Starbucks Corp. (NASDAQ: SBUX)

Market Cap: $92.8B, $81.66/Share

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Company Overview

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Starbucks Corp. is a Seattle based coffee chain that sells a variety of food and beverage options to domestic and international markets using a mix of company owned and licensed stores. The company also has a strong focus on environmental and community impact.

Company Operations

- **Company Owned Stores**: ~ 80% of company revenue is generated from sales at stores owned and operated by Starbucks Corp.
- **Licensed Stores**: ~12% of company revenue is generated from locations that are licensed to sell Starbucks products and use their branding.
- **Consumer Packaged Goods (CPG)**: ~5% of company revenue is generated from Starbucks branded packaged goods such as ready to made drinks and creamer.

International Presence

Starbucks has an international presence with the most number of stores in the United States and China accounting for ~61% of locations.

New Company Management

Brian Niccol:

- Former CEO of Chipotle that doubled revenue from 2018 - 2023
- Former CEO of Taco Bell that introduced new products and developed its mobile app

Industry Overview

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Industry Trends

Third Spaces: These are spaces aside from work and home. Many retail stores like Coach, Ralph Lauren, and Tiffany's have opened third-spaces in the form of cafes to improve customer experience.

Sustainable: Climate change is is starting to impact coffee-producing countries. Consumers are increasingly focused on social impact and responsible sourcing. As a result, they are willing to pay a premium for it.

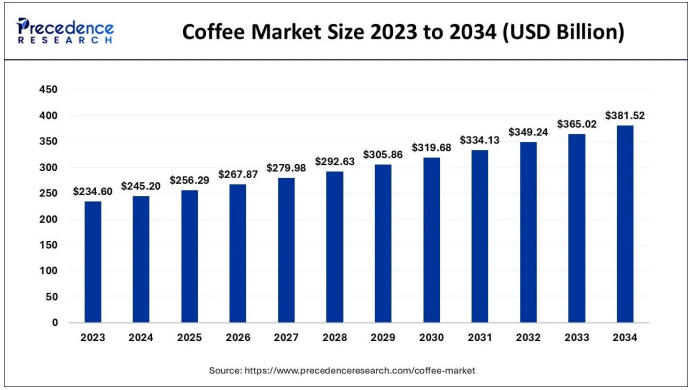
Specialty Blends: Consumers are looking for unique flavors and typically associate these blends with higher quality. This has also stemmed from increasing popularity and awareness of coffee brewing.

Health Oriented: Consumers are increasingly interested in their health. A recent FDA approval has marked coffee as a healthy beverages. Consumers see coffee as a way to have caffeine with a health benefit.

Major Competitors

- **Dunkin' Donuts**: Focus on breakfast items, donuts, and coffee, but Starbucks' focus on specialty coffee and quality ingredient differentiates the brands
- **Mcdonalds:** Strong presence in fast food but sees opportunity in the coffee and beverage space..
- **Tim Hortons:** Convenience store with strength in packaged goods in Canadian markets.

Industry Growth



Situation Overview

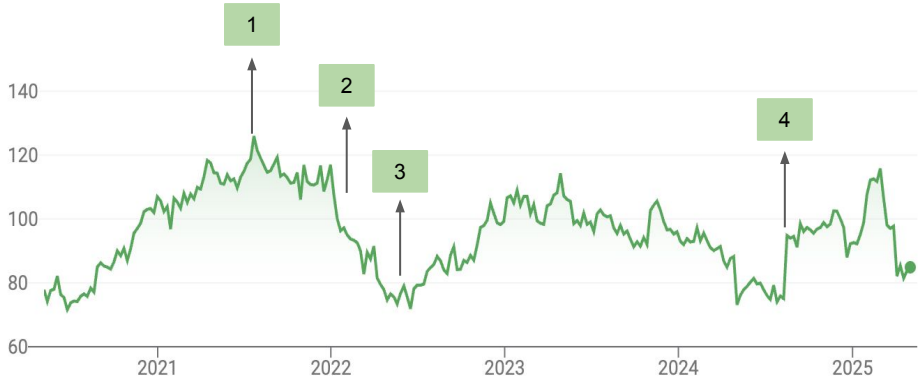
Q2 2025 Report

- Same store sales **fall for the fifth straight quarter**
- Operating margin **contracts to 6.9%** due to restructuring and “Back to Starbucks” plan
- Reported 8.76 billion in revenue, up 2% YoY but below estimates

