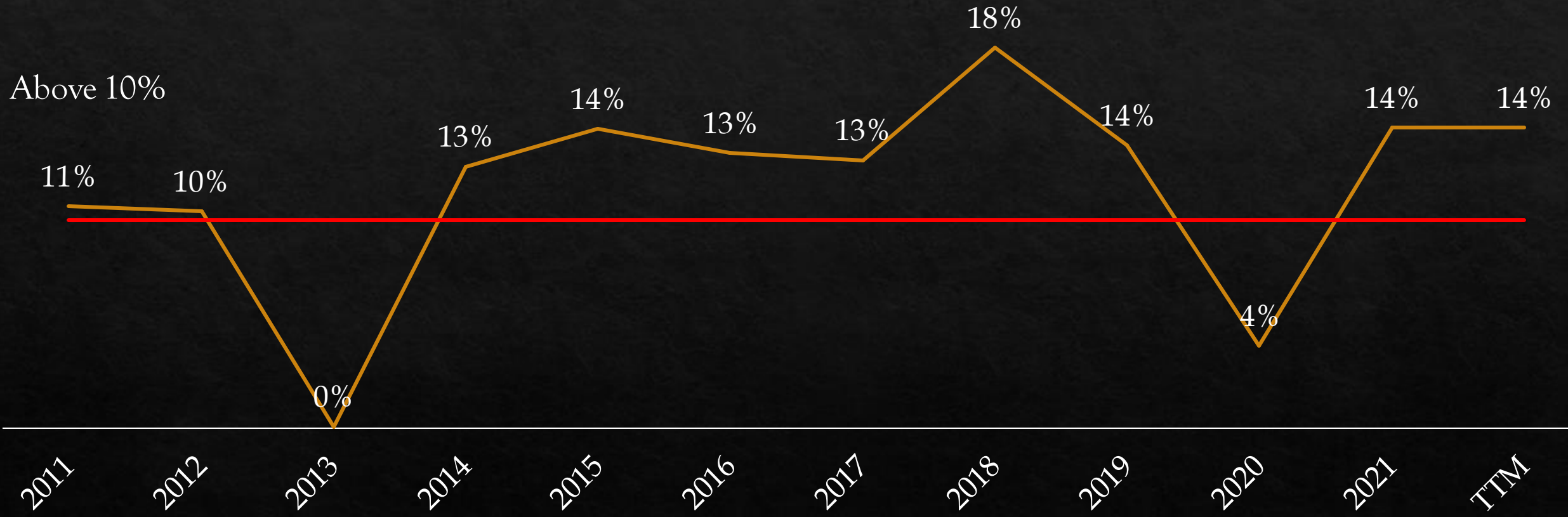
2011 2012 2013 2014 2015 2016 2017 2018 2019 2020 2021 TTM

