

March 28, 2023

STARBUCKS



Starbucks Corporation (NASDAQ: SBUX)

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A Coffee Giant

Starbucks consistently performs at the head of its industry while staying on top of changing consumer demands

Key Points

Market-leading retail coffee company

~36,000 Stores worldwide

383,000 Employees

Non-Franchised Business

10M Cups Sold/Day

Third Time's the Charm

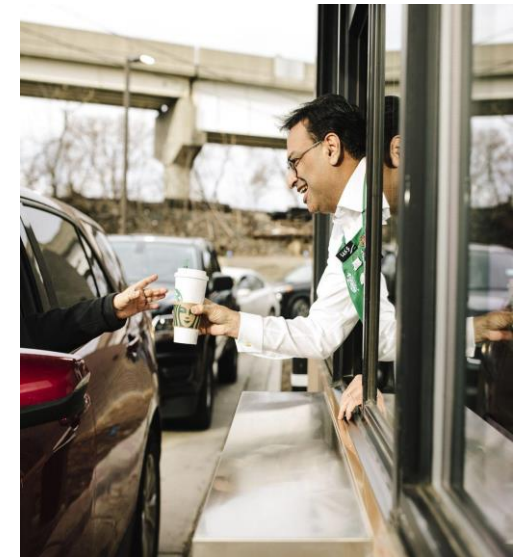
Following the second step-down of renowned CEO Howard Schultz, Starbucks looks forward to leadership under Laxman Narasimhan— hand-picked and trained by Schultz.

YOY Sales Growth



Laxman Narasimhan
Instated as CEO

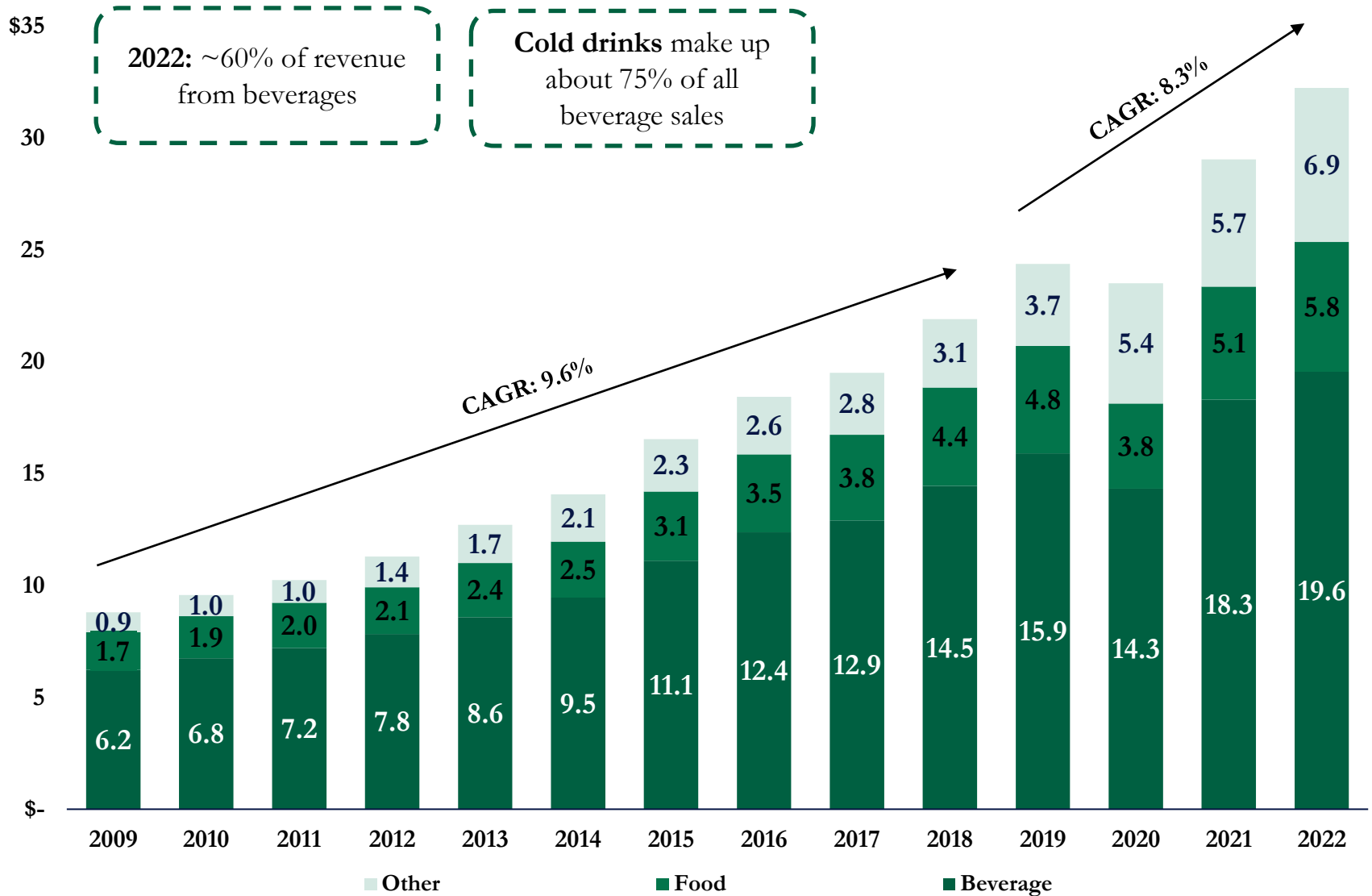
“I am never coming back again. **We found the right person**”
– Previous Starbucks CEO, Howard Schultz





Revenue Breakdown by Product Offering

Starbucks's brand reputation, customer satisfaction, and ever-changing menu keep sales on the rise





Investment Thesis

1 Starbucks has a hefty **economic moat** based on its well-established product diversification, loyal customer base, and leading market share

2 Starbucks is updating its business model to refocus on efficiency through **mobile orders and drive-thrus** rather than their traditional café model

Increase in consumer demand for mobile pre-orders and drive thrus shifts Starbucks away from being the “third place”

Starbucks is expanding drive thru locations in the U.S. while increasing their presence in China