Developments

- Aiming to strengthening connections through digital presence
- Looking to expand number of stores to 55,000 by 2030
- Reestablishing Starbucks as a third space for consumers by improving in-person experience

Stock Price Analysis



1. Q3 2021 earnings beat expectations
2. Unionization efforts began, causing operational difficulties
3. Arabica coffee futures increased to an all time high of $4/lb, therefore straining Starbuck’s future contracts
4. Brian Niccol is named at Starbucks CEO which increased investor confidence because of his previous performance with Taco Bell and Chipotle

Thesis I: Starbucks is in the Midst of a Management-Led Turnaround

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“Back to Starbucks”

- New CEO Brian Niccol has cut unnecessary roles, installed zero-based budgeting, and is prioritizing human capital over automation
  - Changes include simplification of Starbucks’ menu and cutting service time (time for customers to receive orders)
  - Prior record of exponential growth in foot traffic and share price at Chipotle and Taco Bell will allow starbucks to regain earnings growth
- Stores around the US have piloted changes in barista hours and seen immediate improvements in output
  - Stores that increased barista hours cut wait times by ~2 minutes and turned foot traffic positive
  - The decrease in wait time and increased foot traffic will allow stores to expand profitability, compounding into wider-scale growth as these initiatives are implemented across more stores

Thesis II: Store-Remodel

Coffee-House Uplift

- Part of Niccol's initiatives is to remodel the design of Starbucks cafés
  - The cost per uplift has been cut from around $1.0m to $200k
    - Lower capital expenditure frees up more money to further invest in innovation, location expansion, or paying off its obligations
  - Implementing more seating, free-refills, and shorter wait times will increase customer retention
  - 2,000 US cafés will be revamped by Fall 2025, adding an estimated 3-5% on revenue growth
- Niccol's planned addition of more premium drinks and food options will drive demand without further price surges
  - Consumer sentiment is currently fragile and competitors are gaining scale, demonstrating how a remodel and new-era of Starbucks will swing them back to positive growth, especially in the US

Valuation

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Starbucks
Discounted Cash Flow Analysis
Valuaton Date: April 30, 2025