Operating Margin

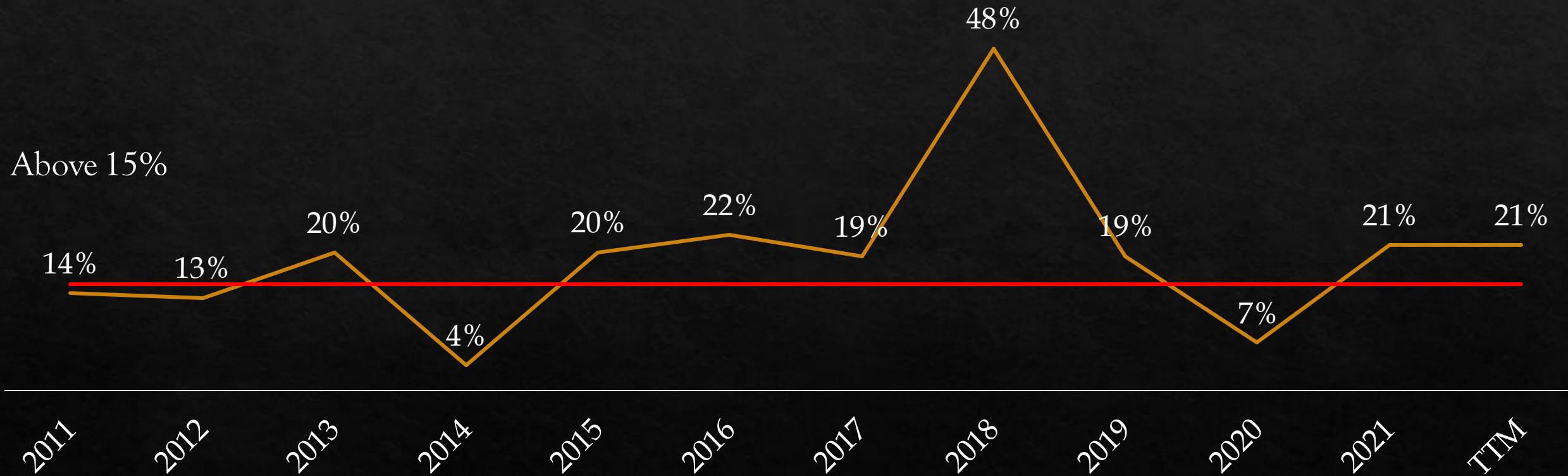
Above 20%



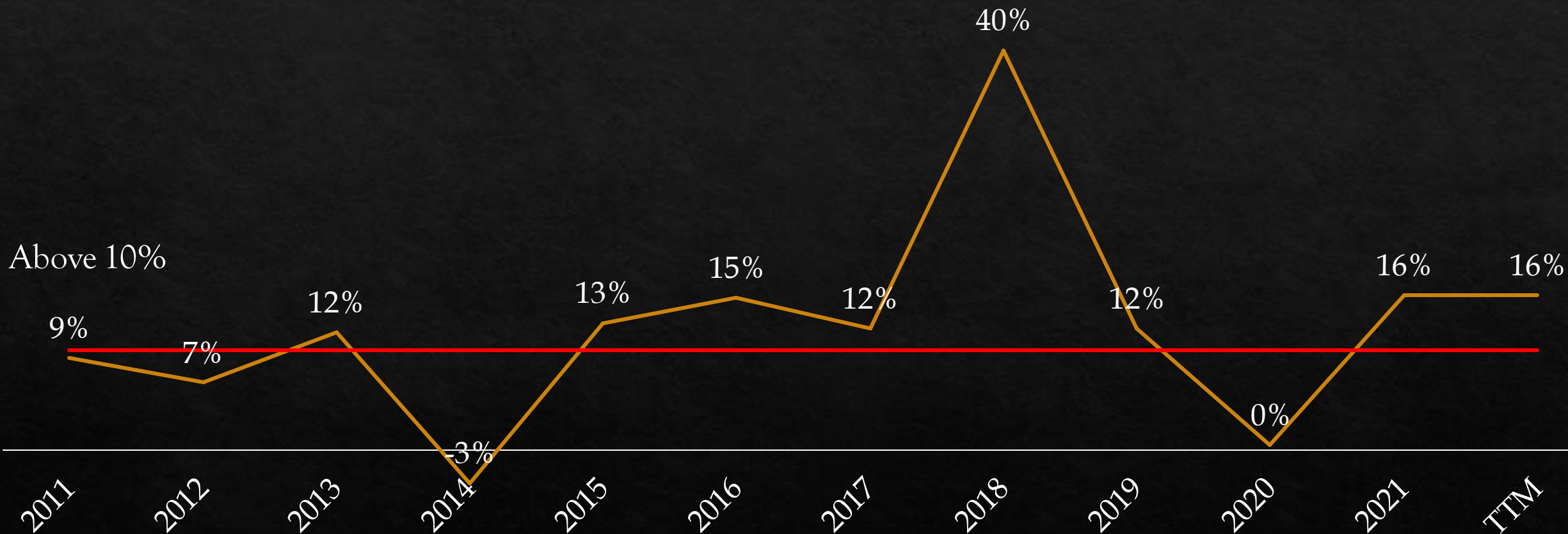
Net Profit Margin



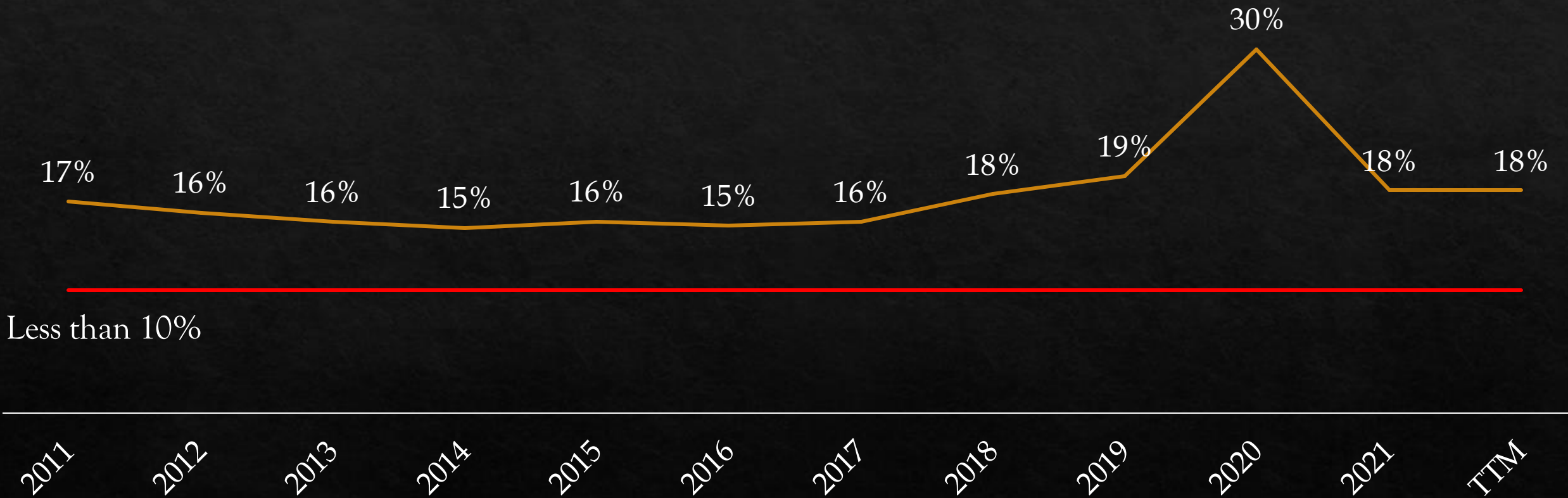