BUY

Price Target: \$120.06

Implied Upside: 21.7%



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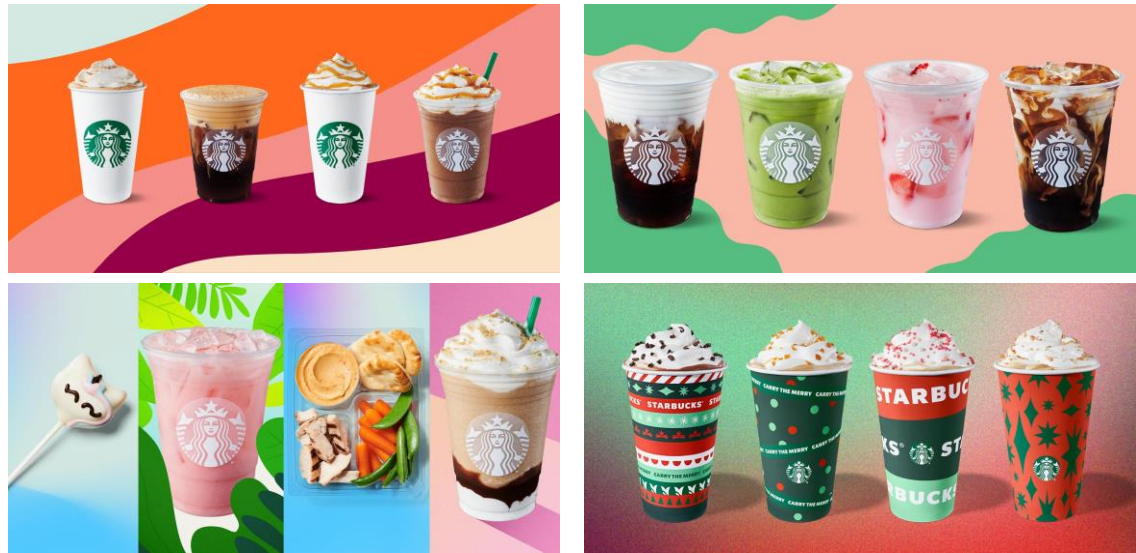
Brand Identity

Starbucks offers a wide range of products, catering to a broad range of customers and capturing various segments of the market

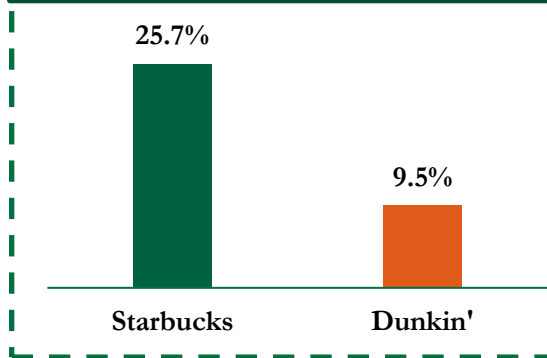
Year-Round Offerings



Seasonal Offerings



Traffic Increase (Week of Fall Launch)



Customization Revenue

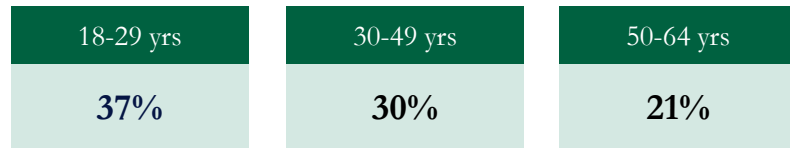
- 1 170,000 Customization Options
- 2 \$1B+ in Added Revenue
- 3 Increased Margins on add-ons



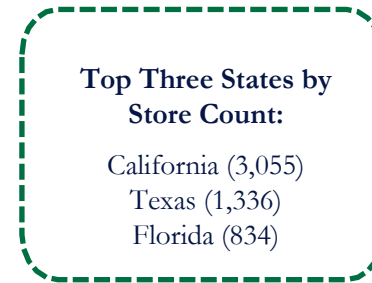
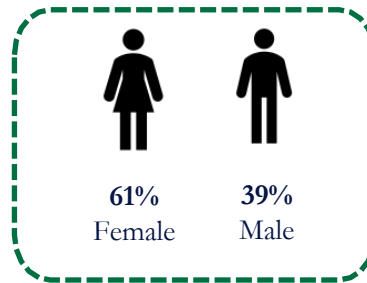
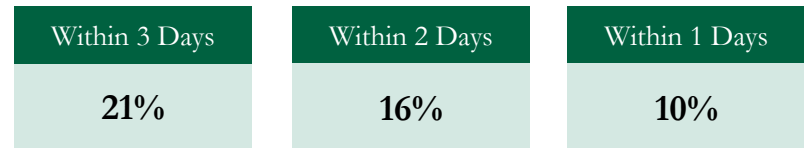
Never Too Far from the Next Perfect Sip

Starbucks' dominance in brand image, store count, and consumer satisfaction allows it to rise as a market leader

