



Bloomsburg Investment Group

Equity Analysis
 Starbucks Corporation (SBUX)
 Analyst:
 Jennifer Bresnan, Class of 2018
 Sam Stellwagon, Class of 2020

Bloomsburg Investment Group Opinion:

Based on our analysis, we consider Starbucks Corporation to be a strong hold. We feel that Starbucks is well positioned for growth in the future. Its product acquisition strategy and product development strategies continue to adapt to consumer preferences and provide great growth in same store sales. Starbucks international growth strategies should be the main driver for growth. They are expecting high double digit growth in Asia, specifically China, India, and Japan. Starbucks is also catering well to local cultures in terms of flavors. They are developing new flavors for each country they go into. This has significantly helped international sales. Overall we think Starbucks is positioned to do well both domestically through new product growth and acquisitions as well as internationally..

Corporate Summary:

Starbucks operates as a roaster, marketer, and retailer of specialty coffee and coffee related products worldwide. The company operates in four segments: Americas; Europe, Middle East, Africa; China/Asia Pacific; and Channel Development. Starbucks, and through its subsidiaries, offers coffee and tea beverages, packaged roasted whole bean and ground coffees, single serve products, baked goods and pastries, beverage-making equipment, juices and bottled water. In addition to selling its products, Starbucks also leases its product to grocery and other retail related stores. The company offers its products through several names including Teavana, Tazo, Evolution Fresh and La Boulange. As of October 30, 2014, Starbucks operated 21,366 stores in 65 countries including the United States, Canada, Japan, China, India, and the United Kingdom. Starbucks was founded in 1985 by Howard Schultz and is a Seattle, Washington based company. Starbucks has 191,000 employees worldwide.

Corporate Details:

Name	Starbucks Corp
Ticker	SBUX
Domicile	United States
Sector	Consumer Cyclical
Industry	Restaurants
Exchange	NASDAQ
Last Close	55.77
Price 52 Wk High	63.19
Price 52 Wk Low	50.84
Latest Dividend	0.25
Dividend Yield % TTM	1.52
Beta 5 Yr (Mo-End)	0.77
Avg Daily Volume (3 Mo)	8,979,517.00
Shares Outstanding (mil)	1,460.50
Number of Analysts	7



Starbucks Corp SBUX



Financial Summary, Year End 2015 (in millions)

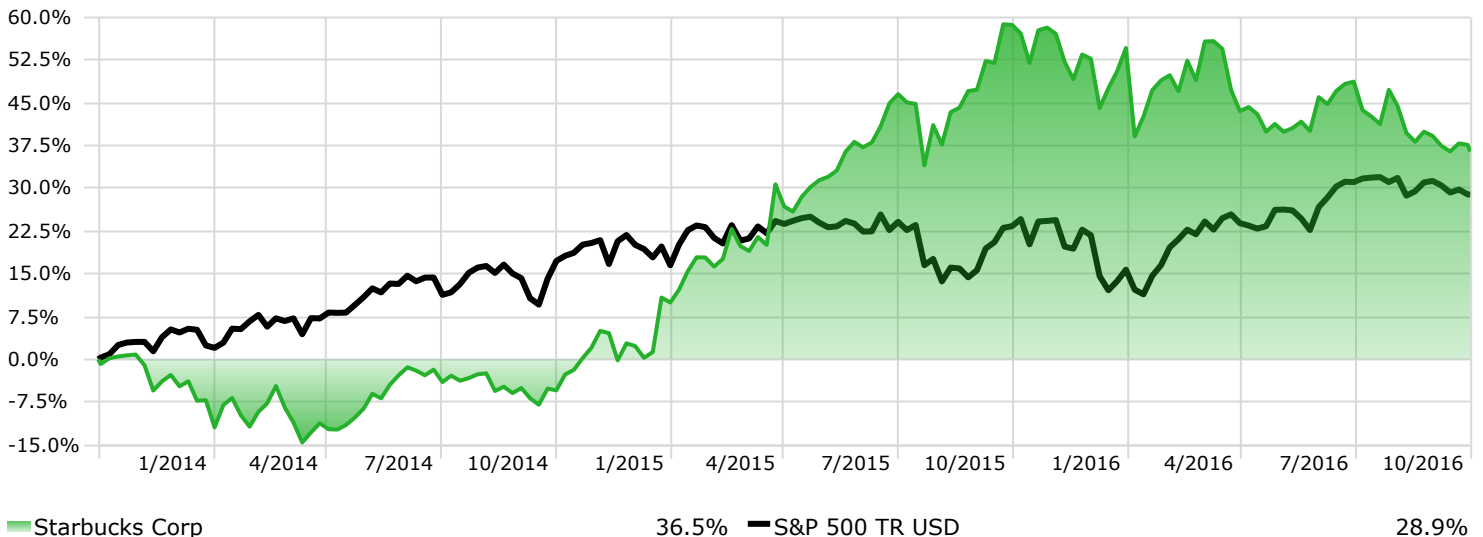
Market Capitalization	81,452.09
Total Revenue	21,315.90
Gross Profit	12,804.80
Operating Income	4,171.90
Net Income Cont Ops	2,818.90
Net Income	2,817.70
Current Assets	4,760.50
Cash	2,263.20
Total Assets	14,329.50
Current Liabilities	4,546.90
Long-term Liabilities	3,898.60
Total Liabilities	8,445.50
Total Equity	5,884.00
Operating Cash Flow	4,575.10
Investing Cash Flow	-2,222.90
Financing Cash Flow	-1,750.00
Change In Cash	598.70
EBITDA	5,310.00
Enterprise Value	82,737.99
Capital Expenditure	-1,440.30
P/E Ratio Forward	26.04
PEG Ratio	1.84
Dividend Yield % TTM	1.52