Cash Flow from Operations Margin



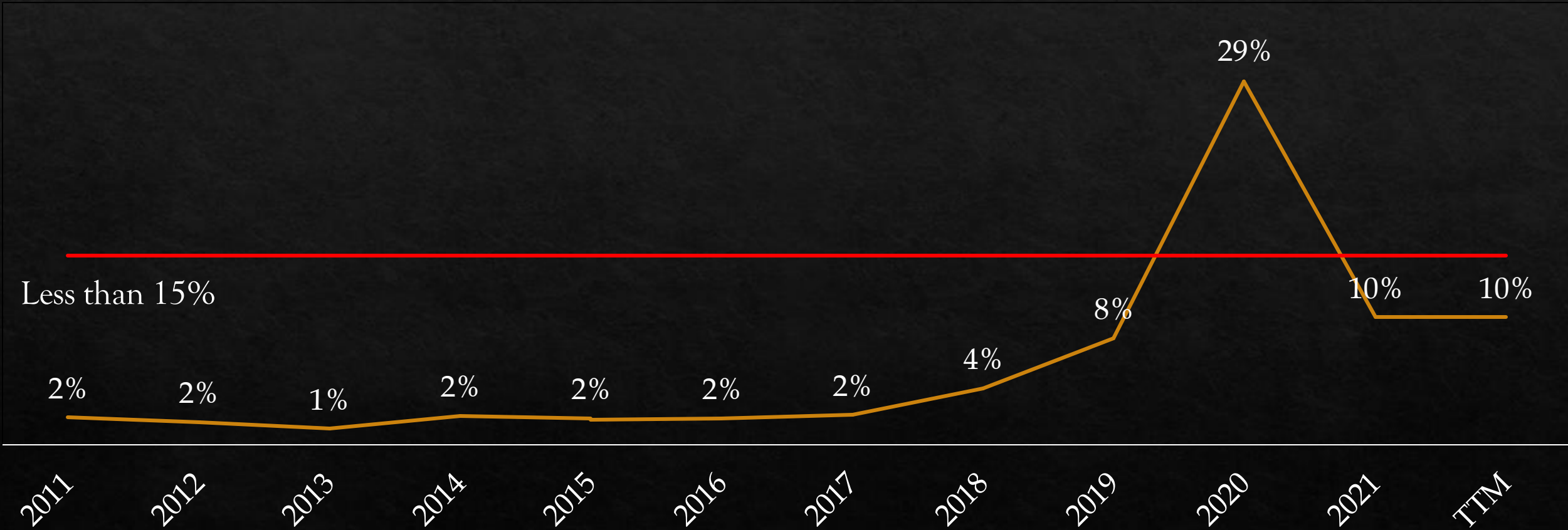
Free Cash Flow Margin



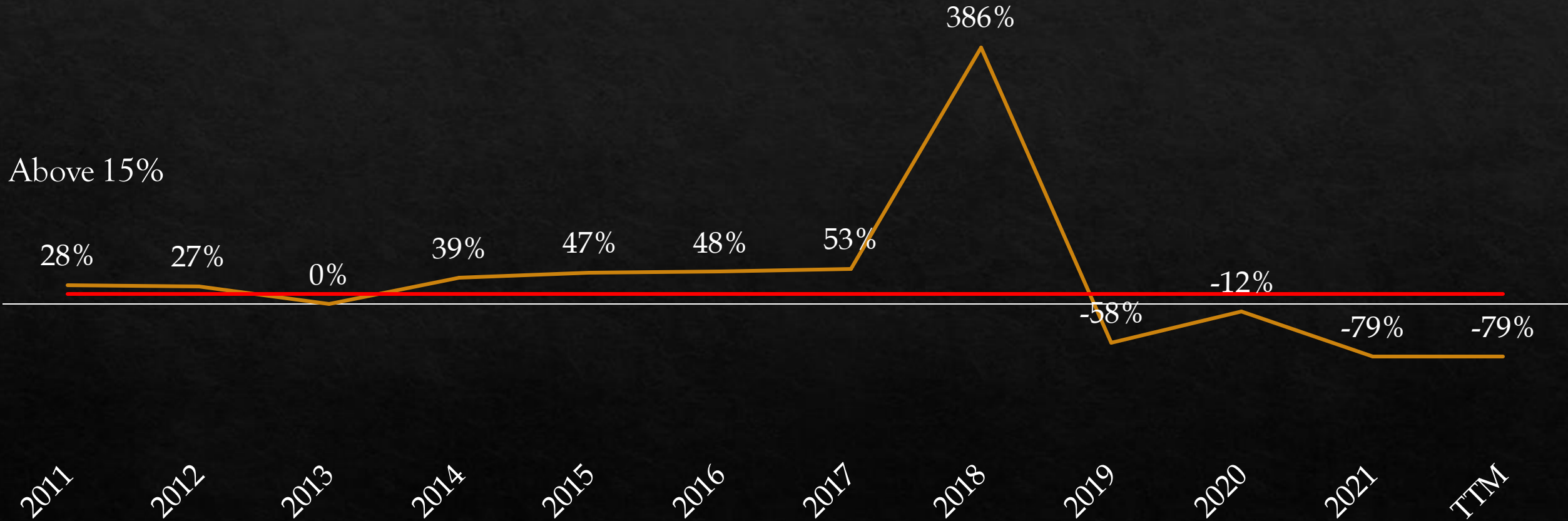
Depreciation & Amortization to Gross Profit