Target Audience

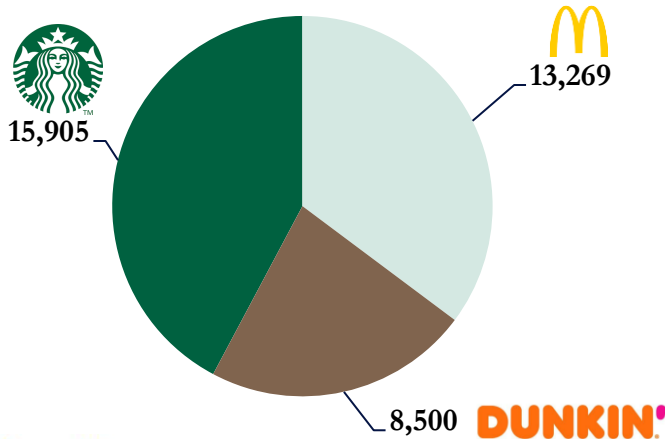


Incomparable Retention



Availability Second to None

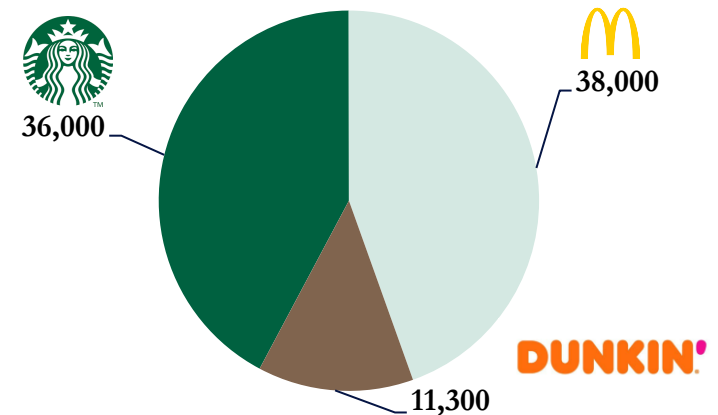
US Store Count



80%+
of Americans live within 20 miles of a Starbucks

3.6 locations
within a one-mile radius of the average Starbucks

Global Store Count

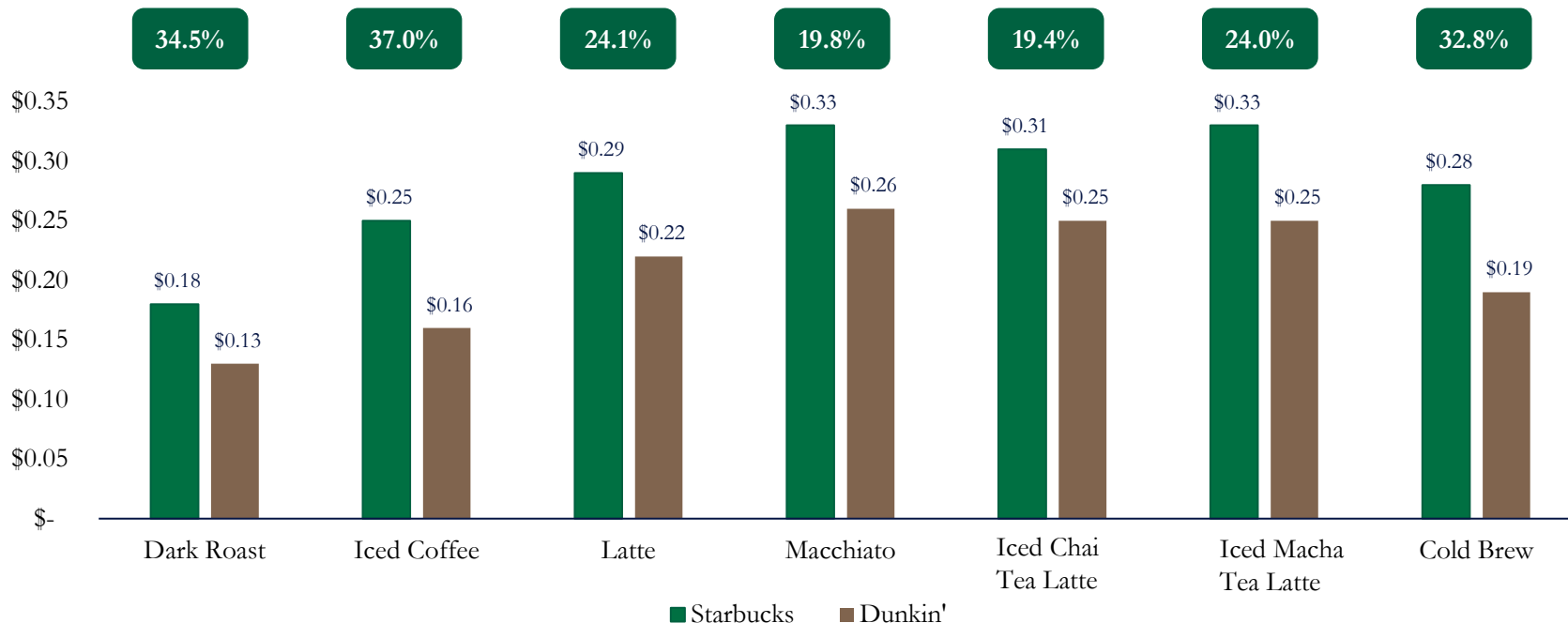




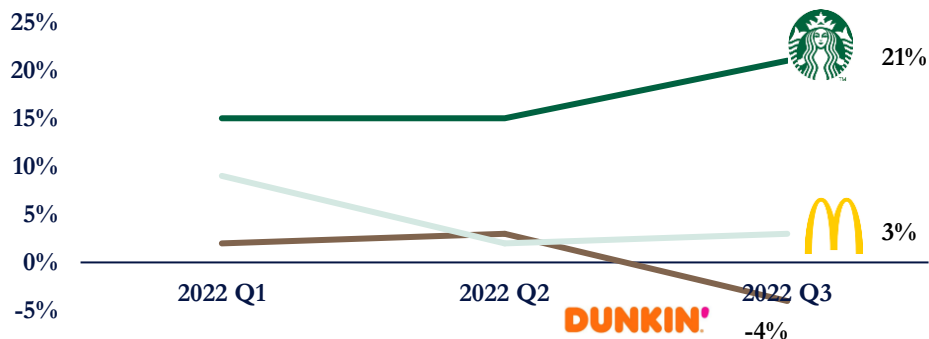
Pricing Power

Starbucks proves its economic moat through its steady stream of consumers willing to pay a premium price

Down to the Ounce



Foot Traffic



Starbucks foot traffic has been on the rise throughout 2022 while competitors decline

People are still willing to pay ~30% premium for coffee



Investment Thesis

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Starbucks is updating its business model to refocus on efficiency through **mobile orders and drive-thrus** rather than their traditional café model

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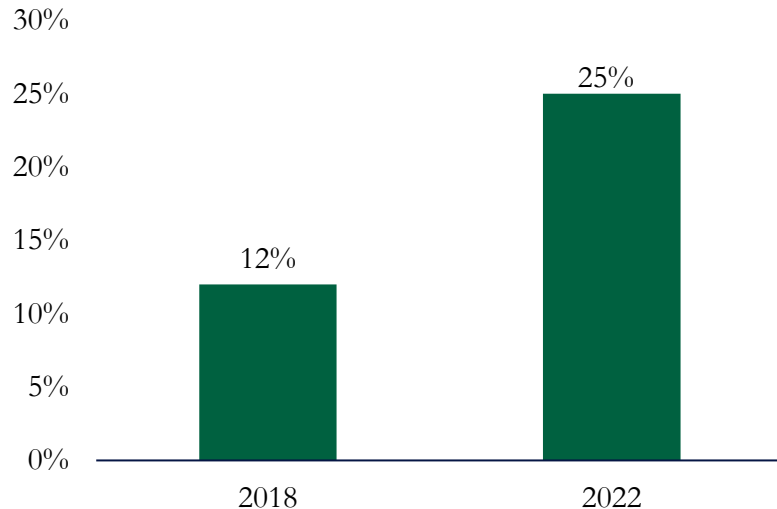
Starbucks Digital Age

The introduction of the Starbucks app and online Loyalty Rewards Program enhanced sticky customer relationships

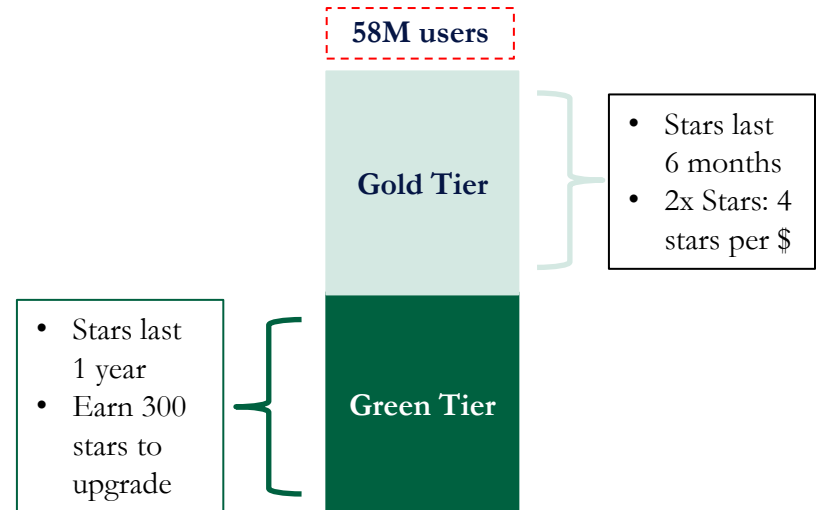
The Restaurant Industry's Most Used Rewards App (10% of US Adult Population)



Mobile Ordering Channel Growth



Mobile Reward Tiers





Grab and Go!

