ECONOMICS & FINANCE SOCIETY

St. John's University Economic Finance Society Stock Sunday Pitch of Starbucks Corporation

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RECOMMENDATION

- I recommend longing Starbucks Corporation; the American coffee company is currently trading for $78.43 per share and is extremely undervalued by 25-35%. It will see significant increases in the upcoming months.
- Starbucks’ stock has lost 8.8% this past month alone. This is a perfect time to invest in the coffee chain as Zacks Consensus estimates that revenue is projecting net sales of $6.50 billion, up 3.04% from the year-ago period. They are also calling for earnings of $2.99 per share and a revenue of $28.03 billion. These results would represent year-over-year changes of 5.65% and 5.75%.
- Many expansion opportunities still await Starbucks overseas. With more than 27,000 stores across more than 78 markets including China, Brazil, and the United Kingdom. Starbucks international market is stronger than ever and will only continue to grow.
- I project the price per share will exceed $100 dollars before the end of 2020. The company’s intrinsic value is likely ranging from $85-$100 per share and even if this is completely off it would only be overvaluing by 10%.

Company Background

All Information as of December 2019

- **Industry:** Starbucks Corporation, together with its subsidiaries, operates as a roaster, marketer, and retailer of specialty coffee worldwide. The company operates in three segments: Americas; International; and Channel Development.
- **Starbucks Financials:** $22.387 billion revenue; $5.750B Twelve-month EBEDTA; $22.22B total assets; $5.73B gross income; $3.6B net income; $5.05 net operating cash flow; $1.01B net investing cash flow; $10.06 net financing cash flow
- **Market Capitalization:** $92.5 Billion
- **Starbucks Multiples:** 2.8x - 3.4x, Conclusion 3.1x
- **Established Countries Number of Stores:**
- . United States- 8,575
- . China- 3,521
- . Japan- 1,286
- . Canada- 1,109
- **Base Case Projections:**
- . Global Net Store Growth of 7% Versus Prior Year, Led by 17% Net Store Growth in China
- . GAAP EPS of $0.67; Non-GAAP EPS of $0.70, Up 13% Year-Over-Year
- . 2.6% Dividend Yield

Investment Thesis

My View

- Currently the market views Starbucks as a stock with upside potential. As of January 2020, it held an 86 out of 99 composite rating by Investors Business Daily. Before the coronavirus diminished the values and futures of Starbucks its first 2020 quarterly earnings reported an earnings growth of 5% and a sales growth rate of 7%.
- I believe that the recent coronavirus shutdown will help earnings exceed expectations in the second quarter of 2020 which will drive the stock price up.
- Since 2/3 of Starbucks franchises stores are overseas it will help that the global coffee market is projected to reach $203.85 million by 2024, registering a CAGR of 5.38%, during the forecast period 2019-24.
- Partnerships with Companies like Uber Eats, Spotify, and their Starbucks app will always give coffee drinkers new ways to earn reward point sand access Starbucks products no matter where they are.