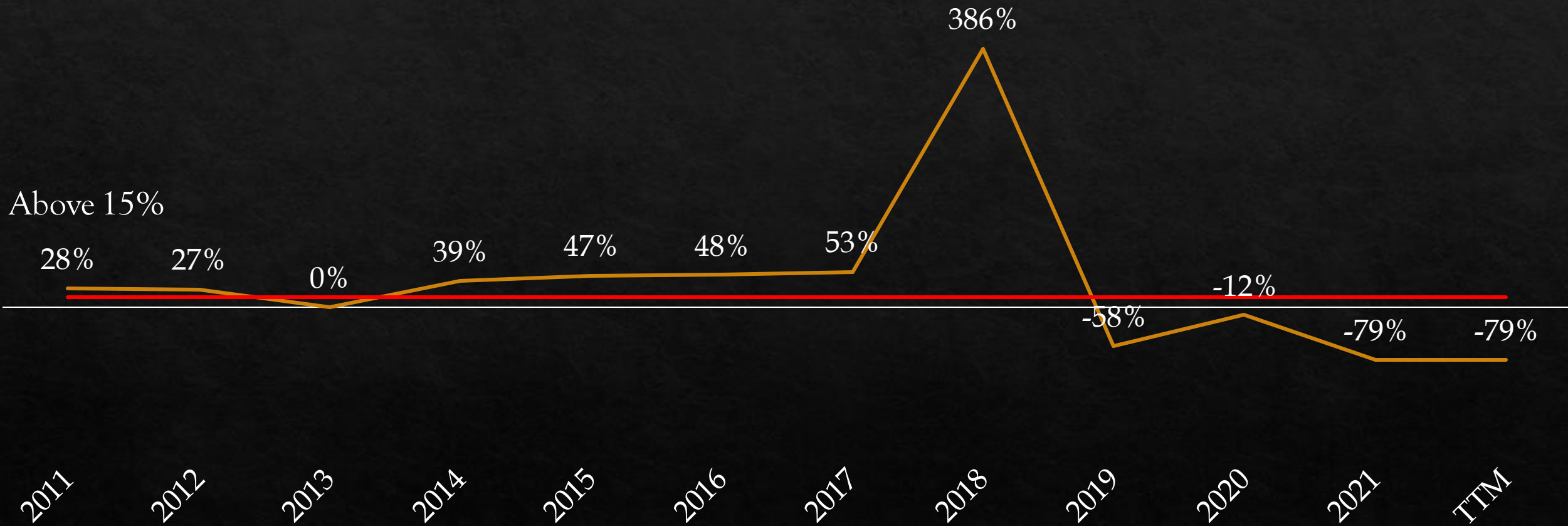
Interest Expense to Operating Income



Return on Equity

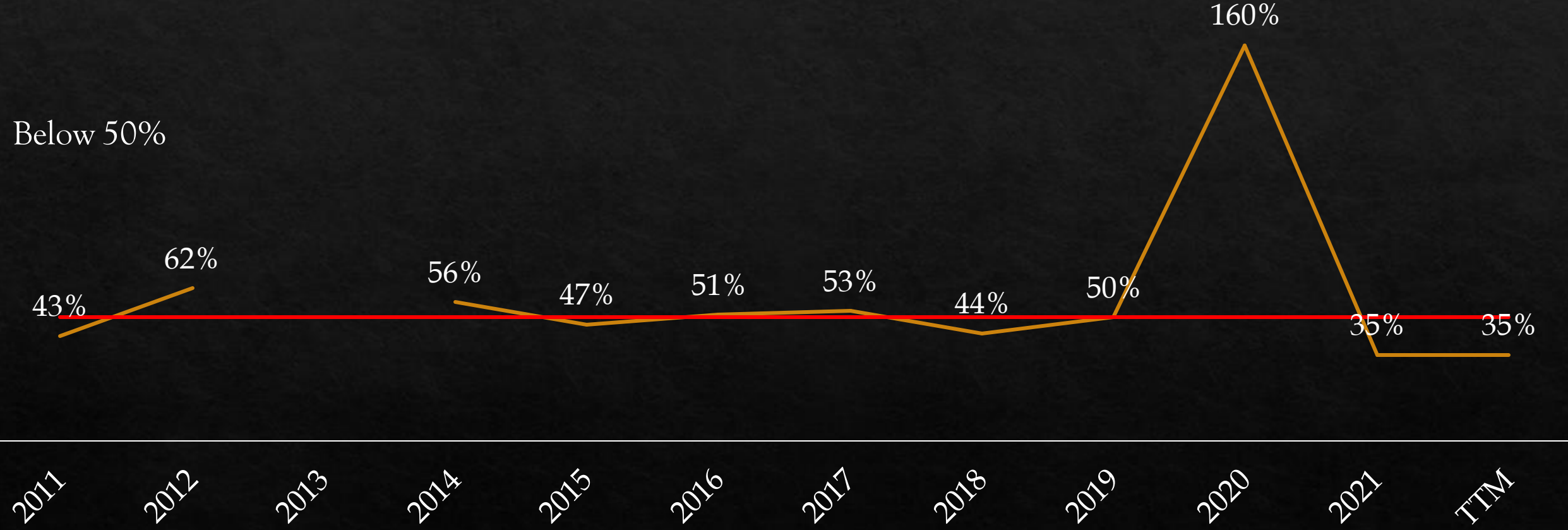


Return on Invested Capital



Capital Expenditure to Net Income

Below 50%



Obligation Ratio

- ◆ Add: ST Debt \$996
- ◆ Add: LT Debt \$13,619
- ◆ Add: Leases*7 \$9,384
- ◆ Add: Pension Shortfall \$-0
- ◆ Add: Preferred Stock \$0
- ◆ Less: Cash Assets \$6,617