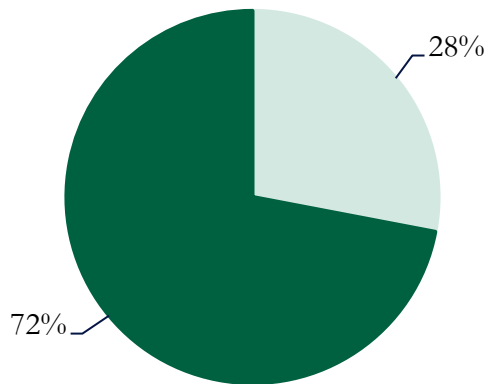
Orders placed via the Starbucks mobile app limit customer traffic in-store in favor of convenient pick-ups

Rewards App as a Digital Marketing Tool



Keeping their Social Distance

Order Placements

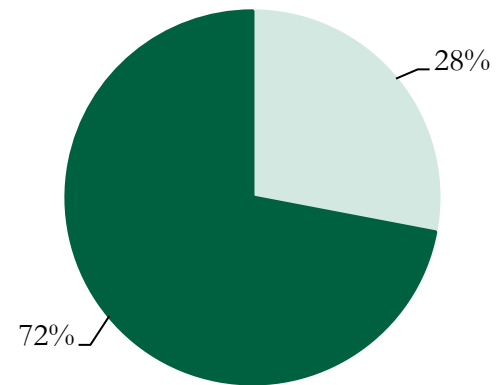


■ In-Person ■ Mobile & Drive Thru

~58M
Starbucks Rewards members around the world

27M
members in the United States, representing 13%+ growth YOY

Revenue by Order Channel



■ In-Store ■ Mobile & Drive Thru



Step on the Gas

Consumers are losing interest in the sit-down café experience, spurring Starbucks to shift to more quick service models

Traditional Drive-Thru Restaurants

- Maintain café seating areas while servicing drive thru customers
- **~90% of new locations are being built with drive-thrus**
- Customers order through tablets operated by employees



Drive Thru Primary Restaurants

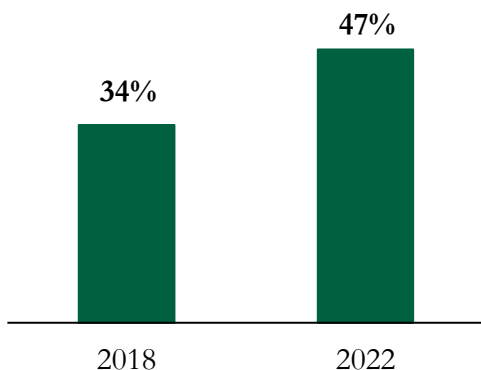
- Smaller footprint stores generate better margins
- Limited seating emphasizes grab-and-go quickness
- **Less focus on being the “third place”**– the crossover between the office and the home



The Future is Drive Thru

As consumers continue to move back into the office, demand for efficient in-and-out coffee service has dramatically increased, driving construction of drive-through installations within locations and limited in-store seating.

% Drive Thru Orders



~10M
Americans drink Starbucks every day

~84%
of Americans have tried Starbucks





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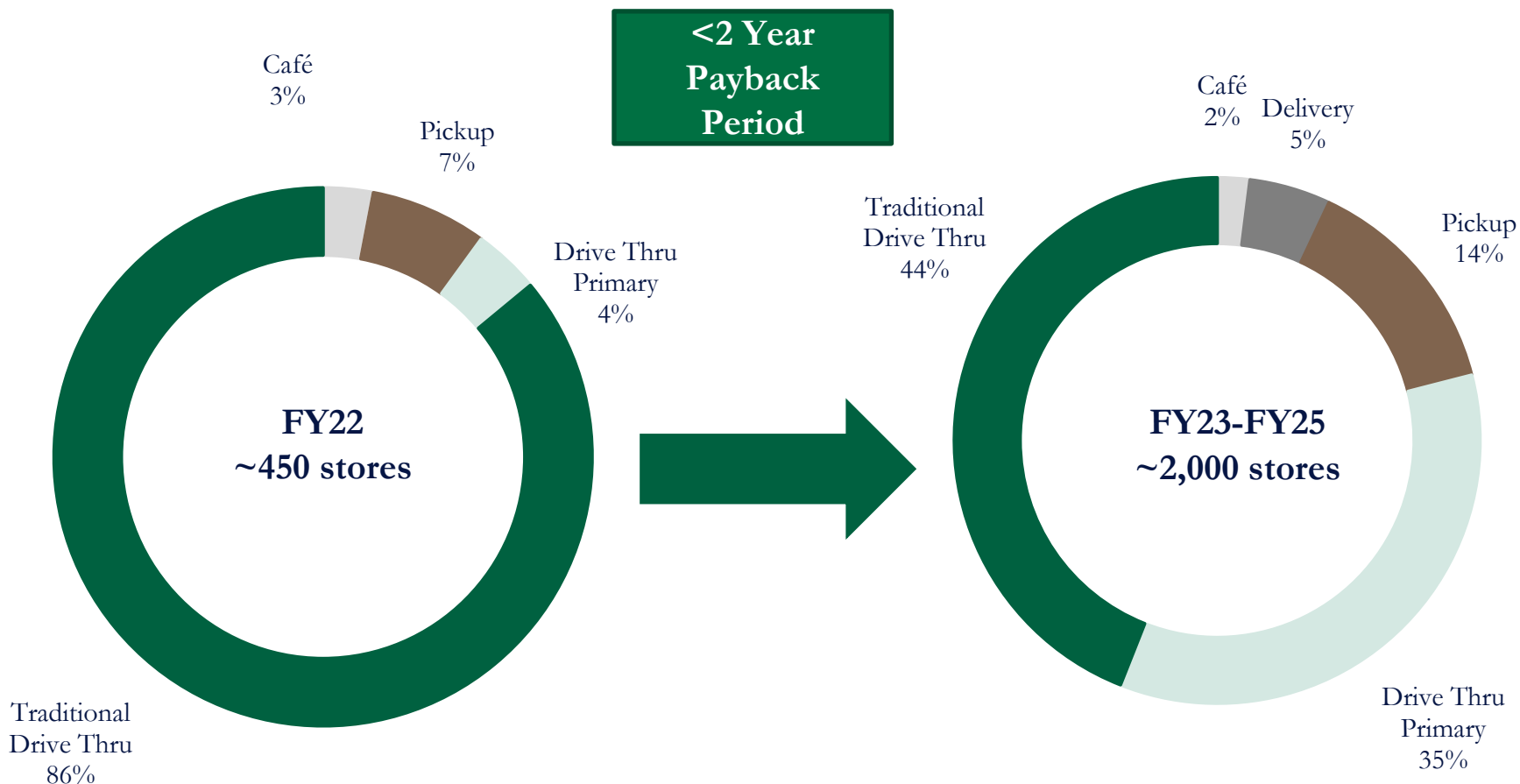
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Reinvention plan

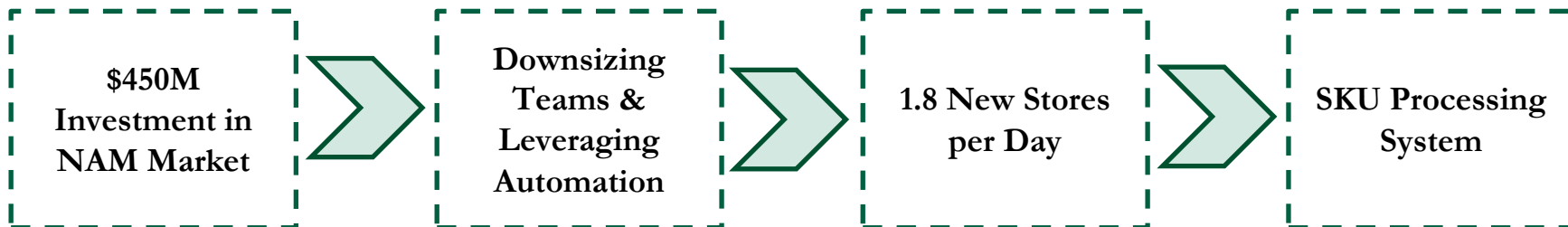
Through their \$450M investment, Starbucks will look to implement their efficiency plan in the existing and future NAM stores





Your Order is Ready!