Volatile Implications

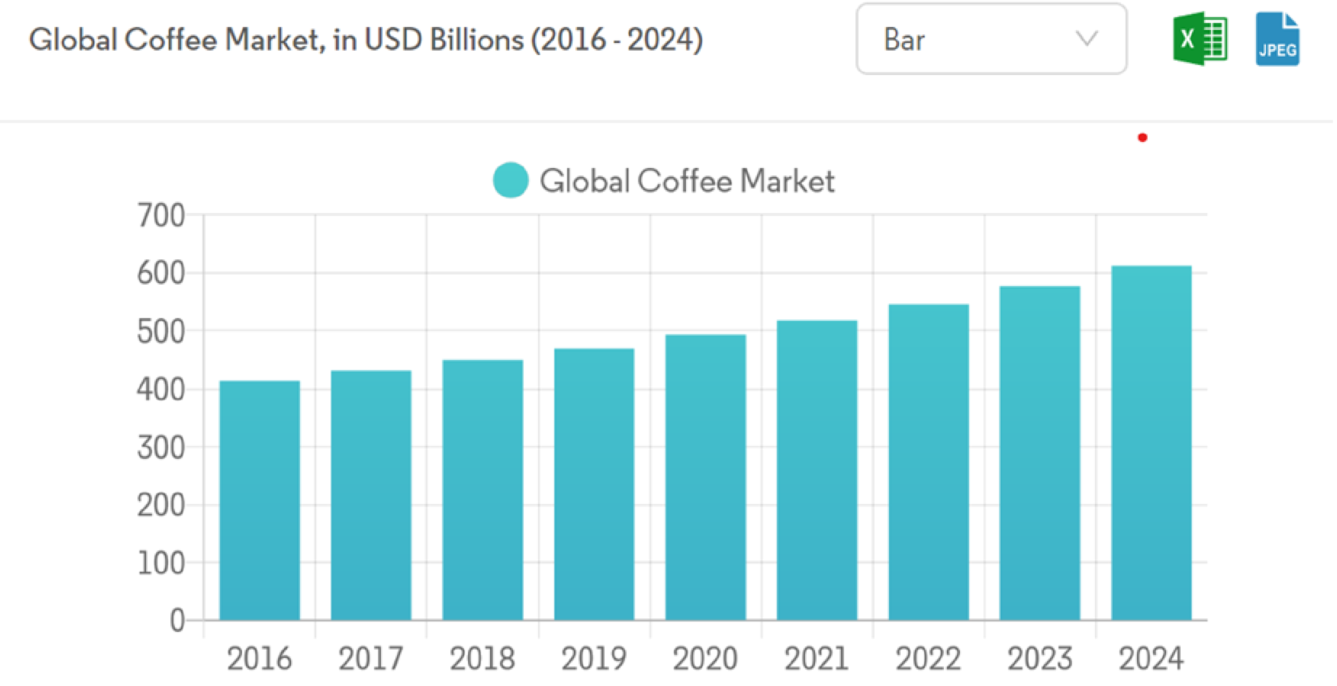
- The coronavirus has kept 15% of Starbucks chains in China closed. This resulted in the stock to lose $7 per share this week alone.
- Their accounts growth was a negative 38.11% and their short-term investment growth was a negative 69.15% change from 2018-2019
- Starbucks has experienced a 5% same-store sales growth to wrap up 2019, however, McDonalds, a competitor; grew global same-store sales by 5.9% in the same period. About a year and a half ago, McDonald's was seeing 2.9% comps growth, which was still better than Starbucks, which was at 2% at the time.
- Its been speculate that their P/E ratio is inflated by almost 20 times higher than average calculations like this can potentially take investors off-guard and send share into an extreme tailspin.

Industry Overview

. The global coffee market was valued at $150.11 billion in 2018, and is projected to reach $203.85 million by 2024, registering a CAGR of 5.38%, during the forecast period 2019-24.

. The market is segmented into two broad categories: product type and distribution channel. Further by product type the market is segmented into whole bean, ground coffee, instant coffee and coffee pods and capsules. By distribution channel, the market is segmented into on-trade and off-trade.

. The global coffee market is dominated by players, like Nestle, The JM Smucker Company, The Kraft Heinz Company, and Starbucks Coffee Company. Due to the high growth potential of developing regions, most coffee companies are trying to establish themselves by expanding their production lines. With the largest market being in Europe and the fastest growing market being in Asia.



Company Name	Ctry	Market Cap. last (mUSD)	Beta 1-Year	Year-To-Date Price Change (in local currency)
Starbucks Corporation	USA	92 077	0.82	-10.8%
International Peers Median			0.60	-12.0%
McDonald's Corporation	USA	146 228	0.23	-1.8%
Dunkin' Brands Group In...	USA	5 493	0.29	-12.0%
Brinker International I...	USA	1 285	0.69	-18.2%
Papa John's Internation...	USA	1 840	0.60	-8.8%
Autogrill S.p.A.	ITA	2 042	0.83	-21.8%

Comparable Company Analytics

Catalysts of Starbucks

. They must fully gage an accurate prospective of their international market especially in China and Europe due to the coronavirus pandemic.

. They must work to replicate 2018 investment growth; this will put them head and shoulders above competitors.

. They must expand their mobile delivery platforms to surfaces like Postmates san Door Dash as well as find ways to innovate their relationship with Uber Eats.

. The coffee industry has seen a growth rate of 5.5% this year this number will continue to grow.

. Starbucks is one of the most expensive coffee shoppes in the world with beverages selling between a range of 4-7 dollars. They must keep the quality of their product high to sustain their position in the top 10% of coffee shops in the world.