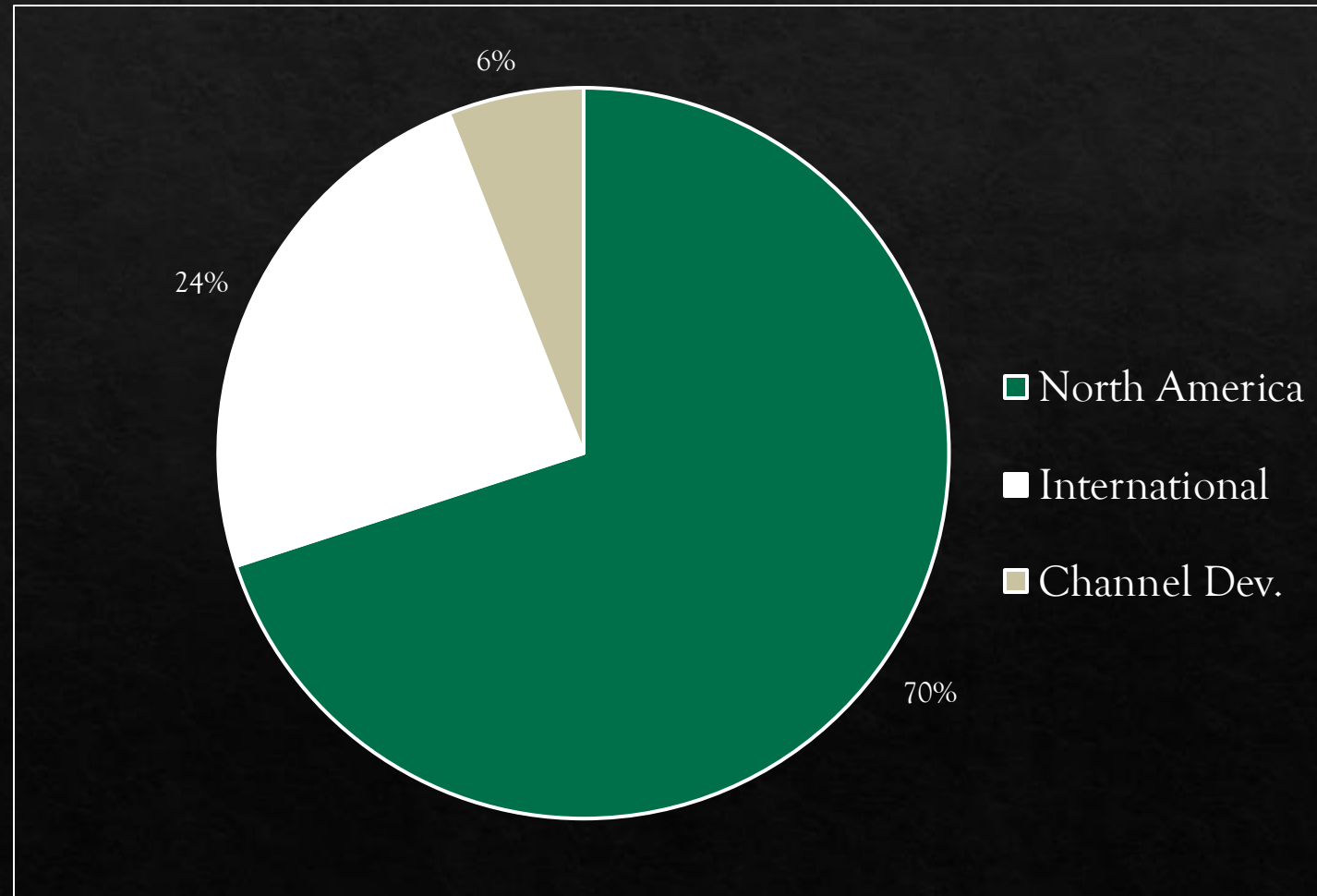
- ◆ 2022 Net Income \$4,035

2022 Obligation Ratio

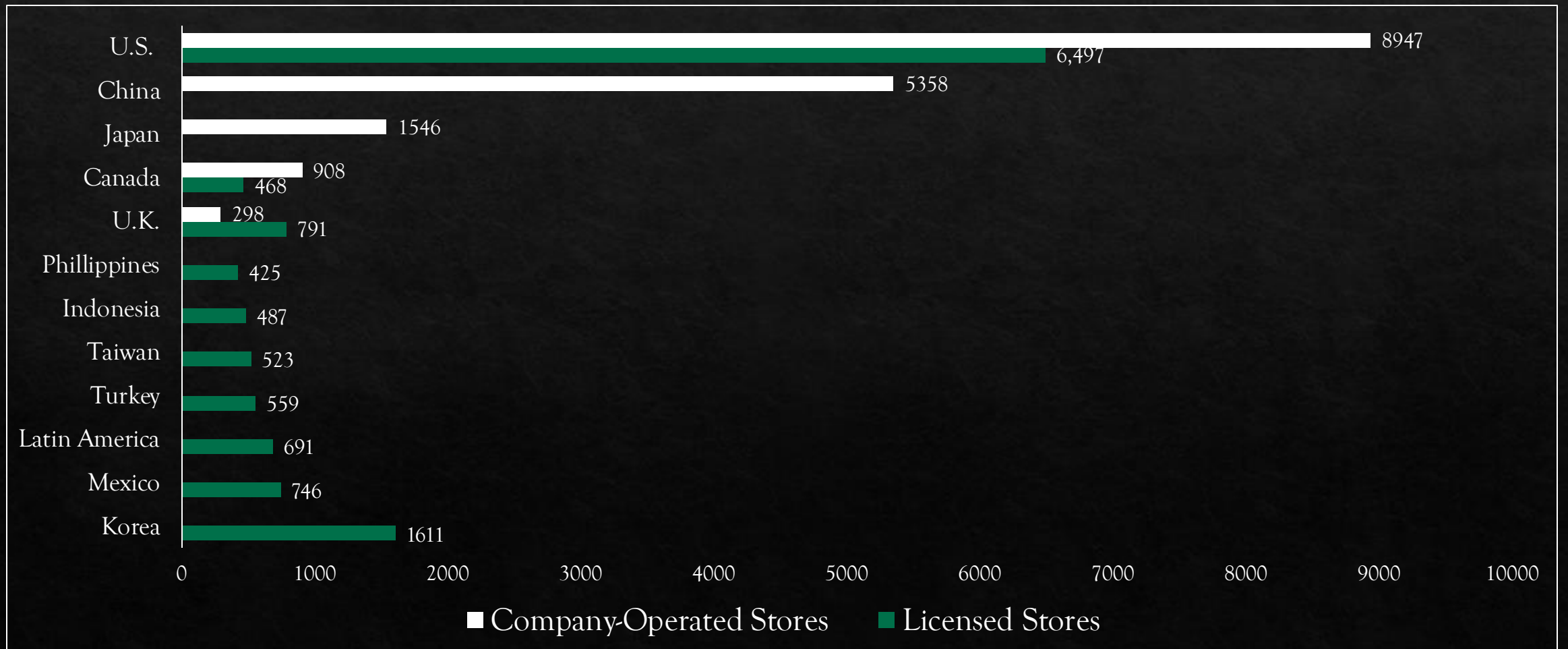
4.31 Years

Operating Segments

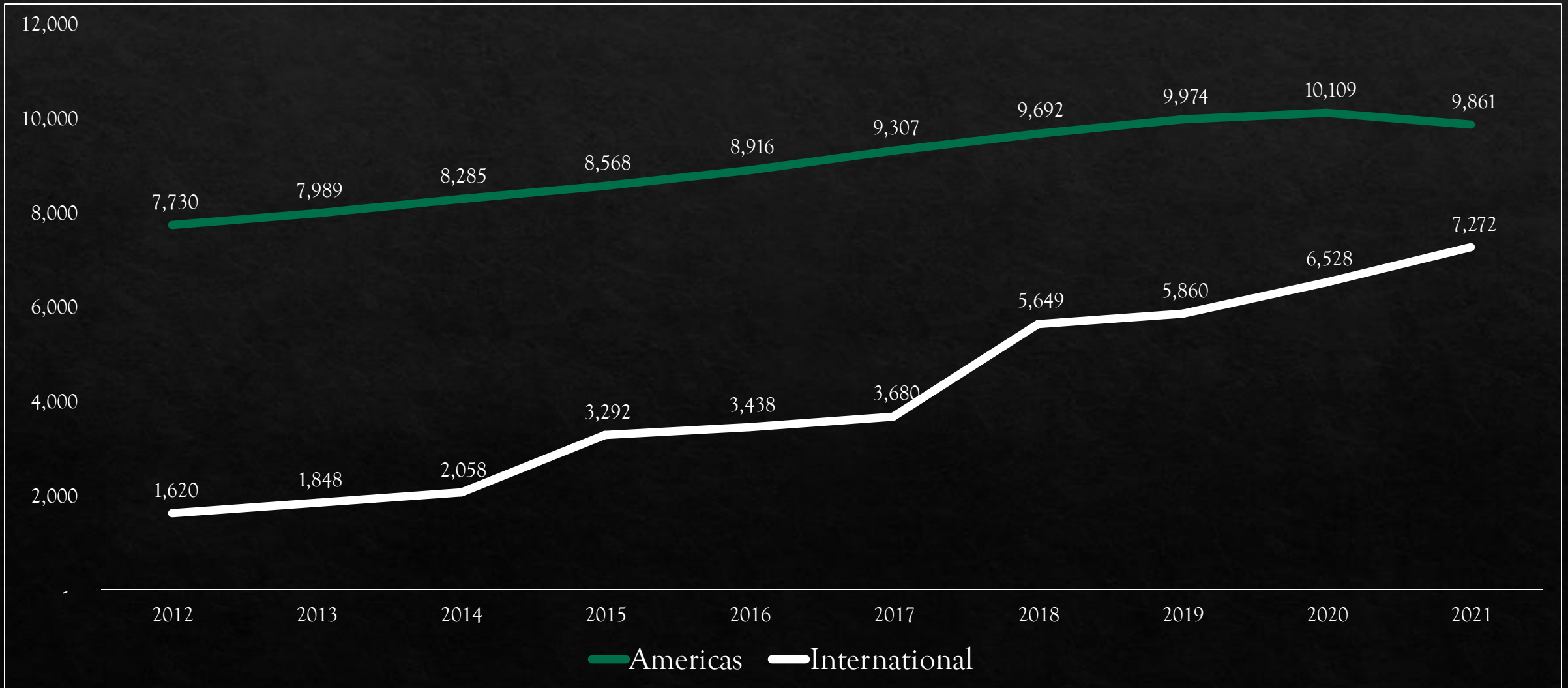
- ◆ U.S. and Canada remained dominant markets
- ◆ International includes China, Japan, Asia Pacific, Europe, Middle East, Africa, Latin America and Caribbean
- ◆ Channel Development includes foodservice and other branded products