Financial Highlights

Starbucks continues to show growth over the year, with revenues growing 16.5% year-over-year from \$16,447.8 million in 2014 to \$19,162.7 million in 2015. This is almost a 6% increase from the previous year showing good growth in the company. Gross profit continues to stay around the same historic levels. Net income did decrease from around 45% (2014) to 33% but they still show strong numbers.

Investment Growth

Time Period: 11/1/2013 to 10/31/2016



11/21/2016

Starbucks Corp

US Dollar

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Starbucks serves different dietary needs

August 2016, Starbucks announced addition of almond milk Good for lactose intolerant and good for vegan buyers Research behind it for Starbucks Almond milk uses around 60% of daily milk alternatives Starbucks charges \$.60 to add almond milk- Starbucks uses this because they focus on average cost of cup per consumer Expect growth from \$5.20 to \$5.40 by 2023

Starbucks Reserve goes "Upscale"

SBUX has introduced Starbucks Reserve, which is an extension of their Reserve Roastery, the initial highend menu that opened in Seattle. Sales have jumped 24% YOY, and it has been where the new Nitro drink has been introduced to the market.

Starbucks Brings Back Holiday Cups

A large controversy of last year, SBUX has brought back the cups. Not only has this stirred up a religious concern, but also a recyclability concern. SBUX seems more concerned with their business practices than what the consumers think,

Starbucks Expresses Concern over Restaurant Industry

Starbucks said that "the restaurant industry gives them jitters", expressing concern over the election and a lack of restaurant spending. With SBUX looking to expand into the restaurant industry, this may hurt future expected profits.



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Industry Environment:

Worldwide coffee produces on equates to 148 million bags of coffee per year and global consumption is about 151.3 million bags per year. In the United States, coffee is a \$30 billion a year industry; the largest in the world. Each year, Americans consume about 7.5 pounds of coffee and spend an average of \$14.40 per day on coffee which does not include coffee drank at home. Also, the average American drinks 2.1 cups per day and that number increases with age.

The retail coffee industry is primarily dominated by large coffee chains such as Starbucks, Dunkin' Donuts, and Keurig Green Mountain Coffee. There are also thousands of small single shop mom and pop shops as well as small regionally located coffee chains. The competition for coffee and coffee prices is particularly stiff. The temperature is affecting coffee production. Some of the poorest countries that rely on coffee production like Ethiopia lose money every time the minimum temperature rises 1C. The coffee industry is highly cultural. There are thousands of flavors and blends around the world that are specific to one culture or geographic location. This historically has made it difficult to expand for some retailers.

Coffee beans are typically grown in just about every country between the Tropic of Cancer and the Tropic of Capricorn. There are two main types of coffee beans grown around the world; Robusta and Arabica. Robusta coffee bean are considered to be a lesser quality and are much easier to grow in a variety of elevations and climates. On the other hand, Arabica beans are considered to the some of the best quality beans in the world. They typically grow at higher elevations and in dryer climates.