Mass rollout of the new proprietary technology slashes preparation times down to seconds

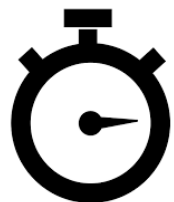


Innovative Technology Revolutionizes Store Management

Optimized:



20 Hours



~60 Seconds



1200.0x



80 Seconds



30 Seconds



2.6x



Settling a Score in China

Starbucks targets a total revamp of their China market, increasing the scope of their global brand

China is Starbucks's second-largest market behind the U.S.



Chinese per Capita Demand for Coffee Growing at 16% through 2025

3,000 New Stores in Three Years

70 New Cities

85 Million New Starbucks Rewards Members

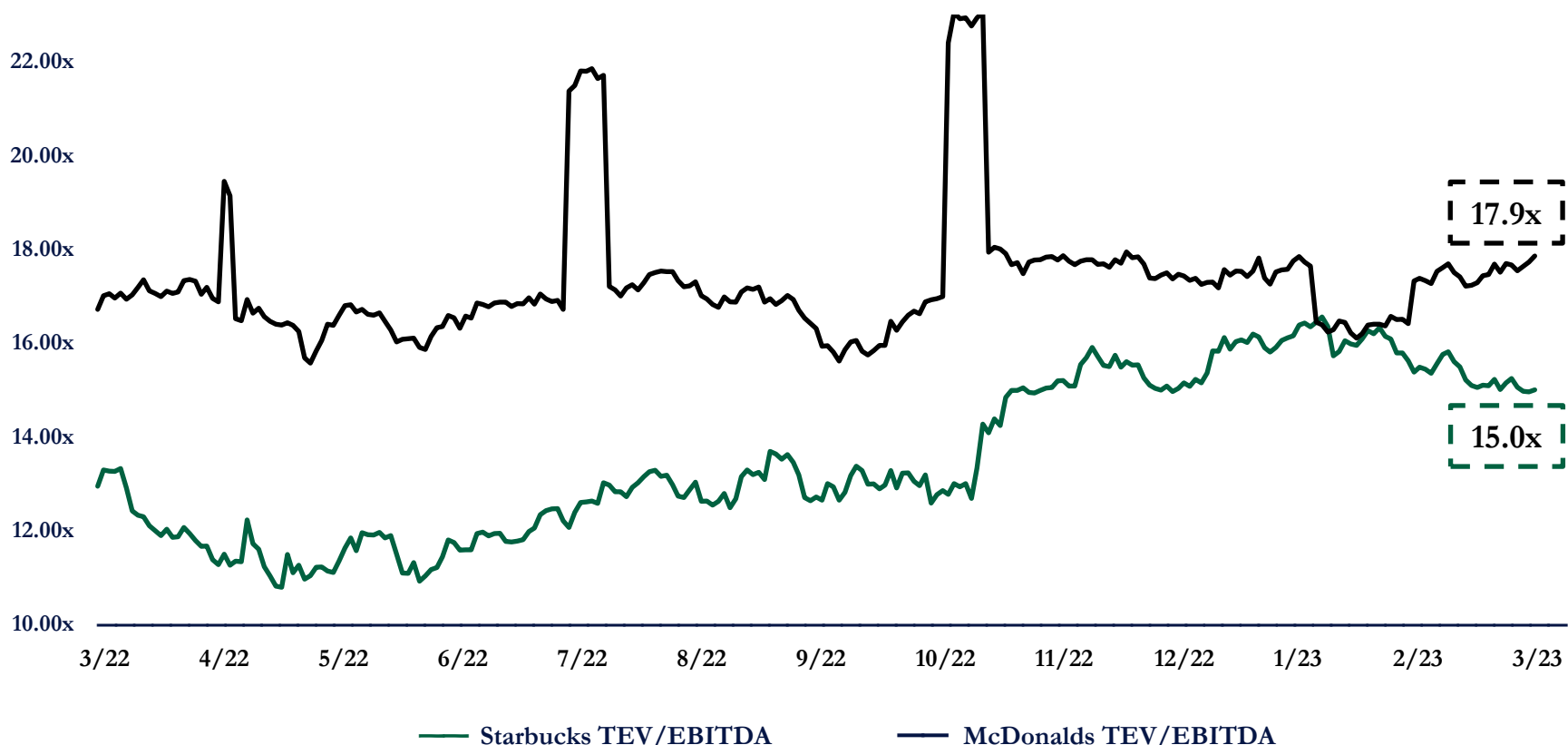


No Time like the Present

Starbucks is currently trading at the lowest TEV/EBITDA multiple in comparison to its competitors

Multiple Evolution

Market Close 3/27			
Share Price:	\$98.66	TEV/EBITDA:	15.0x
Share Price at 17.9x:	\$120.81	Return at 17.9x:	22.2%





Final Recommendation

1 Starbucks has a hefty **economic moat** based on its well-established product diversification, loyal customer base, and leading market share

2 Starbucks is updating its business model to refocus on efficiency through **mobile orders and drive-thrus** rather than their traditional café model