. As per the survey conducted by the National Coffee Association in the United States, more than 70% of the consumers prefer at-home coffee preparation. This could mean coffee franchises and shops like Starbucks could be in trouble.

Partnerships

Alibaba

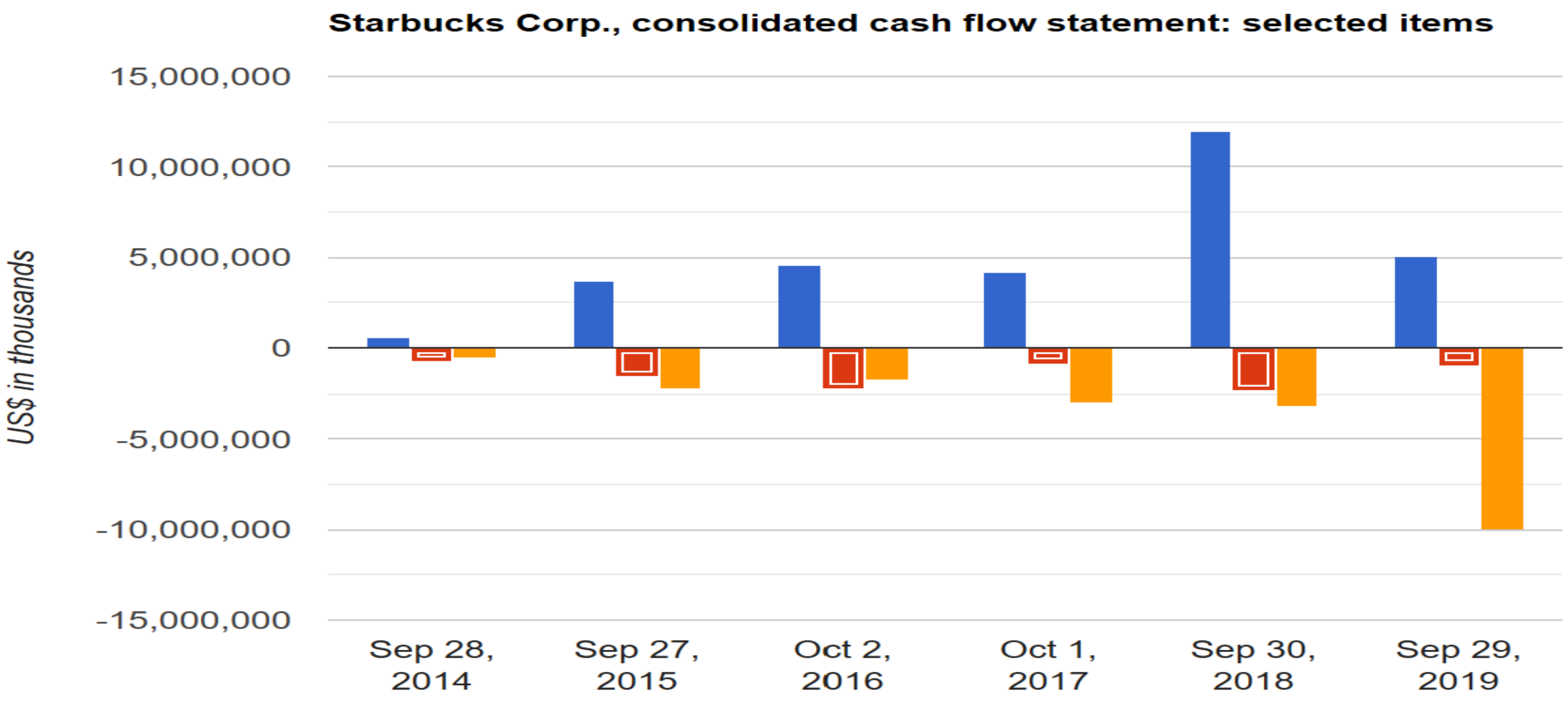
Starbucks and Alibaba have reached a partnership that entails a multipronged plan to boost the beverage company's digital and physical presence in China. In the exclusive agreement, the chain will leverage all of Alibaba's properties, including delivery platform Ele.me and supermarket chain Hema, to expand delivery services throughout China. The partnership will help Starbucks make deliveries from 150 stores in Shanghai and Beijing and then broaden delivery to 2,000 stores in 30 cities. This latest innovation will revolutionize the traditional offline-to-online model by effectively extending the reach of the "Starbucks Experience" into the everyday lifestyle ritual of the Chinese consumer, regardless of time or place.