2021 Global Stores



Company Operated Stores



Global Expansion

- ◆ China rewards members increased 51% over the previous year
- ◆ 90-day active Starbucks Rewards members grew to a record 17.9M
- ◆ Of 2,000 stores opened, over 600 in China



Risk Factors

- ◇ COVID 19
- ◇ Shortage of Employees
- ◇ Growth reliance in China
- ◇ Change in customers tastes and preference
- ◇ Highly competitive industry

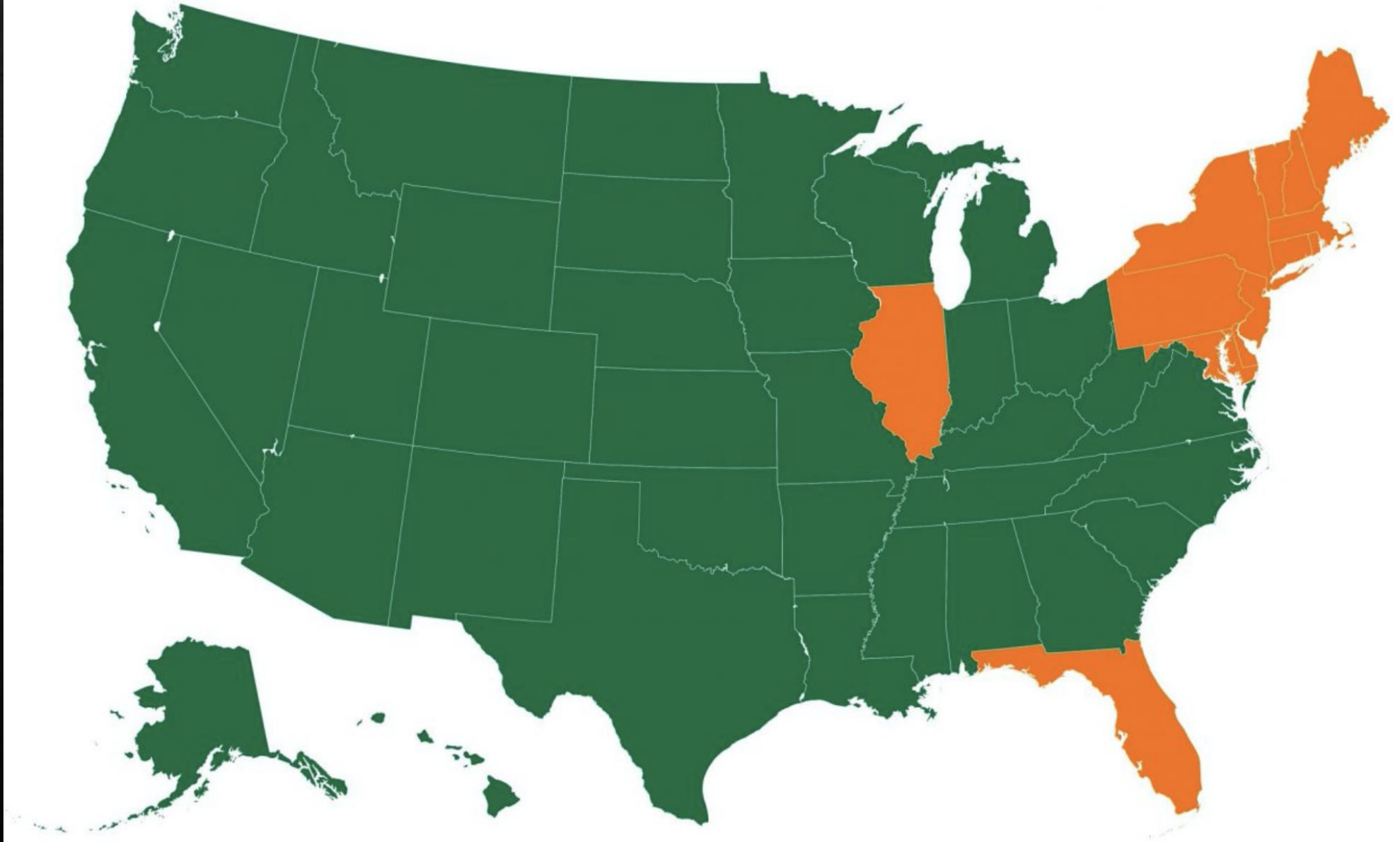


Competitors



Coffee Brands with most Locations per State

■ Starbucks ■ Dunkin'



Competition

- ◆ Dunkin is second with 26% of market share, Starbucks 40%
- ◆ In 2020 a survey of 2,000 coffee drinkers revealed 49 percent of respondents become at-home baristas during quarantine
- ◆ Dutch Bros grows to 655 stores as of 2022