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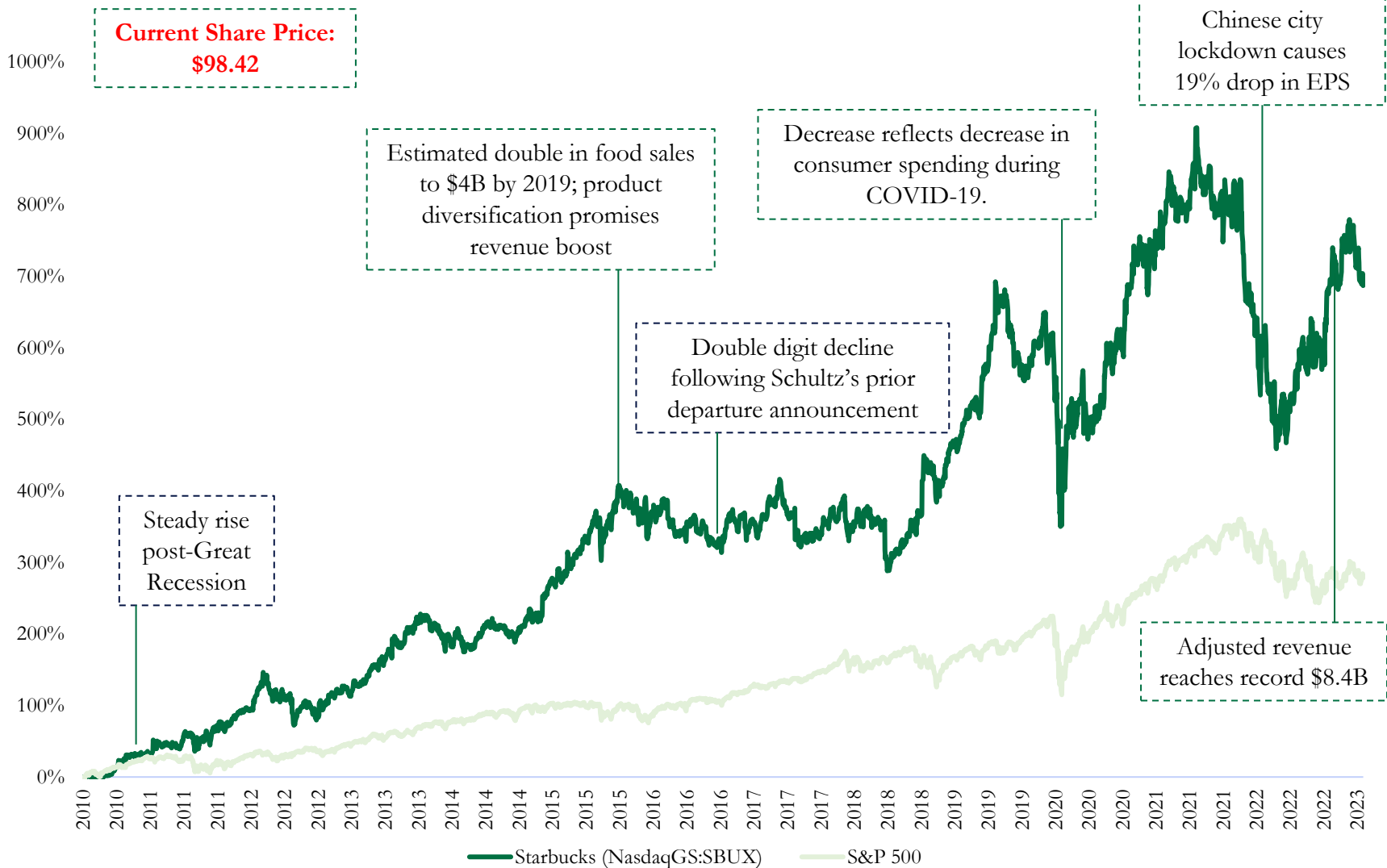


Appendix



Annotated Stock Chart

Starbucks's stock price saw relatively stable growth from 2010-2018. Recent years have seen fluctuations magnifying the market.





Cross-Platform Collabs

The Rewards app amplifies the customer experience through partnerships with convenient and user-friendly apps.



Google Pay



Uber Eats



Competitive Landscape

Starbucks dominates the NAM market but leaves room for improvement globally.

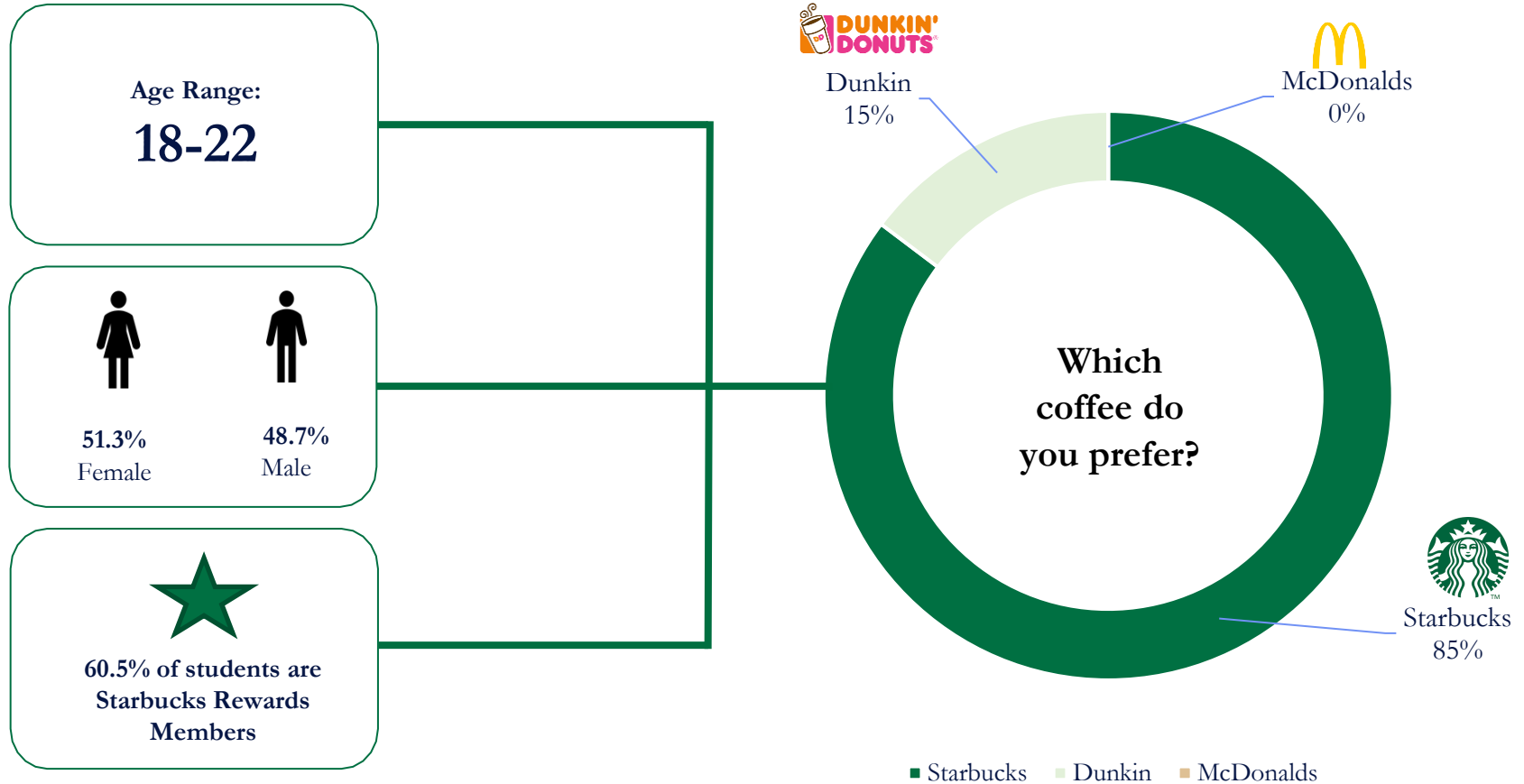


U.S. Store Count	15,905 U.S. Stores	13,269 U.S. Stores	13,269 U.S. Stores
Global Store Count	~36,000 Stores	~38,000 Stores	~11,300 Stores
Total Countries in Operation	80	100	36
Total Countries in Bean Sourcing	30	4	8
Cups Sold/day	~4 Million Cups/day	~2 Million Cups/day	~3 Million Cups/day



The Notre Dame Choice

Despite having lower income as college students, Notre Dame students overwhelmingly prefer Starbucks coffee over competitors.