Spotify

In 2015 Starbucks partnered with Spotify. The Starbucks and Spotify partnership will encourage active participation among members of My Starbucks Rewards, who will be able to create their own in-store playlists for Starbucks stores and continue listening to them even after they have left the premises. The playlists will be available through both the Starbucks and Spotify apps. Customers who purchase Spotify's streaming packages will also be eligible to earn more rewards points, which can be redeemed for free beverages.

UberEATS

In 2018, Starbucks launched its delivery feature via Uber Eats. This allows customers to make online purchases and have them delivered directly to their doorstep Starbucks and Uber Eats are also developing packaging systems that will keep items hot or cold and spill-free during their journey. The partnership with Uber Eats brings together the fastest growing meal delivery service in the U.S. with one of the largest foods and beverage retailers. Starbucks will leverage Uber's expertise as a quick and reliable delivery provider that is already well-established in offering customers a premier experience in a growing mobile and on-demand economy.



Discount Cash Flow Analysis

Blue: Net cash provided by operating activities

Red: Net cash used by investing activities

Orange: Net cash used by financing activities

Income Statement Analysis

Fiscal year	2015	2016	2017	2018	2019	
Sales/Revenue	19.15B	21.31B	22.38B	24.72B	26.5B	
Cost of Goods Sold (COGS) incl. D&A	14.59B	16.04B	17.04B	19.1B	20.77B	
Gross Income	4.56B	5.27B	5.34B	5.62B	5.73B	
Net Income	2.76B	2.28B	2.88B	4.52B	3.6B	
EPS	1.84	1.91	1.99	3.27	2.95	
Basic Shares Outstanding	1.5B	1.47B	1.45B	1.38B	1.22B	
EBITDA	4.3B	4.94B	5.02B	5.17B	5.35B	

. Starbucks has seen a constant increase in sales revenue every year this can be attribute to marketing techniques and delivery services with their Uber Eats partnership.

. Their net income, EPS, and basics shares outstanding all took a dip in 2019 compared to 2018 this can be attributed to the massive growth the company achieved in the 2018 fiscal year.

. Overall Starbucks income statement is very consistent and shows growth every year.

Balance Sheet Analysis of Assets

Fiscal year	2015	2016	2017	2018	2019
Cash & Short-Term Investments	1.61B	2.26B	2.69B	8.94B	2.76B
Cash & Short-Term Investments Growth	-	40.45%	18.90%	232.15%	-69.15%
Cash & ST Investments / Total Assets	12.98%	15.81%	18.73%	37.00%	14.35%
Total Accounts Receivable	719M	768.8M	870.4M	1.65B	1.02B
Accounts Receivables, Net	719M	768.8M	870.4M	693.1M	879.2M
Accounts Receivables, Gross	729.8M	778.2M	880.2M	701.1M	879.2M
Account Dept	(10.8M)	(9.4M)	(9.8M)	(8M)	-
Accounts Growth	-	6.93%	13.22%	89.40%	-38.11%
Inventories	1.31B	1.38B	1.36B	1.4B	1.53B
Total Current Assets	3.97B	4.76B	5.28B	12.49B	5.65B
Buildings	411.5M	458.4M	481.7M	557.3M	691.5M
Accumulated Depreciation	5.55B	6.04B	6.66B	7.27B	7.84B
Total Investments	664.5M	1.5B	1.02B	602.4M	616M
Intangible Assets	2.1B	2.24B	1.98B	4.58B	4.27B
Tangible Assets	415.9M	403.3M	362.8M	412.2M	479.6M
Total Assets	12.42B	14.31B	14.37B	24.16B	19.22B

. Right away we see two major red flags when looking at Starbucks balance sheet. They can be seen in both account growth and short-term investment growth.

. I believe overtime these numbers will return to making a profit, but this can cause some concern when the company looks to raise capital for investments.

. Their total assets also took a step back in 2019 decreasing a staggering $5 billion.

. A positive is that the company is spending more on real estate as their 2019 buildings expense exceeded its 2018 expense by over $100 million.