Competitor Comparison

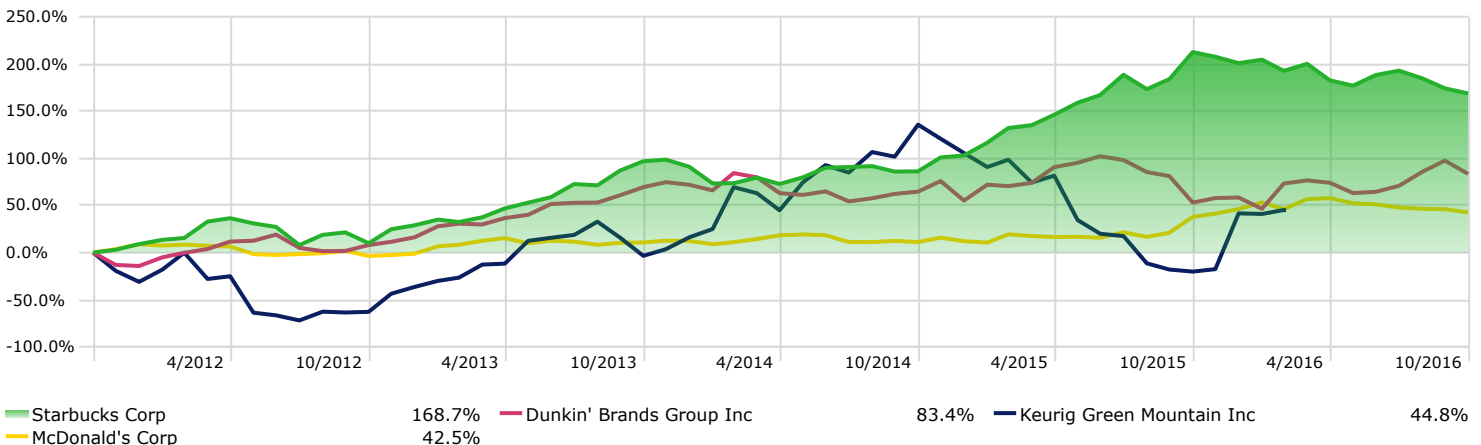
	Revenue (mil)	Revenue % Chg	Gross Profit (mil)	Gross Margin %	Net Income (mil)	Net Income % Chg	Net Margin %	Market Cap (mil) (Daily)	Current Ratio	Receivable Turnover
Starbucks Corp	21,315.90	11.24	12,804.80	60.07	2,817.70	2.19	13.22	81,452.09	1.05	28.65
Dunkin' Brands Group Inc	810.93	8.31	649.55	80.10	105.23	-40.33	12.98	4,669.29	1.33	14.87
Keurig Green Mountain Inc	4,520.03	-3.99	1,607.52	35.56	498.28	-16.47	11.02		2.52	7.93
McDonald's Corp	25,413.00	-7.39	9,789.20	38.52	4,529.30	-4.80	17.82	99,653.24	3.27	20.22

Competitor Comparison (Cont.)

	Asset Turnover	ROA %	Total Debt to Total Equity	ROE %	Beta 5 Yr	P/E Ratio Forward	PEG Ratio	P/B Ratio Current	Dividend Yield % TTM	Free Cash Flow / Sales % TTM
Starbucks Corp	1.59	21.07	0.61	48.16	0.77	26.04	1.84	13.84	1.52	14.71
Dunkin' Brands Group Inc	0.26	3.33		143.16	0.24	20.79	1.87		2.36	26.41
Keurig Green Mountain Inc	1.03	11.33	0.17	16.16	0.58	24.75		5.44	1.30	13.16
McDonald's Corp	0.70	12.55	3.40	45.43	0.64	19.38	1.87		2.97	19.58

Investment Growth

Time Period: 11/1/2011 to 10/31/2016





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Strengths:

Starbucks has developed faithful customers through time, with people waiting for their favorite seasonal drinks and willing to spend extra money on a drink. There special promotions such as Starbucks reward members, where after so many purchases you can receive free drinks and also the occasional other promotion. Starbuck also offers quality sandwiches for all times of the day, different pastries and quick grab items. Also find ways to add a competitve edge on competition, when market seems to even out.

Weaknesses:

The primary weakness Starbucks is exposed to is price competition. Starbucks prices are much higher than its peer competitors. If a decrease in disposable income occurs, Starbucks could be exposed be force to except less customer traffic or be forced to cut priced to become more competitive.

Opportunities:

The main opportunities for growth in Starbucks is overseas. Starbuck has outlined a very aggressive growth strategy in China, India, Japan, Vietnam and other Southeast Asian countries. Starbucks is also continously looking to expand the products served, with this is the new attempt for Starbucks Evening, where they will provide different alcoholic berverages.

Threats:

There are always new trade regulations that cause prices for coffee beans to increase which causes drink prices to rise as well. Also most competitors have developed some form of customer rewards similar to what Starbucks offers. Also while Starbucks continues to increase prices competitors manage to keep prices almost the same. With much of the world's coffee grown in few locations, a natural disaster could be devastating to the industry. There is also a threat of a trade war with President Elect Trump set to take office.



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Valuation: Discount Cash Flow Model (DCF)

To calculate the intrinsic value of Starbucks, we first calculated the Weighted Average Cost of Capital (WACC). WACC is derived from Cost of Debt, which we calculated to be 10.7%, and Cost of Equity, which we calculated to be 6.26%. We calculated WACC for Starbucks to be 7.03%. We then moved on to calculate Free Cash Flow to the Firm. This calculation take into consideration; Gross Profit, SG&A Expenses, EBITDA, Depreciation, Capital Expenditures, Tax rates, and changes in Working Capital. We then extrapolate Free Cash Flows to the Firm into the future and discounting them back to time zero. In this model, we did two different analyses; one with conservative growth rate numbers and one with moderate to slightly aggressive growth numbers. The intrinsic value per share that we calculated was \$89.29, as we are expecting SBUX to continue high growth levels.

Valuation: Discout Dividend Model (DDM)

To calculate the DDM model of SBUX, we discounted the expected dividends paid to present value. We are expecting SBUX to continue its steady dividend growth of 25%, so we found an intrinsic value of \$78.46. We feel this is a very accurate representation of what value we expect SBUX to reach, as they have tremendous growth opportunities in the industry.



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