DCF Base Case

For Fiscal Year	2023E	2024E	2025E	2026E	2027E
<i>(\$ in millions, unless otherwise noted)</i>					
Total Revenue	33,912	37,784	42,026	46,725	51,884
Product and Distribution Costs	(10,682)	(11,335)	(12,608)	(14,556)	(16,084)
Store Operating Expenses	(13,463)	(15,491)	(17,458)	(18,977)	(20,770)
Other Operating Expenses	(488)	(546)	(612)	(713)	(865)
D&A Expense	(1,310)	(1,423)	(1,588)	(1,830)	(2,004)
General And Administrative Expenses	(2,138)	(2,291)	(2,545)	(2,686)	(2,799)
EBIT	5,831	6,698	7,215	7,963	9,362
Taxes	(1,307)	(1,501)	(1,617)	(1,784)	(2,098)
NOPAT	4,525	5,197	5,598	6,178	7,264
D&A Expense	1,310	1,423	1,588	1,830	2,004
CapEx	-	-	-	-	-
Change in NWC	(586)	590	563	539	674
Unlevered Free Cash Flow	5,249	7,210	7,749	8,547	9,942
WACC	9.37%	9.37%	9.37%	9.37%	9.37%
Present Value of FCF	5,019	6,304	6,194	6,247	6,644
Discount Period	0.5	1.5	2.5	3.5	4.5
Sum of Discounted Cash Flows	30,408				



DCF Base Case

Exit Multiple Method		Perpetuity Growth Rate Method	
Discount Rate	9.4%	Discount Rate	9.4%
Tax Rate	22%	Tax Rate	22%

Terminal Value Assumptions		Terminal Value Assumptions	
Terminal EBITDA (2027E)	11,366	FCF 2026P	9,942
Terminal Multiple	16.0x	Terminal Growth Rate	3.5%
Terminal Value	181,746	Terminal Value	175,309
Discount Period	4.5	Discount Period	4.5
Discount Factor	0.67	Discount Factor	0.67
PV of Terminal Value	121,459	PV of Terminal Value	117,157

Distribution of Value		Distribution of Value	
PV of Period Cash Flow	30,408	PV of Period Cash Flow	30,408
PV of Terminal Value	121,459	PV of Terminal Value	117,157
Total	151,867	Total	147,565
Period Cash Flow	20.0%	Period Cash Flow	20.6%
Terminal Cash Flow	80.0%	Terminal Cash Flow	79.4%
Total	100.0%	Total	100.0%
Implied PGR	9.4%	Implied Exit Multiple	15.4x

Share Value Multiple Method		Share Value Perpetuity Growth Meth	
Total Enterprise Value	151,867	Total Enterprise Value	147,565
(-) Debt	(14,914)	(-) Debt	(14,914)
(+) Cash	3,187	(+) Cash	3,187
Equity Value	140,139	Equity Value	135,837
Share Outstanding	1,149	Share Outstanding	1,149
Share Price	\$ 121.93	Share Price	\$ 118.19
<i>Upside / Downside</i>	<i>23.6%</i>	<i>Upside / Downside</i>	<i>19.8%</i>

Blended Implied Share Price	
Multiple Method	\$ 121.93
Perpetuity Growth Method	\$ 118.19
Blended Implied Share Price	\$ 120.06
<i>Upside / Downside</i>	<i>21.7%</i>



Operating Build

For Fiscal Year Ending	2020A	2021A	2022A	2023E	2024E	2025E	2026E	2027E
<i>(\$ in millions, unless otherwise noted)</i>								
Total Revenue	23,518	29,061	32,250	33,912	37,784	42,026	46,725	51,884
Product and Distribution Costs	(7,695)	(8,739)	(10,317)	(10,682)	(11,335)	(12,608)	(14,556)	(16,084)
Store Operating Expenses	(10,764)	(11,931)	(13,562)	(13,463)	(15,491)	(17,458)	(18,977)	(20,770)
Other Operating Expenses	(430)	(360)	(462)	(488)	(546)	(612)	(713)	(865)
Depreciation and Amortization Expenses	(1,431)	(1,442)	(1,448)	(1,310)	(1,423)	(1,588)	(1,830)	(2,004)
General And Administrative Expenses	(1,680)	(1,933)	(2,032)	(2,138)	(2,291)	(2,545)	(2,686)	(2,799)
Restructuring and Impairments	(279)	(170)	(46)	-	-	-	-	-
Income From Equity Investees	323	385	234	-	-	-	-	-
Operating Income	1,562	4,872	4,618	5,831	6,698	7,215	7,963	9,362
Interest Expense	(437)	(470)	(482)	(450)	(572)	(647)	(778)	(892)
Interest & Investment Income	40	90	97	44	54	45	27	39
Net Gain Resulting from Divestiture of Certain Operations	-	865	-	-	-	-	-	-
Pretax Profit	1,164	5,357	4,233	5,831	6,698	7,215	7,963	9,362
Provision For Income Tax	(240)	(1,157)	(949)	(1,307)	(1,501)	(1,617)	(1,784)	(2,098)
Minority Interest	4	(1)	(2)	(2)	(2)	(2)	(2)	(2)
Net Income	928	4,199	3,283	4,523	5,195	5,596	6,177	7,262
D&A Expense	1,431	1,442	1,448	488	546	612	713	865
EBITDA	2,993	6,314	6,066	6,319	7,243	7,827	8,676	10,227
Historical One-Time Expense	-	-	-	-	-	-	-	-
Adjusted EBITDA	2,993	6,314	6,066	6,319	7,243	7,827	8,676	10,227
Capital Expenditures	444	432	378	-	-	-	-	-
Change in Net Working Capital	-	1,605	(2,133)	586	(590)	(563)	(539)	-