Balance Sheet Analysis of Liabilities

	2015	2016	2017	2018	2019
ST Debt & Current Portion LT Debt	-	399.9M	4.1M	354.3M	5.2M
Accounts Payable	684.2M	730.6M	782.5M	1.18B	1.19B
Accounts Payable Growth	-	6.78%	7.10%	50.71%	0.88%
Income Tax Payable	259M	368.4M	226.6M	286.6M	176.7M
Other Current Liabilities	2.7B	3.05B	3.21B	3.86B	4.8B
Accrued Payroll	522.3M	510.8M	524.5M	656.8M	664.6M
Long-Term Debt	2.35B	3.19B	3.99B	9.14B	11.23B
Deferred Taxes	(987M)	(724.2M)	(592.2M)	360.1M	(1.45B)
Other Liabilities	407.1M	528.5M	497.1M	7.66B	7.73B
Total Liabilities	6.6B	8.42B	8.91B	22.98B	25.45B
Total Liabilities / Total Assets	53.13%	58.84%	62.01%	95.13%	132.42%
Common Equity (Total)	5.82B	5.88B	5.45B	1.17B	(6.23B)
Common Stock Par/Carry Value	1.5M	1.5M	1.4M	1.3M	1.2M
Retained Earnings	5.97B	5.95B	5.56B	1.46B	(5.77B)
Cumulative Translation Adjustment/Unrealized For. Exch. Gain	(226.2M)	(121.7M)	(163M)	(362.7M)	(508.1M)
Total Shareholders' Equity	5.82B	5.88B	5.45B	1.17B	(6.23B)
Total Shareholders' Equity / Total Assets	46.86%	41.11%	37.94%	4.84%	-32.43%
Accumulated Minority Interest	1.8M	6.7M	6.9M	6.3M	1.2M
Total Equity	5.82B	5.89B	5.46B	1.18B	(6.23B)
Liabilities & Shareholders' Equity	12.42B	14.31B	14.37B	24.16B	19.22B

. At the end of the fiscal year of 2019 Starbucks has a debt to equity ratio that is higher, indicating that the company has been aggressive in financing its growth with debt since Starbucks leases most of its stores.

. Starbucks has cut its short-term debt in 2019 to $5.2 million compared to 2018's $354.3 million.

.Shareholders equity being positive means that Starbucks has enough assets to cover its liabilities. In the case of a financial disaster they would be able to continue to be operational.

Cash Flow Analysis of Operating Activities

Fiscal year	2015	2016	2017	2018	2019
Net Income before Extraordinaires	2.76B	2.82B	2.88B	4.52B	3.59B
Depreciation, Depletion & Amortization	933.8M	1.03B	1.07B	1.31B	1.45B
Depreciation and Depletion	883.8M	972.8M	1.01B	1.12B	1.22B
Amortization of Intangible Assets	50M	57.3M	57.5M	186.5M	232.8M
Deferred Taxes	21.2M	265.7M	95.1M	714.9M	(1.5B)
Other Funds	(244M)	107.4M	37.5M	(1.51B)	(150.2M)
Funds from Operations	3.47B	4.22B	4.08B	5.02B	3.4B
Changes in Working Capital	278.8M	353M	89.7M	6.91B	1.65B
Receivables	(82.8M)	(55.6M)	(96.8M)	131M	(197.7M)
Accounts Payable	137.7M	46.9M	46.4M	391.6M	31.9M
Other Assets/Liabilities	431.8M	429.2M	126.1M	6.43B	750.4M
Net Operating Cash Flow	3.75B	4.58B	4.17B	11.94B	5.05B

. Overall cash inflow from operating indicate that Starbucks core operations are providing cash.

. Their cashflow results indicate a profit being made for Starbucks and shows a careful management of cash inflows and expenditures.

. The increase in the amortization of intangible assets means that Starbucks will increase its goodwill in favorable market conditions.