	Historical Financials				Projected Financials				
All figures in millions USD	2021	2022	2023	2024	2025	2026	2027	2028	2029
Total Revenue	29,060.60	32,250.30	35,975.60	36,176.20	38708.53	42579.39	46730.88	51170.31	55903.56
Growth %		*10.98%*	*11.55%*	*0.56%*	7%	10.00%	9.75%	9.50%	9.25%
COGS	8,738.70	10,317.40	11,409.10	11,180.60	10451.30	11177.09	11916.37	12664.65	13416.86
% of Revenue	*30.07%*	*31.99%*	*31.71%*	*30.91%*	27%	26.25%	25.50%	24.75%	24.00%
Gross Profit	20,321.90	21,932.90	24,566.50	24,995.60	28,257.23	31,402.30	34,814.50	38,505.66	42,486.71
Gross Margin %	*69.93%*	*68.01%*	*68.29%*	*69.09%*	*73.00%*	*73.75%*	*74.50%*	*75.25%*	*76.00%*
Growth %		*-3%*	*0%*	*1%*	*5.7%*	*1.0%*	*1.0%*	*1.0%*	*1.0%*
D&A	1,441.70	1,447.90	1,362.60	1,512.60	*1,741.88*	*1,958.65*	*2,196.35*	*2,456.17*	*2,739.27*
% of Sales	4.96%	4.49%	3.79%	4.18%	*4.5%*	*4.6%*	*4.7%*	*4.8%*	*4.9%*
Capex	1,470.00	1,841.30	2,333.60	2,777.50	*2,322.51*	*2,043.81*	*1,682.31*	*1,228.09*	*670.84*
% of Sales	*5.06%*	*5.71%*	*6.49%*	*7.68%*	*6.0%*	*4.8%*	*3.6%*	*2.4%*	*1.2%*
SGA	1,932.60	2,032.00	2,441.30	2,523.30	2516.05	2725.08	2944.05	3172.56	3410.12
% Revenue	*6.65%*	*6.30%*	*6.79%*	*6.98%*	6.50%	6.40%	6.30%	6.20%	6.10%
Total Costs	13,583.00	15,638.60	17,546.60	17,994.00	17,031.75	17,904.63	18,739.08	19,521.47	20,237.09
Growth %		*15.13%*	*12.20%*	*2.55%*	-5.35%	5.13%	4.66%	4.18%	3.67%
EBIT	15,477.60	16,611.70	18,429.00	18,182.20	21,676.78	24,674.75	27,991.80	31,648.84	35,666.47
Margin %	*53.26%*	*51.51%*	*51.23%*	*50.26%*	*56.00%*	*57.95%*	*59.90%*	*61.85%*	*63.80%*
Taxes	1,156.60	948.50	1,277.20	1,207.30	4,335.36	4,934.95	5,598.36	6,329.77	7,133.29
NOPAT	14,321.00	15,663.20	17,151.80	16,974.90	17,341.42	19,739.80	22,393.44	25,319.07	28,533.18
Net Working Capital	(4850.70)	(4951.50)	(5593.40)	(5508.80)	(5538.80)	(5553.80)	(5553.80)	(5538.80)	(5508.80)
Change Net Working capital (exc Cash)		(100.80)	(641.90)	84.60	(30.00)	(15.00)	0.00	15.00	30.00
% of Sales	0.00%	-0.31%	-1.78%	0.23%	-0.08%	-0.04%	0.00%	0.03%	0.05%
Unlevered Free Cash Flow					16,730.80	19,639.65	22,907.48	26,562.16	30,631.61
WACC					**6.28%**	**6.28%**	**6.28%**	**6.28%**	**6.28%**
Discount Period					1	2	3	4	5
Discounted UFCF					**15742.15**	**17387.17**	**19081.83**	**20818.70**	**22589.56**

Valuation (Perp Growth)	
Sum of Discounted UF	95619.41
Terminal Value	22589.55792
Discounted TV	16658.8731
Total EV	112278.28
(+) Cash	3,286.20
(-) Debt	14,319.50
Implied Equity Value	101244.98
Shares Outstanding	1,140
Implied price/share	**88.8113871**
% Upside	**9%**

WACC Calculation	
Debt	14,320
% Debt	13.4%
COST OF DEBT	**3.92%**
Effective Tax Rate	20.0%
Equity Value	92,800
% Equity	86.6%
COST OF EQUITY	**6.76%**
Risk Free Rate	4.34%
Beta	0.56
Equity Risk Premium	4.33%
WACC	**6.28%**

Risks and Catalysts

	Risk	Description	Mitigant
1	Arabica Coffee Bean Prices	Bean prices have hit record highs as a result of tariffs, inflation, and a weak growing season. Starbucks imports beans from more than 30 countries, including Vietnam. February arabica prices reached $4.30, double that of last year.	Mostly buy Arabica bean importa from LATAM, which are less heavily impacted by tariffs. CEO Brian Niccol has pledged not to raise prices and will hopefully help the company compete better.
2	Intense Foreign Competition	China is facing competition from Luckin Coffee. The company has almost double the number of locations in China while also focusing on a grab and go model. Luckin also has significant discounts that allows them to compete price wise.	Luckin Coffee has a focus on efficiency with a grab and go business model while Starbucks has been increasingly trying to re-establish themselves as a third-space. There are also potential partnerships to sell Chinese stakes.
3	Decreasing Spending	As a result of current economic uncertainty stemming from tariffs, consumers have reduced spending. Companies like Mcdonalds, Chipotle, and Starbucks have experienced falling revenues, indicating this squeeze.	Starbucks CEO Brian Niccol has declared that he will not be increasing the prices of their beverages. They are looking to speed more on human baristas as opposed to automation to improve experience and make up sales.

Catalysts

Strategic Partnerships

- Global FoodBanking Network to reduce food waste
- Atlanta Dream to support small businesses

Global Expansion

- Expand into Middle East
- Increase global store count by 7% to 22,039

Labor Focus

- Reduce funding to automation project “Siren Craft System”
- Aims to improve customer experience