Assumptions

For Fiscal Year Ending	2020A	2021A	2022A	2023E	2024E	2025E	2026E	2027E
<i>(\$ in millions, unless otherwise noted)</i>								
Total Revenue	23,518	29,061	32,250	33,912	37,784	42,026	46,725	51,884
<i>% growth</i>		<i>23.6%</i>	<i>11.0%</i>	<i>5.2%</i>	<i>11.4%</i>	<i>11.2%</i>	<i>11.2%</i>	<i>11.0%</i>
Product & Distribution Costs	7,695	8,739	10,317	10,682	11,335	12,608	14,556	16,084
<i>% of revenue</i>	<i>32.7%</i>	<i>30.1%</i>	<i>32.0%</i>	<i>31.5%</i>	<i>30.0%</i>	<i>30.0%</i>	<i>31.2%</i>	<i>31.0%</i>
Base				<i>31.5%</i>	<i>30.0%</i>	<i>30.0%</i>	<i>31.2%</i>	<i>31.0%</i>
Bull				<i>31.5%</i>	<i>30.0%</i>	<i>30.0%</i>	<i>31.2%</i>	<i>31.0%</i>
Bear				<i>31.5%</i>	<i>30.0%</i>	<i>30.0%</i>	<i>31.2%</i>	<i>31.0%</i>
Store Operating Expenses	10,764	11,931	13,562	13,463	15,491	17,458	18,977	20,770
<i>% of revenue</i>	<i>45.8%</i>	<i>41.1%</i>	<i>42.1%</i>	<i>39.7%</i>	<i>41.0%</i>	<i>41.5%</i>	<i>40.6%</i>	<i>40.0%</i>
Base				<i>39.7%</i>	<i>41.0%</i>	<i>41.5%</i>	<i>40.6%</i>	<i>40.0%</i>
Bull				<i>39.7%</i>	<i>41.0%</i>	<i>41.5%</i>	<i>40.6%</i>	<i>40.0%</i>
Bear				<i>39.7%</i>	<i>41.0%</i>	<i>41.5%</i>	<i>40.6%</i>	<i>40.0%</i>
Other Operating Expenses	430	360	462	488	546	612	713	865
<i>% of revenue</i>	<i>1.8%</i>	<i>1.2%</i>	<i>1.4%</i>	<i>1.4%</i>	<i>1.4%</i>	<i>1.5%</i>	<i>1.5%</i>	<i>1.7%</i>
Base				<i>1.4%</i>	<i>1.4%</i>	<i>1.5%</i>	<i>1.5%</i>	<i>1.7%</i>
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Depreciation & Amortization Expenses	1,431	1,442	1,448	1,310	1,423	1,588	1,830	2,004
<i>% of revenue</i>	<i>6.1%</i>	<i>5.0%</i>	<i>4.5%</i>	<i>3.9%</i>	<i>3.8%</i>	<i>3.8%</i>	<i>3.9%</i>	<i>3.9%</i>
Base				<i>3.9%</i>	<i>3.8%</i>	<i>3.8%</i>	<i>3.9%</i>	<i>3.9%</i>
Bull				<i>3.9%</i>	<i>3.8%</i>	<i>3.8%</i>	<i>3.9%</i>	<i>3.9%</i>
Bear				<i>3.9%</i>	<i>3.8%</i>	<i>3.8%</i>	<i>3.9%</i>	<i>3.9%</i>
General & Administrative Expenses	1,680	1,933	2,032	2,138	2,291	2,545	2,686	2,799
<i>% of revenue</i>	<i>7.1%</i>	<i>6.7%</i>	<i>6.3%</i>	<i>6.3%</i>	<i>6.1%</i>	<i>6.1%</i>	<i>5.7%</i>	<i>5.4%</i>
Base				<i>6.3%</i>	<i>6.1%</i>	<i>6.1%</i>	<i>5.7%</i>	<i>5.4%</i>
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Interest & Investment Income	40	90	97	44	54	45	27	39
<i>% of revenue</i>	<i>0.2%</i>	<i>0.3%</i>	<i>0.3%</i>	<i>0.1%</i>	<i>0.1%</i>	<i>0.1%</i>	<i>0.1%</i>	<i>0.1%</i>
Base				<i>0.1%</i>	<i>0.1%</i>	<i>0.1%</i>	<i>0.1%</i>	<i>0.1%</i>
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Bear				<i>0.1%</i>	<i>0.1%</i>	<i>0.1%</i>	<i>0.1%</i>	<i>0.1%</i>
Provisions for Income Tax	240	1,157	949	1,307	1,501	1,617	1,784	2,098
<i>% effective tax rate</i>	<i>20.6%</i>	<i>21.6%</i>	<i>22.4%</i>	<i>22.4%</i>	<i>22.4%</i>	<i>22.4%</i>	<i>22.4%</i>	<i>22.4%</i>
Base				<i>22.4%</i>	<i>22.4%</i>	<i>22.4%</i>	<i>22.4%</i>	<i>22.4%</i>
Bull				<i>22.4%</i>	<i>22.4%</i>	<i>22.4%</i>	<i>22.4%</i>	<i>22.4%</i>
Bear				<i>22.4%</i>	<i>22.4%</i>	<i>22.4%</i>	<i>22.4%</i>	<i>22.4%</i>



Revenue Build

For Fiscal Year Ending <i>(\$ in millions, unless otherwise noted)</i>	2020A	2021A	2022A	2023E	2024E	2025E	2026E	2027E
Total Revenue	21,492	27,291	30,232	33,912	37,784	42,026	46,725	51,884
<i>% growth</i>		27.0%	10.8%	12.2%	11.4%	11.2%	11.2%	11.0%
Company Owned Stores								
Number of North American Stores	10,109	9,861	10,216	10,574	10,922	11,283	11,678	12,087
<i>% growth</i>		(2.5%)	3.6%	3.5%	3.3%	3.3%	3.5%	3.5%
Base				3.5%	3.3%	3.3%	3.5%	3.5%
Bull				4.2%	4.0%	4.0%	4.2%	4.2%
Bear				3.0%	2.8%	2.8%	3.0%	3.0%
Average Revenue per Store	1.46	1.90	2.08	2.18	2.28	2.38	2.48	2.58
Total North American Company Owned Stores Revenue	14,779	18,737	21,214	23,014	24,866	26,815	28,921	31,142
Number of International Stores	6,528	7,272	8,037	8,865	9,804	10,834	11,961	13,205
<i>% growth</i>		11.4%	10.5%	10.3%	10.6%	10.5%	10.4%	10.4%
Base				10.3%	10.6%	10.5%	10.4%	10.4%
Bull				12.4%	12.7%	12.6%	12.5%	12.5%
Bear				8.0%	8.8%	8.8%	8.7%	8.7%
Average Revenue per Store	0.67	0.81	0.67	0.72	0.77	0.82	0.87	0.92
Total International Company Owned Stores Revenue	4,386	5,870	5,362	6,357	7,522	8,853	10,372	12,111
Franchised Stores								
Number of North American Stores	8,245	6,965	7,079	7,766	8,081	8,445	8,825	9,222
<i>% growth</i>		(15.5%)	1.6%	9.7%	4.1%	4.5%	4.5%	4.5%
Base				9.7%	4.1%	4.5%	4.5%	4.5%
Bull				11.0%	4.9%	5.4%	5.4%	5.4%
Bear				8.1%	3.4%	3.8%	3.8%	3.8%
Average Revenue per Store	0.18	0.24	0.30	0.33	0.35	0.38	0.40	0.43
Total North American Franchised Stores Revenue	1,510	1,702	2,151	2,553	2,859	3,199	3,563	3,954
Number of International Stores	7,778	9,735	10,379	11,356	12,378	13,443	14,599	15,855
<i>% growth</i>		25.2%	6.6%	9.4%	9.0%	8.6%	8.6%	8.6%
Base				9.4%	9.0%	8.6%	8.6%	8.6%
Bull				11.3%	10.8%	10.3%	10.3%	10.3%
Bear				7.8%	7.5%	7.2%	7.2%	7.2%
Average Revenue per Store	0.11	0.10	0.15	0.18	0.21	0.24	0.27	0.30
Total International Franchised Stores Revenue	817	981	1,505	1,987	2,538	3,159	3,869	4,677
Other Revenue								
Other Revenue	2,026	1,770	2,019	2,170	2,333	2,508	2,696	2,898
<i>% growth</i>		(12.6%)	14.1%	7.5%	7.5%	7.5%	7.5%	7.5%
Base				7.5%	7.5%	7.5%	7.5%	7.5%
Bull				9.0%	9.0%	9.0%	9.0%	9.0%
Bear				6.3%	6.3%	6.3%	6.3%	6.3%