Cash Flow Analysts of Financial Activities

	2015	2016	2017	2018	2019
Cash Dividends Paid	(928.6M)	(1.18B)	(1.45B)	(1.74B)	(1.76B)
Change in Capital Stock	(1.24B)	(1.83B)	(1.89B)	(6.98B)	(9.81B)
Repurchase of Common & Preferred Stk.	(1.44B)	(2B)	(2.04B)	(7.13B)	(10.22B)
Sale of Common & Preferred Stock	191.8M	160.7M	150.8M	153.9M	409.8M
Issuance/Reduction of Debt, Net	238.4M	1.25B	350.2M	5.58B	1.65B
Issuance of Long-Term Debt	848.5M	1.25B	750.2M	5.58B	2B
Reduction in Long-Term Debt	(610.1M)	-	(400M)	-	(350M)
Net Financing Cash Flow	(1.9B)	(1.75B)	(3B)	(3.24B)	(10.06B)
Net Financing Cash Flow Growth	-	7.69%	-71.52%	-8.04%	-210.13%
Net Financing Cash Flow / Sales	-9.90%	-8.21%	-13.41%	-13.12%	-37.95%
Exchange Rate Effect	(150.6M)	(3.5M)	10.8M	(39.5M)	(49M)
Net Change in Cash	(178.3M)	598.7M	333.5M	6.29B	(6.07B)
Free Cash Flow	2.45B	3.13B	2.65B	9.96B	3.24B

. Overall in 2019 Starbucks cash position declined as a result of financing cash outflow.

. Starbucks provides value to its shareholders through 1. payment of dividends to its shareholders and 2. repurchases of its common stock.

. Starbucks has reduced its outstanding long-term debt which will help to decrease its leverage.

Futures Estimates of Starbucks Based Off 10K Analysis

Fiscal Year and Quarter	2020 Quarter 1	2020 Quarter 2	2020 Quarter 3	2020 Quarter 4
Earnings Per Share	0.67	0.76	0.82	0.87
High Earnings Per Share Forecast	0.68	0.83	0.85	0.91
Low Earnings Per Share Forecast	0.52	0.74	0.78	0.81

Fiscal Year	2020	2021	2022
Revenue	$28.1B	$30.4B	$33.2B
Cost of Goods Sold	$21.9B	$23.1B	$24.6B
Gross Income	$5.85B	$6.03B	$6.22B
Net Income	$3.9B	4.3B	4.8B
Earnings Per Share	3.02	3.86	4.43
Shares Outstanding	1.19B	1.24B	1.32B
EBITDA	5.42B	5.67B	5.92B

Fiscal Year	2020	2021	2022
Annual Earnings Per Share Forecast	3.01	3.43	3.96
Annual High Earnings Per Share Forecast	3.11	3.51	3.98
Annual Low Earnings Per Share Forecast	2.98	3.32	3.59

. A reason for projection of increasing revenue is because of increasing number of franchises opening and change in revenue per store.

. Another reason to be optimistic about the EBITDA increase is the effect that international publicity and stores will continue to be a part of Starbucks expansion plan, especially in China.

. Shares outstanding will continue to grow because the company will need to raise more capital for the expansion of chains around the world. Capital will also need to be raised to innovate their sector of the industry.

. The price per share will continue to grow as it will exceed its 2019 high of $99.11 in 2020. I am projecting by 2022 the stock will be trading around $130 per share.

. Also, Starbucks will continue to dominate revenue because of the growth of Starbucks Mobil app. This will allow more and more people to have access to their products and will allow the company to expand their loyalty program.

Key Risk Factors

. Key investments risks include the coronavirus impact in international markets. Starbucks was betting on China in 2020 to help fuel its earnings and sales growth amid a maturing U.S. market. They will also have to deal with competition such as Luckin Coffee which is growing in popularity in China and McDonalds.

. An obvious risk that an investor faces when trading Starbucks stock is the coronavirus' effects on international markets. This past week alone Starbucks has lost over $7 per share. This Monday Starbucks was forced to close their shops in China, as of Wednesday (2/26/20) 15% of Starbucks franchises in China remain closed. According to Yahoo Finance, March 2020 earnings are projected to be down close to a billion dollars. Their current quarterly growth estimate is down 1.70% for the year.

Summary and Recommendation

Starbucks is a company on the rise. While they are already considered one of the top coffee franchises in the world highly predicted future revenue will allow them to keep their seat on the throne. Estimates of earnings per share are expected to hover around $4 by 2022. Combine this with an international market that is expected to recover and grow, and you will see Starbucks shares near a stock price of $130 dollars per share before 2023. I recommend investors taking the longing route and holding Starbucks if you want to experience a close to $60 per share increase in the next 5 years.