**WHY IS
STARBUCKS
SO EXPENSIVE?**

GuruFocus DCF Scenarios

Bear

EPS: \$3.24

Growth: 4.5%

Discount: 9.0%

Fair Value: \$42.45

MoS: -128.80%

Base

EPS: \$3.24

Growth: 8.0%

Discount: 9.0%

Fair Value: \$53.84

MoS: -79.92%

Bull

EPS: \$3.24

Growth: 12.0%

Discount: 9.0%

Fair Value: \$70.86

MoS: -36.71%

5 year P/E Valuation

	2021A	2022E	2023E	2024E	2025E	2026E	TRR	CAGR
EPS	<i>\$3.24</i>	\$3.50	\$3.78	\$4.08	\$4.41	\$4.76		
Growth	----	8.0%	8.0%	8.0%	8.0%	8.0%		
P/E	32.9	25x	25x	25x	25x	25x		
Price	<i>\$96.87</i>	<i>\$87.50</i>	<i>\$94.50</i>	<i>\$102.00</i>	<i>\$110.24</i>	<i>\$119.00</i>	22.8%	4.2%

Today's Price: \$96.87

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**Expanding interest rates cause multiple compression*

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Today's Price: \$96.87

5 year P/E Valuation

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EPS	<i>\$3.24</i>	<i>\$3.50</i>	<i>\$3.78</i>	<i>\$4.08</i>	<i>\$4.41</i>	<i>\$4.76</i>		
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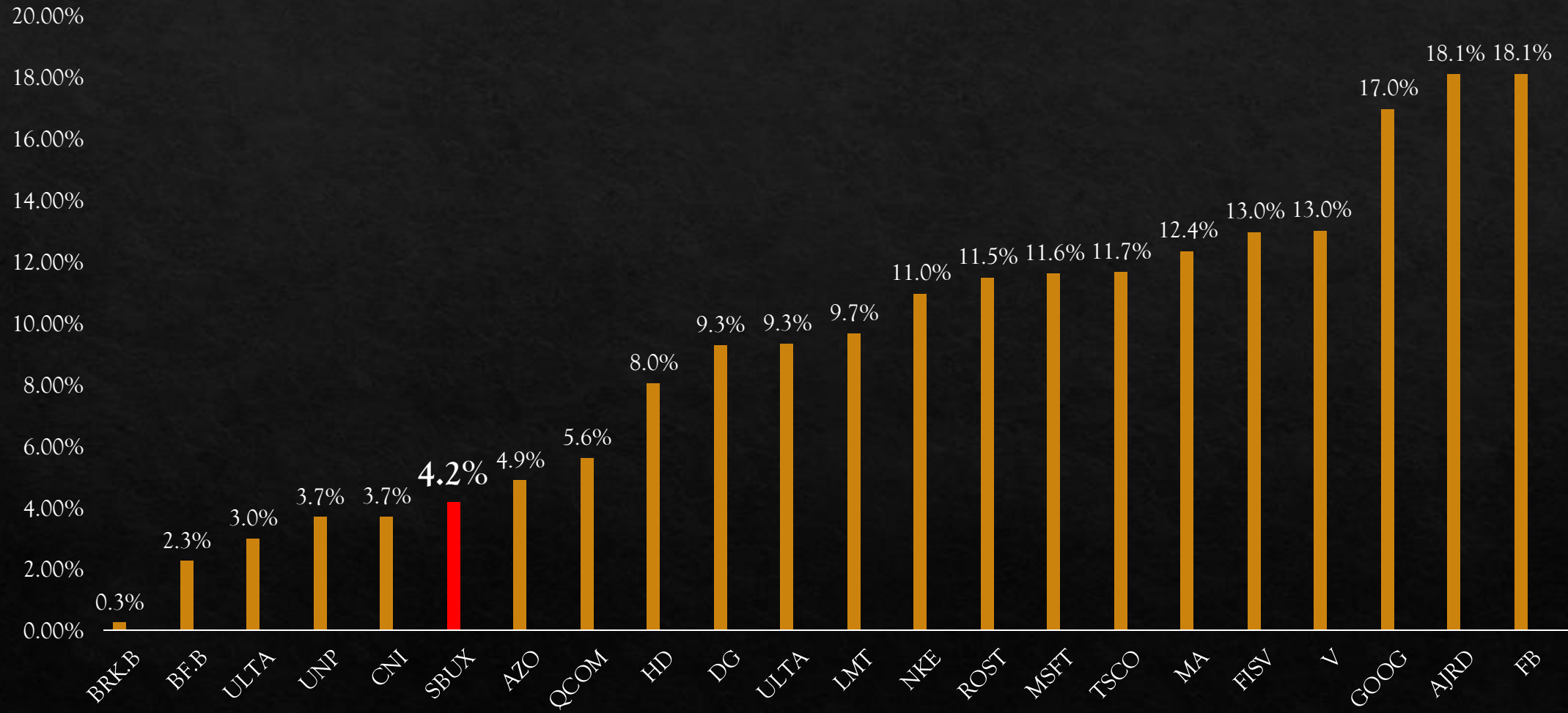
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Comparable Valuation

	P/S	P/E	EV/EBITDA	Gross Margins	
SBUX	3.9	26.9	20.1	28.9%	High valuation relative to competitors
MCD	8.5	26.1	19.6	53.7%	Slowing growth makes it potentially unjustifiable
QSR	4.7	23.1	15.6	56.9%	Ability to scale weakened
KDP	4.4	32.0	19.4	56.2%	Competitors may have or develop superior cost advantages and operating leverage
NSRGY	3.8	24.1	17.7	49.3%	

Base Portfolio CAGR (2021-2026)



Source: BIC Dashboard (Implied Yearly RoR)

Conclusion

- ◇ Deteriorating quality based on consumer research and anecdotal evidence
- ◇ Rising cost – mainly raw materials and supply chain issues
- ◇ Interest rates increasing
- ◇ Richly valued
- ◇ Opportunity cost – is this the best use of our money?

